CASERA CREDIT UNION LIMITED

Financial Statements
For the year ended December 31, 2019

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For the year ended December 31, 2019

Contents

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Independent Auditor's Report

To the Members of CASERA CREDIT UNION LIMITED

Opinion

We have audited the financial statements of CASERA CREDIT UNION LIMITED ("Credit Union"), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, the statement of changes in members' equity and the statement of cash flows for the year then ended, and notes to the financial statements.

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

Basis for Opinion

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

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 International Financial Reporting Standards, 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.

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.

BDO Canada LLP

Chartered Professional Accountants

Winnipeg, Manitoba
March 31, 2020

CASERA CREDIT UNION LIMITED
Statement of Financial Position

December 31		2019	2018
Assets			
Funds on hand and on deposit (Note 8)	$	**8,472,112**	$ 12,014,290
Other assets		**1,202,895**	1,083,846
Investments (Note 11)		**31,905,419**	23,290,030
Loans to members (Note 4)		**377,410,593**	350,964,108
Property and equipment (Note 16)		**872,398**	1,042,692
Intangible assets (Note 16)		**330,844**	480,783
Right-of-use assets (Note 17)		**1,725,756**	-
	$	**421,920,017**	$ 388,875,749
Liabilities and Members' Equity			
Income taxes payable	$	**2,270**	$ 46,469
Other liabilities		**494,379**	515,049
Members' deposits (Note 5)		**391,553,410**	361,321,437
Lease liabilities (Note 17)		**1,774,905**	-
Deferred income tax liability (Note 14)		**39,000**	123,600
Members' shares (Note 6)		**236,630**	242,256
		394,100,594	362,248,811
Commitments (Note 13)			
Members' Equity (Note 7)			
Members' shares (Note 6)		**3,932,836**	4,035,903
Retained earnings		**23,886,587**	22,591,035
		27,819,423	26,626,938
	$	**421,920,017**	$ 388,875,749

Approved on behalf of the Board of Directors:

______________________ Director

______________________ Director

CASERA CREDIT UNION LIMITED
Statement of Comprehensive Income

For the year ended December 31	2019	2018
Revenue		
Interest on loans to members		
Lines of credit	**$ 992,113**	$ 940,182
Term loans	**1,458,496**	1,457,527
Real estate	**10,188,933**	8,989,502
Investment income		
Liquidity deposits	**978,302**	851,036
CUCM shares	**80,782**	45,715
Concentra shares	**46,000**	46,000
	13,744,626	12,329,962
Cost of Funds		
Interest paid to members	**7,895,986**	6,430,877
Interest on borrowings	**7,985**	2,806
	7,903,971	6,433,683
Gross financial margin	**5,840,655**	5,896,279
Operating Expenses		
Personnel (Note 19)	**2,781,105**	2,614,492
Administrative	**2,351,814**	2,339,538
Occupancy	**1,049,484**	1,079,859
Members' security	**345,036**	324,909
Organizational	**242,596**	237,249
Distributions to members (Note 6)	**5,487**	6,514
Gross operating expenses	**6,775,522**	6,602,561
Less other income (Note 20)	**2,564,622**	2,562,883
	4,210,900	4,039,678
Gross operating income	**1,629,755**	1,856,601
Provision for impaired loans	**12,047**	2,974
Income before income taxes	**1,617,708**	1,853,627
Provision for income taxes (Note 14)	**234,643**	229,642
Net and total comprehensive income for the year	**$ 1,383,065**	$ 1,623,985

CASERA CREDIT UNION LIMITED
Statement of Changes in Members' Equity

For the year ended December 31, 2019

	Members' Shares	Retained Earnings	Total
Balance on December 31, 2017	$ 4,108,465	$ 21,112,758	$ 25,221,223
IFRS 9 transition adjustment on January 1, 2018	-	(50,222)	(50,222)
Net income for the year	-	1,623,985	1,623,985
Distributions to members (Note 6)	-	(95,486)	(95,486)
Issue of members' shares	254,574	-	254,574
Redemption of members' shares	(323,614)	-	(323,614)
Transfer to liabilities	(3,522)	-	(3,522)
Balance on December 31, 2018	**4,035,903**	**22,591,035**	**26,626,938**
Net income for the year	**-**	**1,383,065**	**1,383,065**
Distributions to members (Note 6)	**-**	**(87,513)**	**(87,513)**
Issue of members' shares	**260,777**	**-**	**260,777**
Redemption of members' shares	**(369,469)**	**-**	**(369,469)**
Transfer to liabilities	**5,625**	**-**	**5,625**
Balance on December 31, 2019	**$ 3,932,836**	**$ 23,886,587**	**$ 27,819,423**

CASERA CREDIT UNION LIMITED
Statement of Cash Flows

For the year ended December 31		2019		2018
Cash Flows from Operating Activities				
Net income for the year	**$**	**1,383,065**	$	1,623,985
Adjustments for				
Interest and investment revenue		**(13,744,626)**		(12,329,962)
Interest expense		**7,903,971**		6,433,683
Depreciation expense		**654,652**		530,236
Provision for impaired loans		**12,047**		2,974
Gain on disposal of property and equipment		**(30)**		-
Deferred income taxes		**(84,600)**		(80,400)
		(3,875,521)		(3,819,484)
Change in other assets and liabilities		**(139,719)**		(80,165)
Change in income taxes payable		**278,067**		292,747
		138,348		212,582
Changes in member activities (net)				
Change in loans to members		**(26,411,778)**		(12,880,075)
Change in members' deposits		**29,342,076**		17,007,144
		2,930,298		4,127,069
Cash flows related to interest, dividends, and income taxes				
Interest received on loans to members		**12,592,833**		11,326,761
Interest received on investments		**1,076,640**		941,880
Interest paid on lease liabilities		**72,411**		-
Interest paid on members' deposits		**(7,006,089)**		(6,083,061)
Interest paid on borrowings		**(7,985)**		(2,806)
Income taxes paid		**(322,266)**		(360,634)
		6,405,544		5,822,140
Total cash flows from operating activities		**5,598,669**		6,342,307
Cash Flows from Investing Activities				
Purchase of investments		**(586,945)**		(603,635)
Purchase of property and equipment		**(34,941)**		(58,092)
Purchase of intangible assets		**(78,425)**		(39,439)
Total cash flows used in investing activities		**(700,311)**		(701,166)
Cash Flows from Financing Activities				
Issue of common, surplus and preference shares		**260,777**		254,574
Redemption of common and surplus shares		**(369,469)**		(323,614)
Dividends on shares		**(87,513)**		(95,486)
Principal paid on lease liabilities		**(244,331)**		-
Total cash flows used in financing activities		**(440,536)**		(164,526)
Net increase in cash and cash equivalents		**4,457,822**		5,476,615
Cash and cash equivalents, beginning of year		**32,014,290**		26,537,675
Cash and cash equivalents, end of year	**$**	**36,472,112**	$	32,014,290
Comprised of the following:				
Funds on hand and on deposit	**$**	**8,472,112**	$	12,014,290
Credit Union Central of Manitoba liquidity deposits		**28,000,000**		20,000,000
	$	**36,472,112**	$	32,014,290

