Focused
on our members

Financial Statements
December 31, 2018

Cambrian
CREDIT UNION

Independent auditor's report

To the Members of Cambrian Credit Union Limited

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Cambrian Credit Union Limited, (the Credit Union) as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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

- the statement of financial position as at December 31, 2018;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in members' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

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

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

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

In preparing the 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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 financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Winnipeg, Manitoba
March 20, 2019

Cambrian Credit Union Limited

Statement of Financial Position

As at December 31

	2018 $	2017 $
Assets		
Cash on hand	5,662	5,176
Investments and deposits (note 7)	452,888	505,412
Loans outstanding - net of allowance for loss (note 8)	3,216,828	3,068,110
Other assets (note 10)	2,090	1,935
Deferred income tax asset (note 14)	700	260
Investment property	584	584
Property, equipment and intangible asset (note 11)	18,042	17,605
	3,696,794	3,599,082
Liabilities		
Savings and deposits (note 12)	3,394,238	3,321,121
Members' shares (note 15)	1,295	1,323
Accounts payable and accrued liabilities	12,843	12,176
Finance lease (note 13)	4,756	5,384
	3,413,132	3,340,004
Members' Equity		
Shares to be issued (note 16(b))	330	279
Members' shares (note 15)	7,739	7,841
Retained earnings (note 3)	275,593	250,958
	283,662	259,078
	3,696,794	3,599,082

Approved by the Board of Directors

(signed) "Ken Lamoureux" Director *(signed) "Judy Mathieson"* Director

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

Cambrian Credit Union Limited

Statement of Income and Comprehensive Income

For the year ended December 31

(in thousands of dollars)

	2018 $	2017 $
Interest income		
Members' loans	101,728	92,010
Investments	12,868	10,514
	114,596	102,524
Interest expense		
Savings and deposits	64,080	56,946
Net interest income	50,516	45,578
Provision for loan loss (note 9)	222	700
Other income	21,168	20,811
Net interest and other income after provision for loan loss	71,462	65,689
Operating expenses		
Salaries and employee benefits	19,112	19,100
Administration	7,812	7,420
Premises	4,130	4,017
Member security	2,849	2,777
Organizational	1,829	1,833
	35,732	35,147
Income before refunded service fees and income taxes	35,730	30,542
Refunded service fees (note 16(a))	(5,951)	(5,646)
Net income before income taxes	29,779	24,896
Provision for income taxes (note 14)	(4,554)	(3,216)
Net income and comprehensive income for the year	25,225	21,680

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

Cambrian Credit Union Limited

Statement of Changes in Members' Equity

For the year ended December 31

(in thousands of dollars)

	Shares to be issued $	Members' shares $ (note 15)	Retained earnings $	Total members' equity $
Balance at January 1, 2018	279	7,841	250,958	259,078
Impact of adopting IFRS 9 at January 1, 2018 (note 3)	-	-	(260)	(260)
Restated balance at January 1, 2018	279	7,841	250,698	258,818
Net income and comprehensive income for the year	-	-	25,225	25,225
Dividends	330	-	(330)	-
Members' shares issued	(279)	279	-	-
Members' shares redeemed	-	(381)	-	(381)
Balance at December 31, 2018	330	7,739	275,593	283,662
Balance at January 1, 2017	277	7,968	229,557	237,802
Net income and comprehensive income for the year	-	-	21,680	21,680
Dividends	279	-	(279)	-
Members' shares issued	(277)	277	-	-
Members' shares redeemed	-	(404)	-	(404)
Balance at December 31, 2017	279	7,841	250,958	259,078

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

Cambrian Credit Union Limited

Statement of Cash Flows

For the year ended December 31

(in thousands of dollars)

	2018 $	2017 $
Cash provided by (used in)		
Operating activities		
Loans issued	(588,241)	(632,367)
Loans repaid	439,505	435,743
Net loans to members	(148,736)	(196,624)
Increase in members' savings and deposits	70,055	112,341
Interest received	113,997	101,845
Interest paid	(61,008)	(59,582)
Payments to suppliers and employees	(34,462)	(33,125)
Other income received	21,168	20,811
Income taxes paid	(4,074)	(2,411)
Cash used in operating activities	(43,060)	(56,745)
Investing activities		
Decrease in investments and deposits	52,660	64,643
Additions to property and equipment	(2,764)	(1,685)
Cash provided by investing activities	49,896	62,958
Financing activities		
Redemption of surplus and common shares	(6,354)	(6,096)
Issuance of common shares - membership	4	5
Cash used in financing activities	(6,350)	(6,091)
Net increase in cash during the year	486	122
Cash on hand - Beginning of year	5,176	5,054
Cash on hand - End of year	5,662	5,176

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

1 General information

Cambrian Credit Union Limited (the Credit Union) is incorporated under the Credit Union Incorporation Act of Manitoba and its operations are subject to the Credit Unions and Caisses Populaires Act (Manitoba) (the Act). The Credit Union serves members, providing retail banking, commercial banking and investment services. The Credit Union's registered office is 225 Broadway, Winnipeg, Manitoba, Canada.

These financial statements have been approved for issue by the Board of Directors on March 20, 2019.

2 Basis of presentation

The Credit Union prepares its financial statements in accordance with generally accepted accounting principles in Canada (GAAP) as set out in the Chartered Professional Accountants of Canada (CPA Canada) Handbook, which incorporates International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

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

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

The following are generally current balances: cash on hand, investments and deposits, loans outstanding due within one year, other assets, savings and deposits, accounts payable and accrued liabilities due within one year and finance leases due on demand or within one year, and members' shares classified as liabilities.

The following are generally non-current balances: long-term portion of loans outstanding, property, equipment and intangible asset, investment property, long-term portion of accounts payable and accrued liabilities, long-term portion of finance lease payable, deferred income tax asset, and non-current savings and deposits.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are the measurement of the expected credit loss allowance and the measurement of income taxes disclosed in note 6.

