Sunova Credit Union Limited

Consolidated Financial Statements
December 31, 2013

March 27, 2014

Independent Auditor's Report

To the Members
of Sunova Credit Union Limited

We have audited the accompanying consolidated financial statements of Sunova Credit Union Limited and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of net income and comprehensive income, changes in members' equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sunova Credit Union Limited and its subsidiaries as at December 31, 2013 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers LLP
One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6
T: +1 204 926 2400, F: +1 204 944 1020

Sunova Credit Union Limited

Consolidated Statement of Financial Position

As at December 31, 2013

	2013 $	2012 $
Assets		
Cash on hand	5,520,192	4,961,804
Investments and deposits (note 7)	96,297,192	76,021,048
Members' loans - net of allowance for doubtful loans (note 8)	915,215,673	766,699,246
Other assets (note 12)	4,281,720	1,373,792
Investments in associates (note 21)	8,770,898	8,700,827
Investment property (note 11)	12,210,000	12,001,961
Property and equipment (note 9)	32,397,487	34,155,647
Intangible assets (note 10)	1,089,157	1,216,157
Goodwill	2,333,144	2,333,144
	1,078,115,463	907,463,626
Liabilities		
Members' savings and deposits (note 13)	997,615,411	822,439,136
Accounts payable and accrued liabilities (note 15)	3,499,885	3,657,486
Income taxes payable (note 18)	543,468	150,969
Loans payable (note 14)	5,000,425	18,001,519
Deferred income tax liabilities (note 18)	2,204,094	1,623,150
	1,008,863,283	845,872,260
Members' Equity (note 16)		
Members' shares (note 17)	26,499,961	23,698,294
Retained surplus	42,752,219	37,893,072
	69,252,180	61,591,366
	1,078,115,463	907,463,626

Approved by the Board of Directors

_______________________ Director _______________________ Director

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

Sunova Credit Union Limited

Consolidated Statement of Net Income and Comprehensive Income

For the year ended December 31, 2013

	2013 $	2012 $
Income		
Interest from members' loans	35,636,701	31,649,833
Investment income	1,821,139	2,006,169
	37,457,840	33,656,002
Cost of funds		
Interest paid to members	17,241,573	16,245,430
Interest on loans payable	182,476	5,447
	17,424,049	16,250,877
Financial margin	20,033,791	17,405,125
Provision for doubtful loans (note 8)	(550,800)	(1,289,040)
Other income	7,219,333	6,491,103
Net gains on fair value adjustments of investment property (note 11)	83,351	43,871
Net interest and other income after provision for doubtful loans	26,785,675	22,651,059
Operating expenses		
Personnel	11,425,463	10,997,122
Administration	3,197,724	2,978,445
Occupancy	3,510,903	3,459,831
Organizational	421,073	374,983
Member security	943,143	802,615
	19,498,306	18,612,996
Income before income taxes	7,287,369	4,038,063
Provision for income taxes (note 18)	1,354,113	434,950
Net income and comprehensive income for the year	5,933,256	3,603,113

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

Sunova Credit Union Limited

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2013

	Members' shares (Note 17) $	Retained surplus $	Total members' equity $
Balance at January 1, 2013	23,698,294	37,893,072	61,591,366
Net income and comprehensive income for the year	-	5,933,256	5,933,256
Share dividend on common shares (note 17)	843,994	(843,994)	-
Share dividend on surplus shares (note 17)	230,115	(230,115)	-
Common shares issued - net of redemptions	1,896,160	-	1,896,160
Surplus shares redemptions	(168,602)	-	(168,602)
Balance at December 31, 2013	26,499,961	42,752,219	69,252,180
Balance at January 1, 2012	18,004,819	35,269,430	53,274,249
Net income and comprehensive income for the year	-	3,603,113	3,603,113
Share dividend on common shares (note 17)	773,875	(773,875)	-
Share dividend on surplus shares (note 17)	205,596	(205,596)	-
Common shares issued - net of redemptions	4,946,310	-	4,946,310
Surplus shares redemptions	(232,306)	-	(232,306)
Balance at December 31, 2012	23,698,294	37,893,072	61,591,366