1. Corporate Information

Casera Credit Union Limited (the "Credit Union") is incorporated under The Credit Unions and Caisses Populaires Act of the Province of Manitoba ("the Act") and is a member of Credit Union Central of Manitoba ("CUCM"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Manitoba. Products and services offered to its members include consumer and commercial loans and mortgages, chequing and savings accounts, term deposits, registered deposits, automated teller machines ("ATMs"), debit and credit cards, Internet banking and the sale of mutual funds. The Credit Union has three branches located in Winnipeg. The Credit Union's head office is located at 1300 Plessis Road, Winnipeg, Manitoba.

These financial statements have been authorized for issue by the Board of Directors on March 31, 2020.

2. Basis of Presentation

(a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB").

(b) Basis of Measurement

These financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through other comprehensive income ("FVTOCI") and derivative financial instruments measured at fair value.

The Credit Union’s functional and presentation currency is the Canadian dollars

(c) Judgments and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union’s accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized or amounts of assets or liabilities disclosed in the financial statements within the next financial year are:

- The determination of impairment of member loans; assessing whether credit risk on the financial asset has increased significantly since initial recognition; and the incorporation of forward-looking information into the measurement of the expected credit loss (“ECL”) (Note 4);

- The classification of financial assets, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Notes 4 and 11); and

2. Basis of Presentation (continued)

- The Credit Union determines the fair value of certain financial instruments using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows (Notes 4, 5 and 11).

- The determination of lease term for some lease contracts in which the Credit Union is a lessee that include renewal options and termination options, and the determination whether the Credit Union is reasonably certain to exercise such options and the determination of the incremental borrowing rate used to measure lease liabilities for each lease contract (Note 17).

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2019 did not materially affect the Credit Union's financial statements other than those described below.

IFRS 16 Leases ("IFRS 16")

On January 1, 2019, the Credit Union adopted IFRS 16 Leases. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 - Leases ("IAS 17"), with the distinction between operating leases and finance leases being retained.

The Credit Union adopted IFRS 16 using the modified retrospective approach without restatement of comparative figures. The Credit Union elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Credit Union applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and

- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application.

3. Adoption of New Accounting Standards (continued)

Recognition and Measurement

As a lessee, the Credit Union previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Credit Union recognizes right-of-use assets and lease liabilities for all the leases.

On adoption of IFRS 16, the Credit Union recognized right-of-use assets and lease liabilities in relation to leases of office buildings and office equipment which had previously been classified as operating leases.

The lease liabilities and right-of-use assets were measured as follows:

a) The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Credit Union's incremental borrowing rate as at January 1, 2019. The Credit Union's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions; and

b) Right-of-use assets were measured at an amount equal to the lease liabilities.

Impact on the Credit Union's Financial Statements on January 1, 2019

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at January 1, 2019:

	Balance, December 31, 2018	IFRS 16 Adjustments	Adjusted Balance, January 1, 2019
Right-of-use assets	$ -	$ 1,946,823	$ 1,946,823
Lease liabilities	$ -	$ 1,946,823	$ 1,946,823

When measuring lease liabilities for leases that were previously operating leases, the Credit Union discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities was 4.25%.

3. Adoption of New Accounting Standards (continued)

Reconciliation of Operating Lease Commitments and Aggregate Lease Liabilities

The following table reconciles the Credit Union's operating lease commitments at December 31, 2018, as previously disclosed in the Credit Union's financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Minimum operating lease commitment disclosed as at December 31, 2018	$ 1,772,352
Plus: Effect of extension options reasonably certain to be exercised	586,035
	2,358,387
Less: Effect of discounting using the incremental borrowing rate as at the date of initial application	411,564
Lease liabilities recognized at January 1, 2019	$ 1,946,823
Of which are:	
Current lease liabilities	$ 171,918
Non-current lease liabilities	1,774,905
	$ 1,946,823

<u>IFRIC Interpretation 23 Uncertainty over Income Tax Treatments ("IFRIC 23")</u>

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- An entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The adoption of IFRIC 23 Uncertainty over Income Tax Treatments did not have a material impact on the Credit Union's financial statements.

4. Loans to Members

Loans to members and allowance for impaired loans held by the Credit Union are as follows:

	2019	2018
Consumer		
Term loans	**$ 20,979,132**	$ 22,721,959
Real estate	**312,460,661**	288,139,894
Lines of credit	**15,591,384**	13,389,133
Commercial		
Term loans	**2,173,237**	3,077,477
Real estate	**24,529,739**	19,268,932
Lines of credit	**1,359,846**	4,109,139
	377,093,999	350,706,534
Accrued interest receivable	**458,120**	411,411
	377,552,119	351,117,945
Allowance for impaired loans	**(141,526)**	(153,837)
Net loans to members	**$ 377,410,593**	$ 350,964,108

Terms and Conditions

Loans to members can have either a variable or fixed rate of interest and they mature within five years.

Consumer term loans consist of loans that are non real estate secured and, as such, have various repayment terms. They are secured by various types of collateral, including charges on chattel, motor vehicles or personal property, investments and are supported by personal guarantees.