3 Changes in accounting policies

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

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

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

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

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

A) *Classification and measurement of financial instruments*

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

	IAS 39		IFRS 9	
Financial assets	**Measurement category**	**Carrying amount $000s**	**Measurement category**	**Carrying amount $000s**
Cash on hand	Amortized cost (Loans and receivables)	5,176	Amortized cost	5,176
Loans outstanding - net of loan loss	Amortized cost (Loans and receivables)	3,068,110	Amortized cost	3,067,850
Investments and deposits	Fair value through other comprehensive income (FVOCI) Available for sale (AFS)	33,544	FVOCI	33,544
	Amortized cost (Loan and receivables)	471,868	FVTPL	471,868
Other assets	Amortized cost (Loans and receivables)	1,208	Amortized cost	1,208

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

B) Reconciliation of the statement of financial position balances from IAS 39 to IFRS 9

The Credit Union performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

	Ref	IAS 39 carrying amount December 31, 2017 $000s	Reclassification $000s	Remeasurement $000s	IFRS 9 carrying amount January 1, 2018 $000s
Amortized cost					
Cash on hand		5,176	-	-	5,176
Loans outstanding	A	3,068,110	-	260	3,067,850
Investments and deposits	B	471,868	(471,868)	-	-
Other assets		1,208	-	-	1,208
FVOCI					
Investments and deposits	C	33,544	-	-	33,544
FVTPL					
Investments and deposits	B	-	471,868	-	471,868

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

A) Remeasurement expected credit loss allowance

The impact to opening retained earnings at January 1, 2018 due to the remeasurement from the IAS 39 incurred loss model to the new allowance for loss measured in accordance with the IFRS 9 expected loss model at January 1, 2018 is $260,000. The allowance for loss under IAS 39 is $1,840,000 while the allowance for loss under IFRS 9 is $2,100,000. Further information on the measurement of the allowance for loss under IFRS 9 can be found in note 9.

B) Term deposits within the liquidity portfolio

After assessing its business model for current accounts and term deposits within the Credit Union's liquidity portfolio, which are mostly held to collect the contractual cash flows, the Credit Union has performed the solely payments of principal and interest (SPPI) test. As the result of this test, the Credit Union determined that due to certain features on early redemption, the term deposits held by the Credit Union do not meet the SPPI test, and as a result are classified as FVTPL. These term deposits, which amounted to $471,868,000, excluding accrued interest, were previously classified as loans and receivables. Upon adoption of IFRS 9, the Credit Union has classified these terms deposits as FVTPL.

C) *Investment in shares of Credit Union Central of Manitoba and Concentra Bank*

The Credit Union holds investments in shares of Credit Union Central of Manitoba (Central) and Concentra Bank of $33,544,000 which are not traded in an active market. These were accounted for previously as AFS equity instruments. As per Central by-laws for the re-balancing of shares, the Credit Union will redeem or acquire additional shares of Central at a price of $5 per share. Concentra Bank shares are not subject to re-balancing. There are no other active markets for these shares and therefore the Credit Union has determined that this amount is indicative of fair value. Upon adoption of IFRS 9, the Credit Union has classified these equity instruments as FVOCI.

IFRS 7 "Financial Instruments: Disclosures"

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39 to IFRS 9, which was effective for annual periods beginning on or after January 1, 2018. The amendments are effective on adoption of IFRS 9. The Credit Union has determined that there were no significant impacts to the financial statements.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 was issued in May 2014, and establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts within members. The standard provides a single, principles-based five-step model to be applied to all contracts with members, and introduces additional disclosure requirements. The standard has been adopted by the Credit Union on January 1, 2018. Based on the Credit Union's assessment of revenues and costs within the scope of this standard, IFRS 15 does not have a significant impact on its financial results.

IAS 40 "Investment Property"

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

4 Summary of significant accounting policies

Financial assets and liabilities

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

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

Measurement methods

Amortized cost and effective interest rate

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

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

Interest income

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

Initial recognition and measurement

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on the business model for managing the asset and the cash flow characteristics of the asset. Based on these factors, the Credit Union classifies its debt instruments into one of the following three measurement categories:

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

- FVTPL: assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in net income and presented in the statement of net income and comprehensive income within interest income from investments in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in interest income from investments. Interest income from these financial assets is included in interest income from investments using the effective interest rate method.

Business model

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

SPPI

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

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

Equity instruments

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

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

Impairment

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

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

Note 19 provides more detail of how the expected credit loss allowance is measured.

Modification of loans

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

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

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Credit Union recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in net income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than on a modification

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

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

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

Financial liabilities

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

Derecognition

Financial liabilities are derecognized when they are extinguished.

Financial assets

For the period January 1, 2017 to December 31, 2017 and the year then ended, the Credit Union applied IAS 39 and classified its financial assets as follows: loans and receivables, held-to-maturity investments and AFS financial assets. Management determines the classification of its financial instruments at initial recognition. The Credit Union uses trade date accounting for regular way contracts when recording financial asset transactions. The Credit Union does not have any financial assets classified as held to maturity investments.

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

Loans and receivables

Loans outstanding, accounts receivable, current accounts, and deposits with Central are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans outstanding

Loans are initially recognized at fair value net of any transaction costs and are subsequently recorded at amortized cost using the effective interest rate method. Loans are stated net of an allowance for loss. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the statement of income and comprehensive income as a provision for loan loss. Collateral property obtained and held for resale is valued at the lower of cost and estimated net realizable value. At December 31, 2017, there was no collateral property held for resale. Loans are written off when there is no realistic prospect of recovering the loan in full. Recoveries on loans previously written off are taken into income.

Allowance for loss

The Credit Union maintains allowances for loss that reduce the carrying value of loans identified as impaired to their present value of expected cash flows discounted at the loans' original effective interest rate; short-term balances are not discounted. A loan is considered impaired if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the loan and that event or events has an impact on the estimated future cash flows of the loan that can be reliably estimated.