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

Sunova Credit Union Limited

Consolidated Statement of Cash Flows

For the year ended December 31, 2013

	2013 $	2012 $
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the year	5,933,256	3,603,113
Items not affecting cash		
Depreciation and amortization expense		
Property and equipment	2,064,418	2,161,709
Intangible assets	174,460	173,669
Investment property valuation adjustment (note 11)	(83,351)	(43,871)
Deferred income taxes	580,944	(97,350)
Loss (gain) on sale of property and equipment	30,328	(30,328)
Provision for (recovery of) doubtful loans	550,800	1,289,040
Equity loss (earnings) from associates (note 21)	(70,071)	108
	9,180,784	7,056,090
Net change in non-cash working capital items (note 22)	3,159,874	(27,328,086)
	12,340,658	(20,271,996)
Investing activities		
Property and equipment, intangible assets and investment property additions	(508,734)	(772,680)
Proceeds from property and equipment disposals	-	87,350
Investment in associates (note 21)	-	(1,644,887)
	(508,734)	(2,330,217)
Financing activities		
Issuance of members' shares - net of redemptions	1,896,160	4,946,310
Redemption of surplus shares	(168,602)	(232,306)
Change in loans payable	(13,001,094)	18,001,519
	(11,273,536)	22,715,523
Increase in cash on hand	558,388	113,310
Cash on hand - Beginning of year	4,961,804	4,848,494
Cash on hand - End of year	5,520,192	4,961,804
Supplemental information		
Interest received	37,260,003	33,419,890
Interest paid	17,679,640	16,718,130
Income taxes paid	380,670	514,396

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

1 General information

Sunova 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 in Manitoba and provides retail, commercial and investment banking services. The Credit Union has two wholly-owned subsidiaries, Sunova Financial Services Inc., which holds various investments in associates in insurance brokerages and agencies, and Sunova Property Holdings Ltd. which holds real estate investment property. The Credit Union's registered office is 233 Main Street, Selkirk, Manitoba, Canada.

These consolidated financial statements have been approved for issue by the Board of Directors on March 27, 2014.

2 Basis of presentation

The Credit Union prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as defined in the Handbook of the Canadian Institute of Chartered Accountants - Part 1 ("CICA Handbook").

The consolidated financial statements have been prepared under the historical cost convention except for financial assets and financial liabilities at available-for-sale ("AFS") or fair value through profit or loss ("FVTPL") and investment property which is carried at fair value.

The consolidated financial statement values are presented in Canadian dollars ($) unless otherwise indicated, which is the functional and presentation currency of the Credit Union.

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

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

The following balances are generally classified as non-current: long-term portion of members' loans, property and equipment, intangible assets, investment property, investments in associates, goodwill, non-current members' savings and deposits and deferred income tax liabilities.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the consolidated statement of net income and comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Credit Union.

The policies applied in these consolidated financial statements are based on IFRS effective March 27, 2014, the date the Board of Directors (the "Board") approved the consolidated financial statements.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions are changed. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are the allowance for doubtful loans, the fair value of investment property, the measurement of income taxes, the valuation of goodwill and the fair value of financial instruments, and are disclosed in note 4.

3 Significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Credit Union, its wholly-owned subsidiaries, Sunova Property Holdings Ltd. and Sunova Financial Services Inc., including Sunova Financial Services Inc.'s investments in associates, which are accounted for under the equity method. The financial statements of the subsidiaries are prepared for the same reporting year as the Credit Union, using consistent accounting policies. The financial statements of the equity accounted investments have an accounting year end of October 31 and use different accounting policies. The Credit Union has recorded adjustments to take into consideration any changes subsequent to the equity accounted investments year end to December 31 and to convert the accounting policies that would materially affect the results to IFRS. The equity method investments are recorded at cost and are increased for the proportionate share of post-acquisition earnings and decreased by post-acquisition losses and dividends.

All inter-company balances, transactions and profits and losses are eliminated.

Financial instruments

Financial assets

The Credit Union designates financial assets as follows: loans and receivables ("L&R"), held-to-maturity ("HTM") investments, FVTPL and AFS financial assets. Management determines the classification of its financial instruments at initial recognition. The Credit Union uses trade date accounting when recording financial asset transactions.