Consumer real estate loans are loans secured by residential property and are generally repayable bi-weekly or monthly with either blended payments of principal and interest or interest only.

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

Recognition and Initial Measurement

The Credit Union initially recognizes loans to members on the date on which they are originated. Loans to members are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Classification and Subsequent Measurement

Loans to members are classified and subsequently measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Loans to members are subsequently reduced by any allowance for loan losses.

4. Loans to Members (continued)

Derecognition and Contract Modifications

The Credit Union derecognizes loans to members when the contractual rights to the cash flows from the loans to members expire, or the Credit Union transfers the loans to members.

On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

If the terms of a member loan are modified, then the Credit Union evaluates whether the cash flows of the modified member loan are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original member loan are deemed to have expired and are derecognized and a new member loan recognized at fair value.

If the terms of a member loan are modified, but not substantially, then the member loan is not derecognized. If the member loan is not derecognized, then the Credit Union recalculates the gross carrying amount of the member loan by discounting the modified contractual cash flows at the original effective interest rate and recognizes the resulting adjustment to the gross carrying amount as a modification gain or loss in profit or loss and presented as interest revenue. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with the provision for credit loss on loans to members.

The Credit Union periodically transfers financial assets in their entirety, but has continuing involvement in those financial assets. Continuing involvement largely arises from processing, administering, servicing and holding loans secured by real property in trust. The carrying amount of the loan portfolio derecognized at December 31, 2019 is $4,809,770 (2018 - $7,693,928), which would be required to be paid should the Credit Union decide to repurchase the derecognized financial assets. The fair market value of the loan portfolio derecognized is $4,828,951 at December 31, 2019 (2018 - $7,549,676).

In the current year, the Credit Union recognized income of $25,255 (2018 - $37,954) and a notional expense of $20,228 (2018 - $33,236) from the administration of the loan portfolio. Since inception, the Credit Union recognized, in aggregate, income of $389,562 and expense of $216,497.

The Credit Union is not exposed to significant loss as a result of the transfer of the financial assets.

Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's loans to members.

Credit Risk Management

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risk and that the overall credit risk policies are complied with at the business and transaction level.

4. Loans to Members (continued)

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, loan administration, credit concentration limits, and risk rating;
- Assigned lending limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and depreciation periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears;
- Maintaining the Credit Union's watch list for loans whose credit risk has increased since origination with appropriate follow-up and risk mitigation techniques;
- Developing and maintaining the Credit Union's internal credit risk grading system; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

The Credit Union allocates a credit risk grade at initial recognition based on available information about the borrower. Under this system, the credit risk grades are defined as follows:

1. Excellent Risk - Accounts would be of an undoubted nature or cash secured. Credit Union risk is minimal, as is the level of account administration.
2. Very Good Risk - Accounts would be proven, high-quality enterprises with little real risk apparent. Little account administration is required, and enterprise management is considered strong and experienced.
3. Good Risk - These accounts are at the lower risk end of an average risk category. Accounts perform well and demonstrate workable financial ratios for the type of enterprise involved. The enterprises are in sufficient condition to withstand a moderate untoward financial event, and generally display good management in key positions.
4. Acceptable Risk - These are generally at the higher risk end of the average risk category, but are considered to exhibit risk at an acceptable institutional level. Financial performance is not strong, but relatively consistent.
5. Caution Risk - Concern is evident in the condition or financial performance of these borrowing accounts. Accounts may require more administrative attention to ensure credit risk is not deteriorating unduly.
6. At Risk - Material negative performance in debt servicing capabilities and capital erosion has occurred to the extent there is real potential for losses. Heavy administrative efforts are needed to ensure a rapid deterioration does not occur.
7. Impaired - No reserve - Accounts reflect the serious negative factors evident in Category 6, but arrears have become more serious, and are consistently over 30 days delinquent. Collateral appears to be sufficient; however, there is some doubt accruing interest can be paid.

4. Loans to Members (continued)

8. Impaired - Reserve - Further financial deterioration has occurred to the extent that it now appears there is potential of a write-off due to a lack of collateral cover. Default is likely.

The Credit Union does not have any commercial loans to members that originate in a credit risk grade of 5 or higher. Loans to members are subject to ongoing monitoring, which may result in the member loan being moved to a different credit risk grade. The monitoring typically involves the use of information obtained during periodic review of member files, for example, audited financial statements, data from credit reference agencies, actual and expected significant changes in the regulatory and technological environment of the borrower or in its business activities, payment record including overdue status and existing and forecast changes in business, financial and economic conditions.

The Credit Union monitors consumer loans primarily by delinquency status.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of the provision for credit losses on loans to members and allowance for loan losses quarterly.

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

Amounts Arising from ECL

The Credit Union recognizes an allowance for loan losses for ECL on loans to members. The Credit Union measures allowance for loan losses at each reporting period date according to a three-stage ECL model as follows:

Stage	**1 – No Significant Increase in Credit Risk Since Initial Recognition**	**2 – Significant Increase in Credit Risk Since Initial Recognition**	**3 – Credit-Impaired**
Definition	From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk ("SICR") relative to its initial recognition.	Following a SICR relative to the initial recognition of the financial asset.	When a financial asset is considered to be credit-impaired (i.e. when credit default has occurred).

4. Loans to Members (continued)

<table>
<tr><th>Stage</th><th>1 – No Significant Increase in Credit Risk Since Initial Recognition</th><th>2 – Significant Increase in Credit Risk Since Initial Recognition</th><th>3 – Credit-Impaired</th></tr>
<tr><td>Criteria for movement</td><td>At origination, all loans to members are categorized into stage 1.

A commercial loan that has experienced a SICR or default may migrate back to stage 1 if the increase in credit risk and/or default is cured.

For personal loans, migration back to stage 1 may occur if all signs of previous credit deterioration are remedied.</td><td>The Credit Union determines a SICR has occurred when:
• the loan moves to the Credit Union’s watch list;
• the member migrates to a credit risk grade of 5; or
• a contractual payment is more than 30 days past due.