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

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

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

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

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

Available for sale financial assets

AFS investments are financial assets that are intended to be held for an indefinite period of time and are not classified as loans and receivables. The Credit Union's AFS investments include the shares in Central.

AFS financial assets are initially recognized at fair value plus transaction costs and measured subsequently at fair value with gains and losses being recognized in the statement of comprehensive income, except for impairment losses and interest, until the financial asset is derecognized. The shares in Central cannot be reliably measured at fair value and such are carried at cost.

If an AFS financial asset is determined to be impaired, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized in the statement of income and comprehensive income. However, interest is calculated using the effective interest method and dividends on AFS equity instruments are recognized in the statement of income and comprehensive income in investment income when the right to receive payment is established.

Financial liabilities

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

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

Write-offs

The Credit Union writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include: i) ceasing enforcement activity and ii) where the Credit Union's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovery in full. The Credit Union may write-off financial assets that are still subject to enforcement activity. The Credit Union still seeks to recover amounts it is legally owned in full, but which have been partially written off due to no reasonable expectation of full recovery.

Property and equipment

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

Buildings	40 years
Furniture and equipment	5 to 10 years
Security equipment	10 years
Leasehold improvements	10 to 30 years

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

Investment property

Properties that are held for capital appreciation are classified as investment properties. Investment property consists of land and is measured at cost, including transaction costs.

Intangible assets

Intangible assets consist of certain acquired and internally developed computer systems. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Credit Union and the cost can be measured reliably.

Intangible assets are amortized over their useful lives on a straight-line basis annually at a rate of 3 to 10 years. The method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

There are no indefinite life intangible assets.

Impairment of non-financial assets

Impairment reviews are performed when there are indicators that the recoverable amount of an asset may be less than the carrying value. The recoverable amount is determined as the higher of an asset's fair value less cost to sell and value in use. Impairment losses are recognized in the statement of net income and comprehensive income when there is an indication that an asset may be impaired. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered only to the extent that the original carrying value would have been at that time in the statement of net income and comprehensive income.

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

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union (a finance lease), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of income and comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union (an operating lease), the total rentals payable under the lease are charged to the statement of net income and comprehensive income on a straight-line basis over the lease term.

Provisions

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

Members' shares

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

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

Dividends

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

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized using the effective interest rate method. Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income continues to be recognized using the original effective rate.

Other income

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

Income taxes

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

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

Deferred income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences between the carrying amounts and the income tax bases of the Credit Union's loans outstanding, finance lease, property and equipment and investment property. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilized.

Translation of foreign currencies

Foreign exchange gains and losses are recorded in other income.

5 Accounting standards issued but not yet effective

IFRS 16 "Leases"

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

IFRIC 23 "Uncertainty over Income Tax Treatments"

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

6 Critical accounting estimates and judgments

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The effect of change in an accounting estimate is recognized prospectively by including it in the statement of net income and comprehensive income in the period of the change, if the change affects that period only; in the period of the change and future periods, if the change affects both.

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

Measurement of the expected credit loss allowance

The Credit Union reviews its loan portfolio to assess the expected credit loss allowance for loans at least on a quarterly basis. The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit loss is further detailed in note 19.

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

- determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of expected credit loss;
- establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated expected credit loss; and
- establishing groups of similar financial assets for the purposes of measuring expected credit loss.

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

7 Investments and deposits

			2018
	FVOCI $000s	**FVTPL $000s**	**Total $000s**
Central			
Shares	34,325	-	34,325
Current account			
Canadian - 1.75%	-	49,812	49,812
U.S. - 2.25%	-	17,733	17,733
Deposits (due within 1 year) (1.95% - 2.16%)	-	350,000	350,000
	34,325	417,545	451,870
Concentra Bank shares	24	-	24
	34,349	417,545	451,894
Accrued interest receivable	-	994	994
	34,349	418,539	452,888

			2017
	AFS $000s	**Loans and receivables $000s**	**Total $000s**
Central			
Shares	33,520	-	33,520
Current account			
Canadian - 1.00%	-	42,062	42,062
U.S. - 1.25%	-	18,698	18,698
Deposits (due within 1 year) (0.33% - 1.29%)	-	410,000	410,000
	33,520	470,760	504,280
Credential Securities Inc. debenture, non-interest bearing, repayable in 2020	-	250	250
Concentra Bank shares	24	-	24
	33,544	471,010	504,554
Accrued interest receivable	-	858	858
	33,544	471,868	505,412

8 Loans outstanding

	2018 $000s	2017 $000s
Consumer		
Loans	173,116	179,515
Mortgages	1,793,437	1,730,402
Lines of credit	148,528	153,655
Commercial		
Loans	22,784	20,848
Mortgages	1,047,477	953,216
Lines of credit	29,738	28,910
Accrued interest receivable	3,868	3,404
	3,218,948	3,069,950
Less: Allowance for loss (note 9)	(2,120)	(1,840)
	3,216,828	3,068,110

9 Allowance for loss

At December 31, 2018, loans outstanding are presented net of allowances for expected credit losses totalling $2,120,000. The following table contains an analysis of the credit risk exposure of financial instruments for which an expected credit loss (ECL) allowance is recognized. The gross carrying amount of financial assets below also represents the Credit Union's maximum exposure to credit risk on these assets.

				2018
	Stage 1 $000s	Stage 2 $000s	Stage 3 $000s	Total $000s
Consumer				
Loans	172,248	714	385	173,347
Mortgages	1,789,950	4,344	1,420	1,795,714
Lines of credit	147,959	494	75	148,528
Commercial				
Loans	22,814	-	-	22,814
Mortgages	1,048,807	-	-	1,048,807
Lines of credit	29,738	-	-	29,738
Gross carrying amount	3,211,516	5,552	1,880	3,218,948
Allowance for loss	(1,386)	(415)	(319)	(2,120)
Carrying amount	3,210,130	5,137	1,561	3,216,828
Current				1,150,613
Non-current				2,066,215

Allowance for loss

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

- transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period; and
- impacts on the measurement of ECL due to changes made to models and assumptions.