Loans and receivables

Members' loans, term and contract deposits with Credit Union Central of Manitoba ("Central"), current accounts and accounts receivable are designated as L&R. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognized at fair value, which is the cash consideration to originate or purchase the loan net of any transaction costs, and measured subsequently at amortized cost using the effective interest rate method.

Members' loans

Loans are stated net of an allowance for doubtful loans established to recognize estimated probable losses. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the consolidated statement of net income and comprehensive income as a provision for doubtful loans. Collateral property and property held for resale is valued at the lower of cost and estimated net realizable value. Loans are written off when there is no realistic prospect of recovering the loan in full. Recoveries on loans previously written off are taken into income.

Allowance for doubtful loans

The Credit Union maintains allowances for doubtful loans that reduce the carrying value of loans identified as impaired to their present value of expected cash flows discounted at the loan's original effective interest rate. Short-term balances are not discounted. A loan is considered impaired if it is more than 90 days past due and the Credit Union no longer has reasonable assurance that the full amount of the principal and interest will be collected in accordance with the terms of the loan agreement.

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 doubtful loans. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

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, HTM or financial assets at FVTPL and include shares in Central and the investment in an insurance agency where the Credit Union does not have significant influence.

AFS financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs and measured subsequently at fair value with gains and losses being recognized in the consolidated statement of net income and comprehensive income.

Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the market, economic or legal investment in which the issuer operates. If an AFS financial asset is determined to be impaired, the cumulative gain or loss previously recognized in the consolidated other comprehensive income is recognized in consolidated net income. However, interest is calculated using the effective interest method and dividends on AFS equity instruments are recognized in the consolidated statement of net income and comprehensive income in investment income when the right to receive payment is established.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Credit Union's management has the positive intention and ability to hold to maturity and include bonds and debentures. Certain other investments have been classified as held-to-maturity.

These are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest rate method. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognized as impairment loss.

Financial liabilities

The Credit Union designates members' savings and deposits, loans payable and accounts payable and accrued 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.

Derivative financial instruments

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recorded on the consolidated statement of financial position at fair value. Changes in the value of the derivative instruments are recognized directly in the consolidated statement of net income and comprehensive income for the year. The Credit Union has no material derivative financial instruments.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Credit Union currently has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the Credit Union may enter into various master netting agreements or other similar agreements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or the termination of the contracts.

Investment in associates

Associates are entities over which the Credit Union has significant influence, but not control. The Credit Union accounts for its investments in associates using the equity method. The Credit Union's share of profits or losses of associates is recognized in the consolidated statement of net income and comprehensive income.

Unrealized gains on transactions between the Credit Union and an associate are eliminated to the extent of the Credit Union's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the consolidated statement of net income and comprehensive income.

Investment property

Properties that are held for long-term rental yields, capital appreciation or both, and that are not occupied by the Credit Union, are classified as investment property. Investment properties comprise office buildings and retail space leased out under operating lease agreements.

Some properties may be partially occupied by the Credit Union, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Credit Union can be sold separately, the Credit Union accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16: Property, Plant and Equipment, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40: Investment Property. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Credit Union considers the owner-occupied portion as insignificant when the property is more than 80% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Credit Union uses the size of the property measured in square metres.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has been incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the consolidated statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of net income and comprehensive income in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of net income and comprehensive income during the financial period in which they are incurred.

The fair value of investment property is based on the nature, location and condition of the specific asset. The fair value is calculated by determining three different estimates of value for each property. The three estimates are the cost approach (replacement value), income approach (estimated rental value) and the direct comparison approach (comparable property value). The three estimates of value are then rendered into one final estimate of value through a reconciliation process where each estimate of value is considered in light of the accuracy, importance, and relevancy of the data on which it is based. The resulting valuation is the final estimate of value. The fair value of investment property does not reflect future capital expenditures that will improve or enhance the property and does not reflect the related future benefits from this expenditure. These valuations are performed annually by an external appraiser.

The Credit Union only enters as lessor into lease agreements that are classified as operating leases. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The properties leased out under operating leases are included in investment property. Lease incentives are recognized as a reduction of rental income on a straight-line basis over the lease term.