Additionally, the Credit Union incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition.</td><td>A member loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the member loan have occurred:
• a breach of contract such as a default or delinquency in interest or principal payments;
• significant financial difficulty of the borrower;
• payment on a loan is overdue 90 days or more; or
• it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.</td></tr>
<tr><td>ECL methodology</td><td>Impairment is estimated based on the expected losses over the expected life of loans to members arising from default events occurring in the next 12 months (12-month expected credit loss).</td><td colspan="2">Impairment is estimated based on the expected losses over the expected life of loans to members arising from default events occurring in the lifetime of the instrument (lifetime expected credit loss).</td></tr>
<tr><td>Collective or individual assessment</td><td colspan="2">Collective assessment of loans to members is grouped on the basis of similar risk characteristics based on loan type and the length of time the loans are past due. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.</td><td>Each credit-impaired loans to members is individually assessed.</td></tr>
</table>

4. Loans to Members (continued)

Stage	**1 – No Significant Increase in Credit Risk Since Initial Recognition**	**2 – Significant Increase in Credit Risk Since Initial Recognition**	**3 – Credit-Impaired**
Application of ECL methodology	Expected credit loss on a group of loans to members is measured on the basis of a loss rate approach. The Credit Union develops loss rates for loans to members in stage 1 and loss rates for loans to members in stage 2, based on historical default and loss experiences for those types of loans to members, adjusted for current economic conditions and forecasts of future economic conditions. The loss rates are also applied to the estimate of drawdown for undrawn loan commitments (unadvanced loans, unused lines of credit, and letters of credit). For loans to members in stage 1 with undrawn loan commitments, the estimate of drawdown within 12 months of the reporting date is based on historical drawdown information. For loans to members in stage 2 with undrawn loan commitments, the estimate of drawdown over the life of the loan commitment is also based on historical drawdown information.		The probability of default on credit-impaired loans to members is 100%, therefore, the key estimation relates to the amount of the default. Expected credit loss on a credit-impaired member loan is measured based on the Credit Union's best estimate of the difference between the loan's carrying value and the present value of expected cash flows discounted at the loan's original effective interest rate.
Key forward-looking information	Local unemployment rates, local economic outlook, credit environment, and other relevant economic variables impacting subsets of the Credit Union's members.		

Credit Quality Analysis

The following table sets out information about the credit quality of loans to members based on the Credit Union's credit risk rating grade. Consumer loans are not rated, therefore, information has been presented by their level of delinquency. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**2019 Total**	2018 Total
Consumer Loans					
Current	**$352,691,600**	**$ -**	**$ -**	**$352,691,600**	$330,967,334
> 30 days past due	**-**	**512,891**	**153,507**	**666,398**	780,913
> 90 days past due	**-**	**-**	**202,263**	**202,263**	115,452
	352,691,600	**512,891**	**355,770**	**353,560,261**	331,863,699
Allowance for loan losses	**(117,883)**	**(220)**	**(10,421)**	**(128,524)**	(139,311)
Carrying amount	**$352,573,717**	**$ 512,671**	**$ 345,349**	**$353,431,737**	$331,724,388

4. Loans to Members (continued)

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	2019 Total	2018 Total
Commercial Loans					
1 – Excellent	**$ 2,951,351**	**$ -**	**$ -**	**$ 2,951,351**	$ 901,697
2 – Very good	**1,163,746**	**-**	**-**	**1,163,746**	1,482,628
3 – Good	**9,131,901**	**-**	**-**	**9,131,901**	5,872,280
4 – Acceptable	**14,206,081**	**-**	**-**	**14,206,081**	16,784,560
5 – Caution risk	**-**	**607,206**	**-**	**607,206**	1,115,675
	27,453,079	**607,206**	**-**	**28,060,285**	26,156,840
Allowance for loan losses	**(8,593)**	**(4,409)**	**-**	**(13,002)**	(14,526)
Carrying amount	**27,444,486**	**602,797**	**-**	**28,047,283**	26,142,314
Balance, December 31	**$380,018,203**	**$ 1,115,468**	**$ 345,349**	**$381,479,020**	$357,866,702

The allowance for loan losses in the above table includes amounts related to undrawn loan commitments. The Credit Union has the following undrawn loan commitments to its members at the year-end date on account of loans, unused lines of credit and letters of credit:

	2019	2018
Unadvanced loans	**$ 3,684,239**	$ 6,795,913
Unused lines of credit	**22,593,878**	23,480,854
Letters of credit	**-**	58,500
	$ 26,278,117	$ 30,335,267

Write-off

Loans to members are written off, either partially or in full, when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, loans to members written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

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.

Allowance for Loan Losses

The following table presents reconciliations from the opening to the closing balance of the allowance for loan losses by type of loans to members. The allowance for loan losses in these tables include ECL on loan commitments for certain loans to members such as unadvanced loans, unused lines of credit and letters of credit, because the Credit Union cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

4. Loans to Members (continued)

	12-month ECL	Lifetime ECL not Credit-impaired	Lifetime ECL Credit-impaired	2019 Total	2018 Total
Consumer Loans					
Balance at January 1	**$ 122,405**	**144**	**16,762**	**139,311**	$ 180,319
Net remeasurement of allowance for loan losses	**(4,522)**	**76**	**18,017**	**$ 13,571**	5,866
Loans written off	**-**	**-**	**(24,358)**	**(24,358)**	(46,874)
Balance at December 31	**117,883**	**220**	**10,421**	**$ 128,524**	139,311
Commercial Loans					
Balance at January 1	**10,386**	**4,140**	**-**	**14,526**	17,331
Net remeasurement of allowance for loan losses	**(1,793)**	**269**	**-**	**(1,524)**	(2,805)
Balance at December 31	**8,593**	**4,409**	**-**	**13,002**	14,526
Total allowance for loan losses, December 31	**$ 126,476**	**$ 4,629**	**$ 10,421**	**$ 141,526**	$ 153,837

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is $Nil.

Modified Member Loans

For the current year, there were no members loans that were modified while they had an allowance for loan losses measured at an amount equal to lifetime ECL.