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

Consumer	**Stage 1 $000s**	**Stage 2 $000s**	**Stage 3 $000s**	**Total $000s**
Allowance for loss as at January 1, 2018	742	439	259	1,440
Transfers	(335)	(14)	349	-
Financial assets originated	390	242	20	652
Financial assets derecognized	-	(211)	(65)	(276)
Write-offs	(70)	(27)	(105)	(202)
Net remeasurement of allowance for loss	(11)	(14)	(139)	(164)
Allowance for loss as at December 31, 2018	716	415	319	1,450

Commercial	**Stage 1 $000s**	**Stage 2 $000s**	**Stage 3 $000s**	**Total $000s**
Allowance for loss as at January 1, 2018	656	-	4	660
Transfers	-	-	-	-
Financial assets originated	48	-	-	48
Financial assets derecognized	-	-	-	-
Write-offs	-	-	-	-
Net remeasurment of allowance for loss	(34)	-	(4)	(38)
Allowance for loss as at December 31, 2018	670	-	-	670

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

As at December 31, 2017, the Credit Union had recorded allowances for loss totalling $1,840,000, consisting of $491,000 for specific loans considered impaired and $1,349,000 as a collective allowance.

The following schedule provides the total amount of allowance recorded for each major loan category:

			2017
	Gross loan balances $000s	**Total allowance $000s**	**Net loan balances $000s**
Impaired			
Consumer			
Loans	414	233	181
Mortgages	4,673	218	4,455
Lines of credit	112	36	76
Commercial			
Loans	-	-	-
Mortgages	-	-	-
Lines of credit	4	4	-
	5,203	491	4,712
Non-impaired	3,064,747	1,349	3,063,398
	3,069,950	1,840	3,068,110
Current	1,045,100	1,840	1,043,260
Non-current	2,024,850	-	2,024,850

			2017
	Consumer specific allowance $000s	**Commercial specific allowance $000s**	**Total $000s**
Balance - beginning of year	477	4	481
Reversal of allowance	-	-	-
Increase in provision for loan loss	122	-	122
Loans written off in the year	(112)	-	(112)
	487	4	491

The fair value of the collateral held by the Credit Union as security for impaired loans as at December 31, 2018 was $1,561,000 (2017 - $4,712,000). The Credit Union estimated the fair value of collateral based on an updated assessment of the security appraisal undertaken at the original funding assessment.

Loans past due but not impaired

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

					2017
	1 - 30 days $000s	31 - 60 days $000s	61 - 89 days $000s	90 days and greater $000s	Total $000s
Consumer					
Loans	3,647	64	12	71	3,794
Mortgages	30,161	670	14	786	31,631
Lines of credit	-	213	1	-	214
Commercial					
Loans	-	-	-	-	-
Mortgages	16,588	-	-	-	16,588
Lines of credit	-	28	2	-	30
	50,396	975	29	857	52,257

The principal collateral the Credit Union holds as security for loans includes (i) insurance, and title over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. 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.

The Credit Union has policies and procedures in place to control the risk that past due loans will be rewritten or extended without the approval of senior management or the Board of Directors. Loans that are greater than 30 days past due cannot be rewritten without the approval of senior management of the Credit Union. During the year ended December 31, 2017, there was $nil in loans greater than 30 days past due that were rewritten on the approval of senior management for the purpose of improving the Credit Union’s security position.

10 Other assets

	2018 $000s	2017 $000s
Accounts receivable	1,280	1,208
Prepaid expenses	810	727
	2,090	1,935

All balances are current. The carrying value reasonably approximates fair value at the statement of financial position date due to their relative short-term to maturity.

11 Property, equipment and intangible asset

	Property and equipment						Intangible asset	Total
	Land $000s	**Buildings $000s**	**Furniture and fixtures $000s**	**Security equipment $000s**	**Leasehold improvements $000s**	**Total $000s**	**Computer system $000s**	**$000s**
Year ended December 31, 2018								
Opening net book value	1,574	10,205	603	147	2,480	15,009	2,596	17,605
Additions	-	293	875	-	617	1,785	979	2,764
Disposals	-	-	(32)	-	-	(32)	-	(32)
Depreciation charge	-	(585)	(233)	(28)	(336)	(1,182)	(1,113)	(2,295)
Closing net book value	1,574	9,913	1,213	119	2,761	15,580	2,462	18,042
At December 31, 2018								
Cost	1,574	15,563	5,990	975	6,073	30,175	19,073	49,248
Accumulated depreciation	-	(5,650)	(4,777)	(856)	(3,312)	(14,595)	(16,611)	(31,206)
Net book value	1,574	9,913	1,213	119	2,761	15,580	2,462	18,042
Year ended December 31, 2017								
Opening net book value	1,574	10,556	781	176	2,485	15,572	2,575	18,147
Additions	-	230	29	-	260	519	1,166	1,685
Depreciation charge	-	(581)	(207)	(29)	(265)	(1,082)	(1,145)	(2,227)
Closing net book value	1,574	10,205	603	147	2,480	15,009	2,596	17,605
At December 31, 2017								
Cost	1,574	15,270	5,147	975	5,456	28,422	18,094	46,516
Accumulated depreciation	-	(5,065)	(4,544)	(828)	(2,976)	(13,413)	(15,498)	(28,911)
Net book value	1,574	10,205	603	147	2,480	15,009	2,596	17,605

The Credit Union has buildings under finance leases with a cost of $6,977,000 (2017 - $6,977,000) and accumulated depreciation of $2,550,000 (2017 - $2,174,000).