Property and equipment

Property and equipment are recorded at acquisition cost. The cost of land and buildings at January 1, 2010, the Credit Union's date of transition to IFRS, was determined by reference to its fair value at that date. Depreciation is provided over the estimated useful life of the assets as follows:

Buildings	2% - 5% straight-line
Furniture and equipment	20% declining balance
Computer equipment	20% straight-line
Security equipment	5% straight-line
PC software	50% straight-line
Automobiles	30% straight-line

Land is not subject to depreciation. Assets within construction in progress ("CIP") are not depreciated until being ready for use and at which time become subject to depreciation. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Intangible assets

Intangible assets consist of certain acquired and internally developed banking software. 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. Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. When the recoverable amount is less than the net carrying value an impairment loss is recognized.

Intangible assets available for use are amortized on a straight-line basis over their useful lives (which has been estimated to be ten years). Method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Research costs are recognized as an expense in the period incurred.

There are no indefinite life intangible assets.

Goodwill

Goodwill represents the excess of purchase price over fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is not amortized but is evaluated for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. Testing for impairment is accomplished by determining if the carrying value of the goodwill exceeds its recoverable amount at the assessment date. The recoverable amount is the higher of the goodwill's fair value less costs to sell and value in use. For the purposes of assessing impairment, goodwill is grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Should the carrying value exceed the recoverable amount, an impairment loss is recognized in the consolidated statement of net income and comprehensive income at that time. The estimate of the recoverable amount required for the impairment test is sensitive to the cash flow projections and the assumptions used in the valuation model. Previously recorded impairment losses for goodwill are not reversed in future periods.

Impairment of non-financial assets

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

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

Provisions and contingent liabilities

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. When the Credit Union expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense of any provision is recognized in the consolidated statement of net income and comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax 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.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Members' shares

Common and surplus share redemptions are made at the sole discretion of the Board. 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"). In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in equity. The income tax recoveries on dividends will be presented in the consolidated statement of net income and comprehensive income.

Share dividends

Share dividends are recognized in the consolidated statement of changes in members' equity in the period in which they are approved by the Board.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments is recognized using the effective interest rate method. Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss.

Other income

Fees and commissions are recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured. Performance-linked fees or fee components are recognized when the performance criteria are fulfilled.

Income taxes

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

Current income tax expense is calculated on the basis of the Canadian tax laws enacted or substantially 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 substantially 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 financial reporting and the income tax bases of the Credit Union's members' loans, property and equipment, investment property, intangible assets and goodwill. 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

Cash on hand, investments and deposits and members' savings and deposits denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the statement of financial position date. Foreign exchange gains and losses are recorded in other income at the rates prevailing at the time of the transaction.

4 Critical accounting estimates and judgements

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the periods covered by the consolidated financial statements.

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Significant accounting judgements, estimates and assumptions

In the process of applying the Credit Union's accounting policies, management has made the following judgments, estimations and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Allowance for doubtful loans

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

Fair value of investment property

An external appraiser estimates the fair value of investment properties annually. The fair value of investment property is based on the nature, location and condition of the specific asset. The fair value is calculated by determining three different estimates of value for each property. The three estimates are the cost approach (replacement value), income approach (estimated rental value) and the direct comparison approach (comparable property value). The three estimates of value are then rendered into one final estimate of value through a reconciliation process where each estimate of value is considered in light of the accuracy, importance, and relevancy of the data on which it is based. The resulting valuation is the final estimate of value. The fair value of investment property does not reflect future capital expenditures that will improve or enhance the property and does not reflect the related future benefits from this expenditure. Changes in assumptions about these factors could affect the carrying value of investment property.

Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Changes in assumptions about these factors could affect the disclosed fair value of financial instruments. The fair value of financial instruments is disclosed in note 19.

Valuation of goodwill

The estimate of the recoverable amount required for the impairment test is based upon a discounted cash flow analysis. Determining the recoverability of goodwill requires an estimation of recoverable amount of the asset or cash-generating-unit. Key assumptions and sources of uncertainty include the determination of future cash flows expected to arise from the asset or cash-generating-unit and a suitable discount rate in order to calculate present value.

Measurement of income taxes

Management exercises judgement in estimating the provision for income taxes. The Credit Union is subject to income tax laws in the federal and provincial jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the Credit Union and the relevant tax authority. To the extent that the Credit Union's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Significant management judgment is also required to determine the deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized, based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable profits will exist in the future.