Quality of Collateral Held

It is not practical to value all collateral as at the reporting date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2019	2018
Unsecured loans	**$ 19,016,850**	$ 20,151,068
Loans secured by cash or members' deposits	**266,342**	371,899
Loans secured by real property	**242,389,838**	216,024,490
Loans secured by chattels	**8,143,330**	9,563,831
Loans insured by government or deposits	**461,074**	524,385
Residential mortgages insured by government and other	**106,573,268**	104,070,861
	$ 376,850,702	$ 350,706,534

The total collateral held for member loans in stage 3 is $825,203 (2018 - $1,065,848).

During the year ended December 31, 2019, the Credit Union held two properties (2018 - one property) in respect of non-performing loans.

4. Loans to Members (continued)

Concentration of Credit Risk

The Credit Union monitors concentration of credit risk on the basis of similar risk characteristics, based on loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The Credit Union has credit risk concentration from its geographic distribution of loans to members including a sizeable proportion of the Credit Union's loan portfolio being secured by property in and around Winnipeg, Manitoba.

As at December 31, 2019, the Credit Union held commercial loans in the following segments:

	2019	2018
Real estate, rental, leasing industry	**$ 22,198,026**	$ 17,245,092
Residential building construction	**954,161**	2,087,920
Retail trade	**1,656,405**	3,338,198
Various other categories	**2,979,303**	3,485,630

There are no individual or related groups of loans to members which exceed 25% of total capital as at December 31, 2019.

Fair Value Measurement

The fair value of loans to members at December 31, 2019 was $378,671,365 (2018 - $346,136,377).

The estimated fair value of variable loans is assumed to be equal to book value as the interest rates are re-priced to market on a periodic basis. The estimated fair value of fixed rate loans is determined using level 3 valuations (Note 11) by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

The fair market value of loans to members is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset or liability is originally priced. Rates used vary from 1.48% to 19.95% based on maturity date and type of loan.

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.

5. Members' Deposits

Members' deposits held by the Credit Union are as follows:

	2019	2018
Chequing accounts	**$ 40,743,015**	$ 40,025,577
Savings accounts	**80,301,292**	80,477,141
Term deposits	**130,504,236**	116,563,915
Registered retirement savings plans	**50,741,541**	47,570,520
Registered retirement income funds	**35,027,424**	30,784,919
Tax free savings account	**50,794,500**	43,347,860
	388,112,008	358,769,932
Accrued interest payable	**3,441,402**	2,551,505
	$ 391,553,410	$ 361,321,437

Terms and Conditions

Included in chequing deposits is an amount of $2,002,610 to be settled in US dollars at December 31, 2019 (2018 - $1,618,677).

Recognition and Initial Measurement

All members' deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Classification and Subsequent Measurement

Members' deposits are subsequently measured at amortized cost, using the effective interest rate method.

Concentration of Risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

As at December 31, 2019, individual or related groups of members' deposits held $9,056,289 in savings accounts and term deposits (2018 - $8,810,836) which exceed 2% of members' deposits.

The majority of members' deposits are with members located in and around Winnipeg, Manitoba.

Liquidity Risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. Liquidity risk primarily arises from the Credit Union’s members’ deposits, which are its most significant financial liability.

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

5. Members' Deposits (continued)

Provisions of the Act require the Credit Union to maintain liquid assets of at least 8% of members' deposits and borrowings in order to meet member withdrawals.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

As at December 31, 2019, the position of the Credit Union is as follows:

Qualifying liquid assets on hand	
Funds on hand and on deposit	**$ 8,472,112**
CUCM deposits	**28,065,354**
	36,537,466
Total liquidity requirement	**31,324,273**
Excess liquidity	**$ 5,213,193**

The maturities of liabilities are shown in Note 10. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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

Fair Value Measurement

The fair value of members' deposits at December 31, 2019 was $392,327,748 (2018 - $359,579,598).

The fair value of members' deposits is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset or liability is originally priced. Rates used vary from 0.10% to 2.60% based on renewal date of the deposit.

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.

6. 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 or financial asset. Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*.

Member shares are as follows:

			2019		2018	
Shares	Authorized	Issued	**Equity**	**Liability**	Equity	Liability
Common	Unlimited	372,750	**$ 1,863,752**	**$ -**	$ 1,911,860	$ -
Surplus	Unlimited	885,800	**797,860**	**87,940**	807,762	93,566
Class "A" preference shares	1,000,000	141,991	**1,271,224**	**148,690**	1,316,281	148,690
			$ 3,932,836	**$ 236,630**	$ 4,035,903	$ 242,256

Terms and Conditions

Each member must purchase one common share. No member may hold more than 10% of the issued and outstanding shares of any class. Each member of the Credit Union has one vote, regardless of the number of shares that a member holds. Funds invested by members' shares are not insured by Deposit Guarantee Corporation of Manitoba.

Authorized Shares

Common Shares

Authorized common share capital consists of an unlimited number of common shares, issued and redeemable at $5 each. The total amount of common shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed the total amount of common shares issued in that year if the Credit Union's equity is, or would by such purchase or redemption be, less than the level of capital as prescribed by the Act.

Surplus Shares

Authorized surplus share capital consists of an unlimited number of surplus shares, issued and redeemable at $1 each. The total amount of surplus shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed 10% of the amount of surplus shares issued and outstanding at the last fiscal year-end of the Credit Union if the Credit Union's equity is, or would by such purchase or redemption be, less than the level of capital as prescribed by the Act.

Class "A" Preference Shares

Authorized Class "A" preference share capital consists of 1,000,000 non-voting Class "A" preference shares, having a non-cumulative dividend rate, issued and redeemable at $10 each.

6. Members' Shares (continued)

Dividends are payable at the discretion of the Board of Directors. The total amount of Class “A” preference shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed 10% of the amount of Class “A” preference shares issued and outstanding at the last fiscal year-end of the Credit Union if the Credit Union’s equity is, or by such purchase or redemption would be, less than the level of capital as prescribed by the Act. Class “A” preference shares are redeemable at the discretion of the Board.