12 Savings and deposits

	2018 $000s	2017 $000s
Savings accounts	1,265,952	1,319,260
Chequing accounts	262,121	252,404
Term deposits	1,128,702	1,022,220
Registered deposits	714,284	707,113
Unclaimed accounts	219	226
	3,371,278	3,301,223
Accrued interest	22,960	19,898
	3,394,238	3,321,121
Current	2,381,925	2,389,996
Non-current	1,012,313	931,125

Savings and deposits amounting to $1,739,457,000 (2017 - $1,701,205,000) are at fixed interest rates and all other savings and deposits amounting to $1,654,781,000 (2017 - $1,619,916,000) are at variable rates.

13 Finance lease

The Credit Union has finance lease obligations totalling $6,096,000 of which $481,000 is current, at December 31, 2018 (2017 - $6,886,000, $483,000 current portion).

Future minimum payments for obligations under finance lease are as follows:

	$000s
2019	481
2020	481
2021	412
2022	382
2023	382
Thereafter	3,958
	6,096
Less: Interest payments	1,340
Obligations under finance lease	4,756

14 Income taxes

The significant components of the provision for income taxes included in the statement of income are composed of:

	2018 $000s	2017 $000s
Current income taxes		
Based on current year taxable income	5,027	4,077
Adjustment recognized for tax of prior periods	(33)	(647)
	4,994	3,430
Deferred income taxes		
Origination and reversal of temporary differences	(252)	(127)
Impact of changes in tax rates	(170)	(87)
Other	(18)	-
	(440)	(214)
Provision for income taxes	4,554	3,216

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

	2018 %	2017 %
Federal base rate	38.00	38.00
Federal abatement	(10.00)	(10.00)
General rate reduction	(13.00)	(13.00)
Blended net federal tax rate	15.00	15.00
General Manitoba rate	12.00	12.00
Manitoba Credit Union rate (a)	(10.87)	(11.00)
Blended net provincial tax rate	1.13	1.00
	16.13	16.00

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

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory rate of 16.13% (2017 - 16.00%) are as follows:

	2018 $000s	2017 $000s
Net income for the year	29,779	24,896
Expected provision for income taxes at statutory rates	4,803	3,983
Non-deductible portion of expenses	21	20
Impact of change in tax rates	(170)	(87)
Adjustment recognized for tax of prior periods	(33)	(647)
Tax savings on dividends	(53)	(45)
Other	(14)	(8)
Total provision for income taxes	4,554	3,216

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

	2018 $000s	2017 $000s
Deferred tax assets		
Allowance for loss	388	50
Finance lease	172	156
Accounts payable and accrued liabilities	798	719
	1,358	925
Deferred tax liabilities		
Capital cost allowance in excess of depreciation	(658)	(665)
Total deferred taxes	700	260

	2018 $000s	2017 $000s
Current income taxes payable	(969)	(406)

Current income taxes payable have been included in accounts payable and accrued liabilities on the statement of financial position.

	2018 $000s	2017 $000s
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	388	50
Deferred tax assets to be recovered after more than 12 months	970	875
	1,358	925
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	(658)	(665)
Net deferred tax asset	700	260

The movement in the deferred tax assets and liabilities is recognized in the statement of income for the year.

15 Members' shares

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

Each member must purchase one or more common shares. At December 31, 2018, the number of common shares was 64,056 (2017 - 63,216).

Common shares

Authorized common share capital consists of an unlimited number of common shares, with an issue price of $5 and an unlimited number of common shares issued under the refunded service program with an issue price of $0.01.

Common shares are redeemable at the request of the member upon closing their account. Common shares issued under the refunded service program can also be redeemed when the member reaches the age of 59. All common shares are therefore classified as liabilities.

Surplus shares

Authorized surplus shares consist of an unlimited number of surplus shares with an issue price of $1.

Surplus shares with a total value per member of less than $100 are redeemable at the request of the member upon the member reaching the age of 65 or closing their account. As a result, such surplus shares are classified as liabilities. Surplus shares with a total value per member of more than $100 are classified as equity as Board of Directors approval is required for the redemption of the shares upon the member reaching the age of 65 or closing their account.

Members' shares - liability

	2018 $000s	2017 $000s
Surplus shares		
Beginning of year	249	273
Surplus shares to be issued	10	8
Surplus shares issued	8	8
Reversal of prior year shares to be issued	(8)	(8)
Redemption of surplus shares	(20)	(32)
End of year	239	249
Common shares		
Beginning of year	1,074	1,084
Issued on application for membership	4	5
Issued based on Refunded Service Fee Program (note 16(a))	5,951	5,646
Redemption of common shares	(5,973)	(5,661)
End of year	1,056	1,074
Total members' shares – liability	1,295	1,323

Members' shares - equity

	2018 $000s	2017 $000s
Surplus shares		
Beginning of year	7,841	7,968
Issued during the year (previous year's dividends) (note 16(b))	279	277
Redemption of surplus shares	(381)	(404)
Total members' shares - equity	7,739	7,841

16 Refunded service fees and share dividend

A) Refunded service fees

For 2018, refunded service fees of $5,951,000 (2017 - $5,646,000) were paid under the refunded service fees program on qualifying service fees in the year to members meeting the requirement of the program. The refunded service fees will result in income tax recoveries in the current year of $1,606,000 (2017 - $1,524,000).

B) Share dividend

In respect to 2018, the Board has declared a 4.06% (2017 - 3.40%) dividend on existing common and surplus shares. The entire amount of the dividend of $340,000 (2017 - $287,000) will be used in 2018 to issue surplus shares under the Credit Union's member equity plan. Of this amount, $10,000 (2017 - $8,000) relates to members' shares classified as financial liabilities and therefore, has been recognized as interest expense. The share dividend will result in income tax recoveries in the current year of $53,000 (2017 - $45,000).

17 Capital disclosures

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

Capital requirements

The Credit Union shall maintain a level of capital, which is comprised of total members' shares and retained earnings that meets or exceeds the following requirements:

A) its total regulatory capital shall not be less than 5% of the book value of its assets;
B) its retained earnings shall not be less than 3% of the book value of its assets; and
C) a tiered level of capital shall not be less than 8% of the risk-weighted value of its assets as defined in the Regulations to the Act.