Accounting standards and amendments adopted

The Credit Union has adopted the following new and revised standards, along with any consequential amendments, on January 1, 2013 unless otherwise noted. The changes were made in accordance with the applicable transition provisions.

i) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12*, *Consolidation - Special Purpose Entities* and parts of IAS 27, *Consolidation and Separate Financial Statements*.

The Credit Union adopted IFRS 10 and reassessed its consolidation conclusions and determined that the adoption of IFRS 10 did not result in any changes in the consolidation status of any of its subsidiaries and investees and accordingly had no impact on the Credit Union's statement of financial position or statement of net income and comprehensive income.

ii) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The standards were adopted by the Credit Union and the related disclosure amendments were included in the consolidated financial statements.

iii) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Credit Union to measure fair value and did not result in any measurement adjustments as at January 1, 2014.

iv) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 - 13. The amendments did not result in any adjustments to the consolidated financial statements.

v) Amendments to IAS 1, Financial Statement Presentation, require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not they may be recycled to profit or loss in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The standard did not result in any adjustments to other comprehensive income or comprehensive income

vi) Amendments to IFRS 7, Financial Instruments: Disclosures, improve the disclosure requirements with respect to offsetting of financial assets and liabilities. The objective of these amendments is to help users of financial statements better evaluate the impact of netting agreements on the financial position of an entity and understand how an entity manages the credit risk associated with such agreements. The adoption of the IFRS 7 amendments did not impact the Credit Union's financial instrument disclosures.

vii) Annual improvements project resulted in several amendments to standards which were minor and did not have an effect on the Credit Union's results and financial position, with the exception of an amendment to IAS 32, Financial Instruments: Presentation. The amendment to IAS 32 specifies that the income tax consequences of dividends should be recognized in accordance with IAS 12, Income Taxes. Therefore, when certain conditions are met, the income tax consequences of dividends will have to be presented in the statement of net income and comprehensive income rather than in members' equity. Accordingly, there is no impact on the Credit Union's statement of financial position as at January 1, 2012 and December 31, 2012. However, certain comparative figures are reclassified from the consolidated statement of members' equity to the consolidated statement of net income and comprehensive income for the year ended December 31, 2012. The income tax recoveries on the distribution to members of $117,527 recognized in the consolidated statements of equity has been reclassified to reduce income tax expense in the consolidated statements of net income and comprehensive income by the same amount.

5 Standards and interpretations issued but not yet effective

Future accounting changes

The following revised standards and amendments may be applicable to the Credit Union:

i) IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and FVTPL. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at FVTPL or at fair value through other comprehensive income, dividends are recognized in net income to the extent that they do not clearly represent a return of investment; however, other gains and losses associated with such instruments remain in accumulated comprehensive income indefinitely.

   Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments - Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at FVTPL are generally recorded in other comprehensive income.

   This standard is required to be applied for annual periods beginning on or after January 1, 2015, with earlier adoption permitted.

ii) IAS 36, Impairment of Assets, was amended to limit the requirement to disclose the recoverable amount to non-financial assets for which an impairment loss has been recognized or reversed during the year. The amendments also enhance and clarify the disclosures required when the recoverable amount is determined based on the fair value less costs of disposal. The amendment is effective for annual periods beginning on or after January 1, 2014 with early application permitted.

iii) IAS 39, Financial Instruments: Recognition and Measurement, was amended to clarify that hedge accounting should be continued when a derivative financial instrument designated as a hedging instrument is replaced from one counterparty to a central counterparty or an entity acting in that capacity and certain conditions are met. The amendment is effective for annual periods beginning on or after January 1, 2014 with early application permitted.

   The Credit Union has not yet assessed the impact of this standard or determined whether it will early adopt it.

6 Business acquisitions

Effective November 1, 2012, the Credit Union purchased a 49% ownership interest in common shares and preferred shares of an insurance agency for cash consideration of $1,644,887. The Credit Union has determined that it has significant influence over the investment acquired and uses the equity basis of accounting for this investment.