Distributions to Members

The Board of Directors have declared dividends on common and Class "A" preference shares of $93,000 (2018 - $102,000) of which $5,487 (2018 - $6,514) has been presented as operating expenses on the statement of comprehensive income and $87,513 (2018 - $95,486) has been presented as a reduction of equity on the statement of changes in members' equity. Tax savings of $16,182 (2018 - $16,132) have been applied to reduce current income tax expense on the statement of comprehensive income.

7. Capital Management

The Credit Union’s objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

Regulations under the Act require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Total members' equity as shown on the balance sheet shall not be less than 5% of the book value of all assets;
- Retained earnings shall not be less than 3% of the book value of assets; and
- Capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets.

The Credit Union considers its capital to include members' shares (common, surplus and preference shares), and retained earnings. There have been no changes in what the Credit Union considers to be its capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with Regulations to the Act which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2019 was $155,124,877 (2018 - $143,897,998).

As at December 31, 2019, the Credit Union met the capital requirements of the Act with a calculated members' equity ratio of 6.98% (2018 - 6.91%), a retained earnings ratio of 5.99% (2018 - 5.81%) and a risk weighted asset ratio of 18.65% (2018 - 18.49%).

7. Capital Management (continued)

Regulatory Capital consists of the following:

	2019	2018
Tier I Capital		
Members' shares	$ **3,932,836**	$ 4,035,903
Intangible assets	**(330,844)**	(480,783)
Retained earnings	**23,886,587**	22,591,035
Deferred income tax liability	**39,000**	123,600
	27,527,579	26,269,755
Tier II Capital		
Redeemable portion of members' shares	**236,630**	242,256
Collective allowance	**131,105**	137,074
	367,735	379,330
Total regulatory capital	$ **27,895,314**	$ 26,649,085

8. Funds on Hand and on Deposit

The Credit Union's cash and current accounts are held with CUCM. The average yield on the accounts at December 31, 2019 is 1.50% (2018 - 1.81%).

Included in funds on hand and on deposit is cash in CUCM of $1,700,130 (2018 - $1,387,508) to be settled in US dollars.

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand, current accounts with CUCM and term deposits held with CUCM for liquidity purposes less borrowings that are repayable on demand.

9. Borrowings

The Credit Union has approved lines of credit with CUCM equal to 10% of its members' deposits that bear interest at prime with an effective rate of 3.95% at December 31, 2019. For the current year, this amounts to $39.2 million. These accommodations are secured by an assignment of shares and deposits in CUCM and a general assignment of loans receivable from members. The balance outstanding at December 31, 2019 was $Nil (2018 - $Nil).

10. Financial Margin and Interest

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and loans to members and interest paid on members' deposits. The objective of asset/liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

10. Financial Margin and Interest (continued)

Schedules of matching and interest rate vulnerability are prepared monthly and monitored by Credit Union management and reported to the Board of Directors. A copy of the matching and interest rate vulnerability reports are provided to the Deposit Guarantee Corporation of Manitoba in accordance with the Credit Union's matching policy. This policy has been approved by the Board of Directors as required by Regulations to the Act. For the year ended December 31, 2019, the Credit Union was in compliance with this policy.

The following schedule shows the Credit Union's sensitivity to interest rate changes. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity.

Maturity Dates	Assets	Yield (%)	Liabilities and Members' Equity	Cost (%)	Asset / Liability Gap
(in thousands)					
Interest sensitive					
< 1 year	$ 90,368	2.74	$ 136,773	2.59	$ (46,405)
1 - 2 years	66,314	2.96	77,926	2.79	(11,612)
2 - 3 years	63,559	2.94	21,755	2.60	41,804
3 - 4 years	64,957	3.44	10,781	3.08	54,176
4 - 5 years	76,586	3.43	9,794	3.13	66,792
Greater than 5 years	6,315	3.40	472	2.68	5,843
Interest sensitive	368,099		257,501		110,598
Non-interest sensitive	53,821		164,419		(110,598)
Total	$ 421,920		$ 421,920		$ -

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

An analysis of the Credit Union's risk due to changes in interest rates was calculated using financial modelling software and determined that an increase in interest rates of 1% could result in a decrease to net income of $43,827 while a decrease in interest rates of 1% could result in an increase to net income of $39,413.

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

11. Investments

Liquidity Deposits

Liquidity deposits held by the Credit Union are as follows:

		2019		2018
CUCM - Contract deposits	$	**28,000,000**	$	20,000,000
Accrued interest receivable		**65,354**		36,910
	$	**28,065,354**	$	20,036,910

Liquidity deposits include cash held on deposit with CUCM.

Terms and Conditions

The liquidity deposits have original maturities of 120 days or less. They bear interest at rates ranging between 1.85% and 1.98% (2018 - 2.07% to 2.14%).

Initial Measurement

Liquidity deposits are initially measured at fair value plus transaction costs that are directly attributable to their acquisition.

Classification and Subsequent Measurement

Liquidity deposits are classified and subsequently measured at amortized cost because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Liquidity deposits are subsequently reduced by any loss allowance.

Credit Risk

The Credit Union holds cash held on deposit with CUCM. Liquidity deposits have been determined to have low credit risk and therefore the loss allowances for liquidity deposits are measured at an amount equal to 12-month ECL.

Fair Value Measurement

The carrying amounts of liquidity deposits and cash held on deposit with CUCM approximate fair value due to having similar characteristics as cash and equivalents.

Shares

Shares held by the Credit Union are as follows:

		2019		2018
CUCM - Class 1 shares	$	**2,159,695**	$	1,798,690
CUCM - Class 2 shares		**680,350**		454,410
Concentra Bank - Preferred shares		**1,000,000**		1,000,000
Concentra Bank - Class A shares		**20**		20
Total equity instruments	$	**3,840,065**	$	3,253,120

11. Investments (continued)

Terms and Conditions

The shares in CUCM are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of CUCM. In addition, the member Credit Unions are subject to additional capital calls at the discretion of the Board of Directors of CUCM.

The Credit Union is not intending to dispose of any CUCM shares as the services supplied by the CUCM are relevant to the day-to-day activities of the Credit Union.