The capital requirements as at December 31 are as follows:

	2018 As a % of assets	2017 As a % of assets
Total regulatory capital	7.71%	7.24%
Retained earnings	7.45%	6.97%
Risk weighted capital	13.34%	13.94%

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

Liquidity reserve

The Credit Union shall maintain in cash and investments in Central not less than 8% of its total savings and deposits. As at December 31, 2018 the Credit Union had liquidity reserves equal to 12.47% of its total savings and deposits (2017 – 14.33%).

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

Capital is managed in accordance with policies established by the Board of Directors and in relation to the capital requirements above. Management regards a strong capital base as an integral part of the Credit Union's strategy. All of the capital requirements are monitored throughout the year, and modifications of capital management strategies are made as appropriate. The Credit Union makes periodic dividend payments on eligible member shares, within the context of its overall capital management plan.

18 Obligations under operating leases

Under the terms of leases for its premises, the Credit Union is committed to future aggregate lease payments as follows:

	$000s
2019	502
2020	347
2021	254
2022	105
2023	110
Thereafter	505
	1,823

19 Risk management

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

Risk management is carried out by management who reports to the Board of Directors. The Board of Directors provides written principles for risk tolerance and overall risk management. Management reports to the Board of Directors on the Credit Union's compliance with the risk management policies. In addition, the Credit Union maintains a Risk Management department, which is responsible for independent review of risk management and the Credit Union's control environment.

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

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

Activity	**Risks**	**Method of managing risks**
Investments and deposits	Sensitivity to changes in interest rates, liquidity and credit risk	Monitoring of investment restrictions and counterparty risk
Loans outstanding	Sensitivity to changes in interest rates, liquidity, and credit risk	Asset-liability matching, periodic use of derivatives and monitoring of counterparty risk
Savings and deposits	Sensitivity to changes in interest rates and liquidity	Asset-liability matching and periodic use of derivatives

Interest rate risk

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

In managing interest rate risk, the Credit Union relies primarily upon the use of asset-liability and interest rate sensitivity models. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the re-pricing of the Credit Union's financial instruments. The Credit Union has not entered into any interest rate swaps in the current year.

Sensitivity analysis is used to assess the change in value or cash flows of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve-month period. Sensitivity analysis is calculated on a periodic basis and is reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at December 31, 2018, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by $2,289,000 over the next twelve months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by $2,569,000 over the next twelve months.

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

The following schedule shows the Credit Union's sensitivity to interest rate changes as at December 31, 2018:

Expected repricing or maturity dates	Assets $000s	Interest rate %	Liabilities (including member shares) $000s	Interest rate %	Asset liability gap $000s
Variable to 6 months	1,256,759	3.64	2,048,845	1.79	(792,086)
6 months to 1 year	343,999	3.29	309,604	2.46	34,395
1 to 2 years	600,357	3.09	391,404	2.56	208,953
2 to 3 years	590,603	2.97	248,687	2.45	341,916
3 to 4 years	657,960	3.08	198,707	2.50	459,253
4 to 5 years	211,853	3.59	172,780	3.15	39,073
Over 5 years	5,442	4.73	734	3.48	4,708
	3,666,973		3,370,761		296,212
Non-interest rate sensitive	29,821		326,033		(296,212)
	3,696,794		3,696,794		-

The Credit Union's major source of income is its financial margin, which is the difference between income earned on investments and loans to members and interest paid to members on their deposits. The objective of asset liability management is to match interest-sensitive assets with interest-sensitive liabilities, thus controlling wide fluctuations of income during periods of changing interest rates. Certain items on the 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. The Credit Union may enter into interest rate swap contracts when its portfolio is mismatched.

Credit risk

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

Credit risk is the risk that a Credit Union member or counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy of Manitoba or deterioration in lending sectors, which represent a concentration within the Credit Union's loan portfolio, may result in losses that are different from those provided for at the statement of financial position date. Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in loans outstanding and investing activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is reported to the Board of Directors.

Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member. The Board of Directors is responsible for approving and monitoring the Credit Union's tolerance for credit exposures, which it does through review and approval of the Credit Union's lending policies and credit scoring system, and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits and prior to advancing funds to a member; an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and to establish that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

In measuring credit risk of loan and advances at a counterparty level, the Credit Union considers three components: (i) the probability of default (PD) by the member or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Credit Union derives the exposure at default (EAD); and (iii) the likely recovery ratio on the defaulted obligations loss given default (LGD).

The maximum exposure to credit risk from financial assets, without taking into account any collateral held or other credit enhancements, is as follows:

			2018
Credit risk exposure	**Outstanding $000s**	**Undrawn commitments $000s**	**Total exposure $000s**
Investments and deposits	452,888	-	452,888
Consumer			
Loans	173,116	-	173,116
Mortgages	1,793,437	35,047	1,828,484
Lines of credit	148,528	305,333	453,861
Commercial			
Loans	22,784	400	23,184
Mortgages	1,047,477	56,306	1,103,783
Lines of credit	29,738	66,446	96,184
Letters of credit	-	1,148	1,148
Accrued interest receivable	3,868	-	3,868
Accounts receivable	1,280	-	1,280
Total exposure	3,673,116	464,680	4,137,796

Credit risk exposure	Outstanding $000s	Undrawn commitments $000s	Total exposure $000s
			2017
Investments and deposits	505,412	-	505,412
Consumer			
Loans	179,515	-	179,515
Mortgages	1,730,402	37,454	1,767,856
Lines of credit	153,655	295,435	449,090
Commercial			
Loans	20,848	1,742	22,590
Mortgages	953,216	66,538	1,019,754
Lines of credit	28,910	60,810	89,720
Letters of credit	-	2,946	2,946
Accrued interest receivable	3,404	-	3,404
Accounts receivable	1,208	-	1,208
Total exposure	3,576,570	464,925	4,041,495

Investments and deposits

Credit risk arises from the investments and deposits in cash resources held by the Credit Union to meet regulatory and internal liquidity requirements and for general business purposes. All of the Credit Union's liquidity investments are held with Central. Central invests on behalf of the Credit Union as per the investment policies approved by the Investment Committee of the Board of Directors of Central. Central's investment policy requires that all investments are highly rated (A or higher) and that all of the assets are readily convertible to cash.