7 Investments and deposits

The carrying value of the Credit Union's investments by financial instrument categories are as follows:

				2013
	AFS $	**L&R** $	**HTM** $	**Total** $
Credit Union Central of Manitoba				
Shares	3,886,390	-	-	3,886,390
Current account				
Canadian	-	31,497,164	-	31,497,164
U.S.	-	11,419,636	-	11,419,636
Term and contract deposits	-	35,000,000	-	35,000,000
	3,886,390	77,916,800	-	81,803,190
Other investments				
Concentra Financial Services Association - debenture	-	-	1,000,000	1,000,000
Concentra Financial Services Association - term deposit	-	-	7,500,000	7,500,000
Municipal debentures				
Town of Beausejour	-	-	1,766,206	1,766,206
Town of Stonewall	-	-	1,756,929	1,756,929
City of Selkirk	-	-	197,247	197,247
Town of Powerview	-	-	119,496	119,496
Municipality of Springfield	-	-	1,716,000	1,716,000
Investment in insurance agency - common shares	194,034	-	-	194,034
	4,080,424	77,916,800	14,055,878	96,053,102
Accrued interest receivable	-	69,415	174,675	244,090
	4,080,424	77,986,215	14,230,553	96,297,192

				2012
	AFS $	**L&R $**	**HTM $**	**Total $**
Credit Union Central of Manitoba				
Shares	5,541,510	-	-	5,541,510
Current account				
Canadian	-	36,291,668	-	36,291,668
U.S.	-	10,276,120	-	10,276,120
Term and contract deposits	-	20,000,000	-	20,000,000
	5,541,510	66,567,788	-	72,109,298
Other investments				
Concentra Financial Services Association - debenture	-	-	1,000,000	1,000,000
Municipal debentures				
Town of Beausejour	-	-	1,140,634	1,140,634
Town of Stonewall	-	-	1,044,064	1,044,064
City of Selkirk	-	-	256,663	256,663
Town of Powerview	-	-	127,885	127,885
Investment in insurance agency - common shares	194,034	-	-	194,034
	5,735,544	66,567,788	3,569,246	75,872,578
Accrued interest receivable	-	66,251	82,219	148,470
	5,735,544	66,634,039	3,651,465	76,021,048

		2013		**2012**
	Interest rates ranging from	**Maturity dates ranging from**	**Interest rates ranging from**	**Maturity dates ranging from**
Term and contract deposits	1.10% - 2.72%	1 month to 3 years	2.54% - 2.72%	3 - 4 years
Municipal debentures	2.88% - 6%	1 - 19 years	2.88% - 9.63%	1 - 18 years
Concentra Financial Services Association - debenture	5.82%	8 years	5.82%	9 years
Concentra Financial Services Association - term deposit	2.40%	2 months	-	-

8 Members' loans

At December 31, 2013, members' loans are presented net of allowances for doubtful loans totalling $3,432,697 (2012 - $3,407,802), consisting of individually significant allowances of $2,453,292 (2012 - $2,483,979) for loans considered impaired and $979,405 (2012 - $923,823) as collective allowances.

			2013
	Gross loan balance $	Allowances $	Net loan balance $
Personal	708,086,684	(332,844)	707,753,840
Commercial	184,443,273	(2,070,448)	182,372,825
Agriculture	24,758,526	(50,000)	24,708,526
	917,288,483	(2,453,292)	914,835,191
Accrued interest	1,359,887	-	1,359,887
Collective allowances	-	(979,405)	(979,405)
	918,648,370	(3,432,697)	915,215,673
Current			381,591,990
Non-current			533,623,683
			915,215,673

			2012
	Gross loan balance $	Allowances $	Net loan balance $
Personal	567,119,682	(445,314)	566,674,368
Commercial	175,841,601	(1,987,015)	173,854,586
Agriculture	25,888,095	(51,650)	25,836,445
	768,849,378	(2,483,979)	766,365,399
Accrued interest	1,257,670	-	1,257,670
Collective allowances	-	(923,823)	(923,823)
	770,107,048	(3,407,802)	766,699,246
Current			363,483,871
Non-current			403,215,375
			766,699,246