Dividends on these shares are at the discretion of the Board of Directors of CUCM.

Recognition and Initial Measurement

The Credit Union recognizes equity instruments on the settlement date, which is the date that the asset is received by the Credit Union. The instruments are initially measured at fair value.

Any change in fair value between trade date and settlement date is recognized in net income.

Classification and Subsequent Measurement

The Credit Union classifies its equity instruments as fair value through profit or loss.

Derecognition

The Credit Union derecognizes investments when the contractual rights to the cash flows from the investment expires or the Credit Union transfers the investment.

Fair Value Measurement

The maximum exposure to credit risk would be the fair value of shares detailed in the above table. Class 1 and 2 CUCM shares are subject to a rebalancing mechanism at least annually and are issued and redeemable at par value. There is no separately quoted market value for these shares. However, fair value is determined to be equivalent to par value due to the fact that transactions occur at par value on a regular and recurring basis.

Concentra Bank shares are held at their carrying amount as fair value cannot be measured reliably.

The following provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price. There are no assets or liabilities measured at fair value classified as Level 1.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Assets and liabilities measured at fair value and classified as Level 2 include investments in shares.

11. Investments (continued)

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). There are no assets or liabilities measured at fair value classified as Level 3.

There were no transfers between levels of the fair value hierarchy for the years ended December 31, 2019 and 2018.

12. Foreign Exchange Risk

The Credit Union’s foreign exchange risk is related to US dollar deposits with CUCM and members' deposits denominated in US dollars. Foreign currency changes are continually monitored by the Investment Committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to $250,000 in US funds.

For the year ended December 31, 2019, the Credit Union's exposure to foreign exchange risk is within policy.

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

13. Commitments

Credit Union Central of Manitoba

The Credit Union is a member of CUCM, which provides banking and other services to Credit Unions in Manitoba. By nature of membership in CUCM, the Credit Union is obligated to pay affiliation dues which are based on membership and assets.

Deposit Guarantee Corporation of Manitoba

The Deposit Guarantee Corporation of Manitoba ("DGCM") is a deposit insurance corporation. By legal obligation under the Act, DGCM guarantees the deposits of all members of Manitoba Credit Unions/Caisse. By legislation, the Credit Union/Caisse pays a quarterly levy to DGCM based on a percentage of members' deposits.

Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the delivery of some banking system services and the maintenance of the infrastructure needed to ensure uninterrupted delivery of such services. Celero Solutions is a company formed as a joint venture by the Credit Union Centrals of Alberta, Saskatchewan and Manitoba along with Concentra Financial and Credit Union Electronic Transaction Services. The agreement expires in 2022.

14. Income Taxes

Income tax expense comprises current and deferred income tax. Current and deferred income taxes are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The significant components of income tax expense included in net income are composed of:

	2019	2018
Current income tax expense		
Based on current year taxable income	**$ 319,243**	$ 310,042
Deferred income tax expense		
Origination and reversal of temporary differences	**(84,600)**	(93,836)
IFRS 9 transitional adjustment	**-**	19,000
Change in tax rate applied to deferred tax components	**-**	(5,564)
	(84,600)	(80,400)
Total income tax expense	**$ 234,643**	$ 229,642

The total provision for income taxes in the statement of comprehensive income is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

	2019	2018
	%	%
Combined federal and provincial statutory income tax rates	**27.0**	27.0
Credit Union rate reduction	**(12.0)**	(12.0)
Difference in tax rate applied to deferred tax components	**-**	0.3
Provincial Profits tax	**2.4**	0.8
Tax savings on distribution	**(1.0)**	(0.9)
Non-deductible and other items	**(1.9)**	(2.8)
	14.5	12.4

The components of deferred income tax liabilities and assets are as follows:

	2019	2018
Deferred income tax liabilities		
Property and equipment	**$ 54,500**	$ 138,430
Other	**7,500**	9,312
	62,000	147,742
Deferred income tax assets		
Allowance for impaired loans	**23,000**	24,142
Net deferred income tax liability	**$ 39,000**	$ 123,600

15. Pension Plan

The Credit Union participates in a defined contribution pension plan recognizing contributions as an expense in the year to which they relate.

The Credit Union has a defined contribution pension plan for full-time employees. The contributions are held in trust by the Cooperative 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 salary. The expense for the year ended December 31, 2019 was $126,976 (2018 - $111,967). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits earned in 2019 for plan members.

16. Property, Equipment and Intangible Assets

Property and Equipment

Property and equipment held by the Credit Union is as follows:

			2019	2018
	Cost	**Accumulated Depreciation**	**Net Book Value**	Net Book Value
Land	**$ 40,724**	**$ -**	**$ 40,724**	$ 40,724
Buildings	**1,663,040**	**1,548,150**	**114,890**	149,878
Furniture and equipment	**1,224,096**	**902,576**	**321,520**	394,156
Computer equipment	**389,178**	**306,931**	**82,247**	108,224
Security equipment	**407,392**	**262,137**	**145,255**	155,957
Projects in process	**47,925**	**-**	**47,925**	29,543
Leasehold improvements	**1,050,631**	**963,386**	**87,245**	126,479
Signage	**348,277**	**315,685**	**32,592**	37,731
	$ 5,171,263	**$ 4,298,865**	**$ 872,398**	$ 1,042,692

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	40 years
Furniture and equipment	Up to 10 years
Computer equipment	5 years
Security equipment	Up to 40 years
Signage	10 years
Leasehold improvements	15 years

Leasehold improvements are amortized over the remaining life of the lease.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

16. Property, Equipment and Intangible Assets (continued)

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

Depreciation of $224,461 (2018 - $253,505) has been recorded for the year.

Intangible Assets

Intangible assets held by the Credit Union are as follows:

				2019		2018
		Cost		**Accumulated Depreciation**	**Net Book Value**	Net Book Value
Computer software	$	**1,988,671**	$	**1,661,392**	$ **327,279**	$ 476,748
Trademark		**4,701**		**1,136**	**3,565**	4,035
	$	**1,993,372**	$	**1,662,528**	$ **330,844**	$ 480,783

Intangible assets mainly consist of computer software which are not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life up to 10 years.