Consumer loans, mortgages and lines of credit

Loans outstanding consist of personal loans and lines of credit, which are secured by various types of collateral as, required in the loans policy approved by the Board of Directors. Unsecured personal loans are only granted on the basis of a properly qualified and documented covenant value.

Residential mortgages to members consist of $464,000,000 (2017 - $460,663,000) in mortgages with an advance ratio of 80% to 95% of the appraised value which are fully insured by either the Canadian Mortgage Housing Corporation, Canada Guaranty Mortgage Insurance or Genworth Capital, $1,325,645,000 (2017 - $1,267,449,000) in conventional residential mortgages with an original maximum advance ratio to 80% of the appraised value and $3,792,000 (2017 - $2,290,000) in residential mortgages with an original advance ratio to 85% of the appraised value.

Commercial loans, mortgages and lines of credit

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

The Credit Union manages credit concentration by establishing lending limits for each industry based on risk ratings for the respective industries. As at December 31, 2018, the Credit Union has not exceeded its lending limit for any industry type. The commercial lending by industry is as follows:

	2018 $000s	2017 $000s
Commercial real estate retail	93,586	95,206
Commercial real estate office	111,671	73,189
Commercial real estate industrial	38,258	18,542
Residential real estate	472,635	416,725
Real estate other	14,718	13,666
Health care	139,759	141,733
Accommodation and food services	19,759	19,712
Retail	5,940	5,787
Construction	43,522	45,239
Entertainment and recreation	24,092	25,467
Other	136,059	147,708
	1,099,999	1,002,974

The credit quality of the commercial loan portfolio for those loans, which are neither past due or impaired can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the probability of a default using internal rating tools and taking into account statistical analysis as well as the experience and judgment of the credit department. Commercial loans to members are divided into eight segments and are regularly reviewed and updated as appropriate. Loans with ratings of five or six are not considered to be impaired taking into account the repayment status of the loans and the estimated fair value of the collateral.

	2018 $000s	2017 $000s
Rating 1 - Excellent risk	636	3,337
Rating 2 - Very good risk	313,110	308,627
Rating 3 - Good risk	518,012	473,287
Rating 4 - Acceptable risk	258,036	194,141
Rating 5 - Caution risk	10,205	23,578
Rating 6 - At risk	-	-
Rating 7 - Impaired with no loan loss allowance	-	-
Rating 8 - Impaired with loan loss allowance	-	4
	1,099,999	1,002,974

Expected credit loss measurement

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

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Credit Union. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

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

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

Significant increase in credit risk

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

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

- contractual cash flow obligations are more than 30 days past due, or;
- an adverse change in the borrower's situation indicates that their ability to fulfill their contractual cash flow obligations has been reduced, or;
- forward-looking information indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced.

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

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

Definition of default and credit-impaired assets

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

- the borrower is more than 90 days past due on its contractual payment;
- the borrower is in long-term forbearance;
- the borrower is deceased;
- the borrower is insolvent;
- the borrower is in breach of financial covenant(s);
- an active market for that financial asset has disappeared because of financial difficulties;
- concessions have been made by the lender relating to the borrower's financial difficulty; and
- it is becoming probable that the borrower will enter bankruptcy.

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

An instrument is considered to no longer be in default when it no longer meets any of the default criteria.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (lifetime PD) of the obligation.
- EAD is based on the amounts the Credit Union expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (lifetime EAD).

- LGD represents the Credit Union's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. The assumptions underlying the ECL calculation are monitored and reviewed on a quarterly basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL models

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

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base case scenario") are based on advice by economic experts and consideration of a variety of external, actual and forecast information that allows the Credit Union to formulate a base case view of the future direction of relevant economic variables as well as representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relevant probabilities of each outcome. External information includes economic data and forecasts published by government bodies and the Bank of Canada, forecasts by large Canadian banks and financial institutions and other selected private-sector and academic forecasters.

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

Collateral and other credit enhancements

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

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

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

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

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

Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. As disclosed in note 17, the Credit Union is required to maintain in cash and investments in Central not less than 8% of its total savings and deposits. The Credit Union’s own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, and asset-liability maturity management. Management monitors forecasts of the Credit Union’s liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union also maintains a borrowing facility with Central in the amount of 10% of member deposits as part of its liquidity management strategy.

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

		Payable on a fixed date				
	On demand $000s	**Less than 1 year $000s**	**1 to 2 years $000s**	**2 to 5 years $000s**	**More than 5 years $000s**	**Total $000s**
Financial assets						
Cash on hand	5,662	-	-	-	-	5,662
Investments and deposits	67,545	350,994	-	-	34,349	452,888
Loans outstanding	442,660	707,953	600,357	1,460,416	5,442	3,216,828
Accounts receivable	-	1,280	-	-	-	1,280
Total financial assets	515,867	1,060,227	600,357	1,460,416	39,791	3,676,658
Financial liabilities						
Savings and deposits	1,654,779	727,146	391,405	620,175	733	3,394,238
Members' shares	1,295	-	-	-	-	1,295
Accounts payable and accrued liabilities	-	12,843	-	-	-	12,843
Finance lease payable	-	396	402	970	2,988	4,756
	1,656,074	740,385	391,807	621,145	3,721	3,413,132

Foreign exchange risk

Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financed investments for an extended period.