Depreciation of $209,124 (2018 - $276,731) has been recorded for the year.

17. Right-of-Use Assets and Lease Liabilities

At inception of a contract, the Credit Union assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

Nature of Leasing Activities in the Capacity as Lessee

The Credit Union leases office buildings and office equipment.

The lease of one office building expires in 2024 with an extension option exercisable by the Credit Union for an additional 5 years after the end of the non-cancellable period. Extension options are included in the lease term when the Credit Union is reasonably to exercise that option. The extension options lease payments comprise payments over the lease term of $586,035. The lease of the second building expires in 2026.

Leases of office equipment comprise only fixed payments over the lease terms. The leases are typically for fixed periods of 5 years. The Credit Union’s obligation under lease are secured by the lessor’s title to the leased assets.

17. Right-of-Use Assets and Lease Liabilities (continued)

Recognition and Initial Measurement

The Credit Union recognizes right-of-use assets and lease liabilities at the lease commencement date.

The right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease or initial direct costs incurred.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate. Generally the Credit Union uses its incremental borrowing rate as the discount rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate (e.g. CPI or inflation). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

For contracts that both convey a right to the Credit Union to use an identified asset and require services to be provided to the Credit Union by the lessor, the Credit Union has elected to account for the entire contract as a lease, and therefore the Credit Union does not allocate the amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Subsequent Measurement

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement. Lease liabilities are also remeasured when there is a change in the assessment of the term of any lease, for example, a change in the Credit Union's assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The future lease payments over the revised term are discounted at the revised discount rate at the date of reassessment. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset.

Right-of-use assets consist of the following:

	Buildings	Equipment	Total
Cost			
Balance, January 1, 2019 and December 31, 2019	$ **1,913,302**	$ **33,521**	$ **1,946,823**
Accumulated Depreciation			
Depreciation for the year and balance at December 31, 2019	**210,512**	**10,555**	**221,067**
Carrying amounts, December 31, 2019	$ **1,702,790**	$ **22,966**	$ **1,725,756**

17. Right-of-Use Assets and Lease Liabilities (continued)

Lease liabilities consist of the following:

	Buildings	Equipment	Total
Balance, January 1, 2019	$ 1,913,302	$ 33,521	$ 1,946,823
Interest expense	71,304	1,107	72,411
Variable lease payments	90,079	-	90,079
Lease payments	(323,145)	(11,263)	(334,408)
Balance at December 31, 2019	$ 1,751,540	$ 23,365	$ 1,774,905

Amounts recognized in the statement of comprehensive income as occupancy expenses related to right-of-use assets, lease liabilities and payments on opertaing leases for the year are as follows:

	2019	2018
Depreciation expense of right-of-use assets	$ 221,067	$ -
Interest expense on lease liabilities	72,411	-
Payments on operating leases	-	340,451
Variable payments not included in lease liabilities	90,079	-
Total operating lease expense	$ 383,557	$ 340,451

Total cash outflow for leases for the year were $334,408 (2018 - $340,451).

Liquidity Risk

The Credit Union does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Credit Union's finance function.

Contractual maturities representing undiscounted contractual cash-flows of lease liabilities are as follows as at December 31, 2019:

No later than 1 year	$ 247,809
Later than 1 year and not later than 5 years	1,048,028
Later than 5 years	818,221
	$ 2,114,058

18. Related Party Transactions

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly. Key management personnel have been taken to comprise the directors and members of management responsible for the day to day financial and operational management of the Credit Union.

18. Related Party Transactions (continued)

The aggregate compensation of key management personnel during the year was as follows:

		2019	2018
Compensation			
Salaries, and other short-term employee benefits	$	**572,117**	$ 539,008
Total pension and other post-employment benefits		**29,949**	28,193
	$	**602,066**	$ 567,201

Included in compensation above are the following payments to the directors and officers of the Credit Union for expenses associated with the performance of their duties:

		2019	2018
Honouraria and per diems	$	**44,650**	$ 47,225
Training and conference costs		**19,467**	10,379
	$	**64,117**	$ 57,604

Loans to and deposits from to key management personnel as at December 31 are as follows:

		2019	2018
Loans to key management personnel			
Aggregate value of loans outstanding	$	**1,263,816**	$ 1,107,875
Interest received on loans advanced		**33,426**	29,286
Total value of lines of credit advanced		**588,300**	568,300
Interest received on lines of credit advanced		**11,569**	13,126
Unused value of lines of credit		**216,497**	186,513
Deposits from key management personnel			
Aggregate value of term and savings accounts		**1,719,074**	1,843,960
Interest paid on term and savings accounts		**37,112**	41,200

The Credit Union's policy receiving deposits from and lending to key management personnel except directors is that the deposits are accepted and loans are approved with slightly preferential terms and conditions (+/-1%) which apply to members for each class of deposit or loan.

19. Personnel Expenses

		2019	2018
Salaries and wages	$	**2,336,592**	$ 2,201,902
Employee benefits		**418,510**	393,019
Other		**26,003**	19,571
	$	**2,781,105**	$ 2,614,492

20. Other Income

		2019	2018
Commissions	$	**955,402**	$ 909,879
Service charges		**1,027,099**	1,061,291
Other		**582,121**	591,713
	$	**2,564,622**	$ 2,562,883

21. Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2020 or later that the Credit Union has decided not to adopt early.

The adoption of the new standards, interpretations and amendments which were issued but are not yet effective are not expected to have a material impact on the Credit Union's financial statements.

22. Uncertainty Due to COVID-19 Issue

Subsequent to year end, the global pandemic has disrupted economic activities. It has also impacted the Credit Union's operations and in particular its ability to provide services to members as normal, this could include adjustments to business hours, temporary branch closures and more reliance on online services. Although the business disruption resulting from the virus is expected to be temporary, given the dynamic nature of these circumstances the duration of the business disruption and its financial impacts cannot be reasonably estimated at this time. The Credit Union's ability to pay for its operating costs depends on its ability to continue to maintain liquidity and collect payments on loans to members.