Price risk

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

20 Fair value of financial instruments

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

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

The most significant assumption relates to the discount rates utilized. If the forward yield curve of such instruments would increase by 100 basis points then the fair value of loans outstanding and investments and deposits would decrease by approximately $55,057,000 (2017 - $60,110,000) and the fair value of savings and deposits would decrease by approximately $27,324,000 (2017 - $28,584,000). A corresponding decrease of 100 basis points would result in the fair value of loans outstanding and investments and deposits increasing by approximately $56,699,000 (2017 - $28,757,000) and the fair value of savings and deposits would increase by approximately $28,110,000 (2017 - $62,755,000).

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings and equipment.

Financial assets and liabilities are recognized on the statement of financial position at fair value, cost or amortized cost according to the categories determined by the accounting framework for financial instruments.

The carrying values and fair values for each category of financial asset and liability are presented in the table below:

As at December 31, 2018:

	FVOCI $000s	FVTPL $000s	Amortized cost $000s	Estimated fair value $000s	Fair value less than book value $000s
Assets					
Cash on hand	-	-	5,662	5,662	-
Investments and deposits	34,349	418,539	-	452,799	(89)
Loans outstanding	-	-	3,216,828	3,168,800	(48,028)
Accounts receivable	-	-	1,280	1,280	-
	34,349	418,539	3,223,770	3,628,541	(48,117)
Liabilities					
Savings and deposits	-	-	3,394,238	3,371,960	(22,278)
Members' shares	-	-	1,295	1,295	-
Accounts payable and accrued liabilities	-	-	12,843	12,843	-
Finance lease payable	-	-	4,756	4,756	-
	-	-	3,413,132	3,390,854	(22,278)

As at December 31, 2017:

	AFS $000s	Financial assets and financial liabilities at cost or amortized cost $000s	Estimated fair value $000s	Fair value greater (less) than book value $000s
Assets				
Cash on hand	-	5,176	5,176	-
Investments and deposits	33,520	471,898	504,977	(441)
Loans outstanding	-	3,068,110	3,042,161	(25,949)
Accounts receivable	-	1,208	1,208	-
Total financial assets	33,520	3,546,392	3,553,522	(26,390)
Liabilities				
Savings and deposits	-	3,321,121	3,326,998	5,877
Members' shares	-	1,323	1,323	-
Accounts payable and accrued liabilities	-	12,176	12,176	-
Finance lease payable	-	5,384	5,384	-
Total financial liabilities	-	3,340,004	3,345,881	5,877

Fair value hierarchy

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

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
  There are no assets measured at fair value classified as Level 1.
- Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)
  Level 2 inputs include quoted prices for assets in markets that are considered less active.
- Level 3: Unobservable inputs that are supported by little or no market.
  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 are no assets measured at fair value classified as Level 3. While not carried at fair value, fair values are disclosed for cash on hand, investments and deposits.

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

The Deposit Guarantee Corporation of Manitoba

The Deposit Guarantee Corporation of Manitoba (the Deposit Guarantee Corporation) was incorporated for the purpose of protecting the members of credit unions from financial loss in respect of their deposits with credit unions/caisses and to ensure credit unions/caisses operate under sound business practice. The Deposit Guarantee Corporation provides a safeguard of all savings and deposits of members of Manitoba credit unions.

Transactions with the Deposit Guarantee Corporation included assessments of $2,689,000 (2017 - $2,614,000) and are recorded as member security expense.

Central

The Credit Union is a member of Central, which acts as a depository for surplus funds, and makes loans to credit unions. Central also acts as a trade association for credit unions.

The Credit Union has in place a line of credit with Central in the amount of 10% of member deposits. The line of credit was not utilized at December 31, 2018. The line of credit with Central is payable on demand with interest payable on a variable rate basis which at year-end was 3.75% (2017 - 3.00%). As collateral for the line of credit, the Credit Union has pledged its loans outstanding. Interest paid on borrowings from Central during the year amounted to $17,000 (2017 - $nil).

Transactions with Central included income earned on investments and deposits referred to in note 7 in the amount of $12,868,000 (2017 - $10,514,000) and fees assessed by Central which include annual affiliation dues in the amount of $1,096,000 (2017 - $1,167,000) recorded as organizational expenses.

Related party transactions

Remuneration and remuneration for expenses of Directors

The aggregate amount of remuneration paid to all Directors for the year ended December 31, 2018 was $278,000 (2017 - $278,000).

The aggregate amount paid to all Directors as reimbursement of expenses on credit union business for the year ended December 31, 2018 was $3,000 (2017 - $15,000).

The outstanding balances at December 31 for Board of Directors and related expense and income for the year are as follows:

	2018 $000s	2017 $000s
Loans outstanding	1,998	2,256
Savings and deposits outstanding	525	379

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

Compensation of key management personnel

Key management personnel of the Credit Union include all senior management. The summary of compensation for key management personnel consisted of salaries of $3,333,000 (2017 - $2,936,000) and employee benefits of $458,000 (2017 - $534,000) for the year ended December 31, 2018.

The outstanding balances at December 31 for key management personnel and related expense and income for the year are as follows:

	2018 $000s	2017 $000s
Loans outstanding	769	641
Savings and deposits outstanding	2,442	3,352

No allowances have been recognized in respect of loans issued to senior management in the current year.

Loans to directors, management and employees

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

As at December 31, 2018, outstanding loans to Directors, management and employees totalled 0.1% (2017 - 0.8%), in aggregate, of the assets of the Credit Union.

22 Pension plan

The Credit Union has a defined contribution pension plan for qualifying employees. The assets are held in trust by the Co-operative Superannuation Society Limited and are not recorded in these financial statements. The Credit Union matches employee contributions at a rate of 6% of the employee's salary. The expense and payments for the year ended December 31, 2018 were $892,000 (2017 - $849,000). The Credit has no further liability or obligation for future contributions to fund future benefits to plan members with respect to the defined contribution plan.

23 Subsequent event

On January 23, 2019, the Board of Directors approved the complete redemption of the surplus shares balance in 2019.