Impaired loans

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

			2013
	Impaired loan balance $	**Specific allowance $**	**Net impaired loan balance $**
Personal	2,125,037	(332,844)	1,792,193
Commercial	2,549,343	(2,070,448)	478,895
Agricultural	293,157	(50,000)	243,157
	4,967,537	(2,453,292)	2,514,245
Accrued interest	44,096	-	44,096
	5,011,633	(2,453,292)	2,558,341

			2012
	Impaired loan balance $	**Specific allowance $**	**Net impaired loan balance $**
Personal	1,708,651	(445,314)	1,263,337
Commercial	4,156,665	(1,987,015)	2,169,650
Agricultural	285,244	(51,650)	233,594
	6,150,560	(2,483,979)	3,666,581
Accrued interest	42,796	-	42,796
	6,193,356	(2,483,979)	3,709,377

The total allowance for doubtful loans consists of:

	2013			
	Personal $	Commercial $	Agricultural $	Total $
Specific allowance	332,844	2,070,448	50,000	2,453,292
Collective allowance	757,864	195,232	26,309	979,405
	1,090,708	2,265,680	76,309	3,432,697

	2012			
	Personal $	Commercial $	Agricultural $	Total $
Specific allowance	445,314	1,987,015	51,650	2,483,979
Collective allowance	684,777	207,950	31,096	923,823
	1,130,091	2,194,965	82,746	3,407,802

The change in the allowance for doubtful loans is as follows:

	2013						
	Personal		Commercial		Agricultural		Total
	Specific allowance $	Collective allowance $	Specific allowance $	Collective allowance $	Specific allowance $	Collective allowance $	$
Balance - beginning of year	445,314	684,777	1,987,015	207,950	51,650	31,096	3,407,802
Change in impairment provision	333,762	73,087	163,106	(12,718)	(1,650)	(4,787)	550,800
Loans written off in the year	(446,232)	-	(79,673)	-	-	-	(525,905)
	332,844	757,864	2,070,448	195,232	50,000	26,309	3,432,697

	Personal		Commercial		Agricultural		Total
	Specific allowance $	Collective allowance $	Specific allowance $	Collective allowance $	Specific allowance $	Collective allowance $	2012 $
Balance - beginning of year	674,706	411,171	662,736	198,613	451,759	23,791	2,422,776
Change in impairment provision	61,040	273,606	1,337,861	9,337	(400,109)	7,305	1,289,040
Loans written off in the year	(290,432)	-	(13,582)	-	-	-	(304,014)
	445,314	684,777	1,987,015	207,950	51,650	31,096	3,407,802

Loans past due but not impaired

A loan is considered past due when the counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans at December 31 that are past due but not classified as impaired because they are either (i) less than 90 days past due, or (ii) fully-secured and collection efforts are reasonably expected to result in repayment.

2013	1 - 30 days $	31 - 60 days $	61 days and greater $	Total $
Personal	10,780,973	483,652	642,447	11,907,072
Commercial	3,397,692	82,345	-	3,480,037
Agricultural	84,703	-	-	84,703
	14,263,368	565,997	642,447	15,471,812

2012	1 - 30 days $	31 - 60 days $	61 days and greater $	Total $
Personal	8,555,471	671,136	12,131	9,238,738
Commercial	3,238,610	-	41,217	3,279,827
Agricultural	-	-	-	-
	11,794,081	671,136	53,348	12,518,565

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (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. Upon initial recognition of loans to members, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, 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.

9 Property and equipment

The movements in property and equipment were as follows:

	Land $	Buildings $	Furniture and equipment $	Computer equipment $	Security equipment $	PC software $	Automobiles $	Total $
At December 31, 2012								
Opening cost	1,422,938	29,490,733	8,546,055	4,710,509	2,123,456	649,614	403,015	47,346,320
Additions	-	160,930	227,612	113,450	11,358	30,530	155,120	699,000
Disposals/write-offs	-	(697,410)	(1,027,119)	(3,216,017)	(82,836)	(224,789)	(54,783)	(5,302,954)
Closing cost	1,422,938	28,954,253	7,746,548	1,607,942	2,051,978	455,355	503,352	42,742,366
At December 31, 2012								
Opening accumulated depreciation	-	(956,782)	(4,487,827)	(4,219,438)	(496,943)	(595,044)	(217,498)	(10,973,532)
Disposals/write-offs	-	-	1,027,119	3,213,778	82,836	224,789	-	4,548,522
Depreciation expense	-	(644,274)	(1,007,745)	(286,371)	(99,940)	(68,922)	(54,457)	(2,161,709)
Closing accumulated depreciation	-	(1,601,056)	(4,468,453)	(1,292,031)	(514,047)	(439,177)	(271,955)	(8,586,719)
Net book value	1,422,938	27,353,197	3,278,095	315,911	1,537,931	16,178	231,397	34,155,647
At December 31, 2013								
Opening cost	1,422,938	28,954,253	7,746,548	1,607,942	2,051,978	455,355	503,352	42,742,366
Additions	-	171,278	31,252	76,456	-	-	57,600	336,586
Disposals/write-offs	-	-	-	-	-	-	(81,308)	(81,308)
Closing cost	1,422,938	29,125,531	7,777,800	1,684,398	2,051,978	455,355	479,644	42,997,644
At December 31, 2013								
Opening accumulated depreciation	-	(1,601,056)	(4,468,453)	(1,292,031)	(514,047)	(439,177)	(271,955)	(8,586,719)
Disposals/write-offs	-	-	-	-	-	-	50,980	50,980
Depreciation expense	-	(605,615)	(1,017,387)	(215,449)	(100,186)	(16,178)	(109,603)	(2,064,418)
Closing accumulated depreciation	-	(2,206,671)	(5,485,840)	(1,507,480)	(614,233)	(455,355)	(330,578)	(10,600,157)
Net book value	1,422,938	26,918,860	2,291,960	176,918	1,437,745	-	149,066	32,397,487

Amortization expense on property and equipment of $2,064,418 (2012 - $2,161,709) is included in occupancy expense in the consolidated statement of income and comprehensive income.

10 Intangible assets

	2013 $	2012 $
Cost		
At January 1	1,736,687	1,736,687
Additions	47,460	-
At December 31	1,784,147	1,736,687
Accumulated amortization		
At January 1	520,530	346,861
Amortization	174,460	173,669
At December 31	694,990	520,530
Net book value at December 31	1,089,157	1,216,157

Amortization expense on intangible assets of $174,460 (2012 - $173,669) is included in occupancy expense in the consolidated statement of net income and comprehensive income.

11 Investment property

The movements in investment property were as follows:

	2013 $	2012 $
Balance - beginning of year	12,001,961	11,187,000
Acquisitions	-	771,090
Capital expenditures	124,688	-
Unrealized fair value adjustment	83,351	43,871
Balance - end of year	12,210,000	12,001,961
Rental income from investment property	702,012	554,327
Direct operating costs of investment property	334,724	173,502

On November 1, 2012 the Credit Union purchased an investment property for cash proceeds of $771,090. The property is leased out under an operating lease.

Investment properties with an aggregate fair value of $12,210,000 (2012 - $11,230,871) were valued by an external independent valuation professional who is deemed to be a qualified appraiser who holds a recognized, relevant, professional qualification and who has recent experience in the locations and categories of the investment property valued. The carrying value of investment properties valued by the external appraiser at December 31, 2013 agrees to the valuations reported by the external appraiser.

Investment property held by the Credit Union is leased out under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2013 $	2012 $
Less than 1 year	724,339	647,877
Between 1 and 5 years	2,269,514	2,746,165
More than 5 years	4,577,196	4,464,383
	7,571,049	7,858,425

The Credit Union utilizes capitalization rates within the ranges provided by market experts. To the extent that the externally provided capitalization rate ranges change from one reporting period to the next; or should another rate within the provided ranges be considered by the Credit Union to be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

The valuation of investment properties considers all of the information generated by the above noted methods and assumptions.

As noted above, investment properties are valued using the capitalized net operating income method and the discounted cash flow method. The valuation process would be classified as Level 3 of the fair value hierarchy.

The most significant inputs or variables to the valuation process, all of which are unobservable, are normalized income and the capitalization rate. An increase in normalized income, or a decrease in the capitalization will result in an increase in the estimated fair value of the investment property. The fair value estimate is sensitive to each of the inputs; however, changes in the capitalization rate have the greatest impact on the fair value estimate.

The key valuation assumptions for investment properties as at December 31, 2013 are as follows:

	Maximum	Minimum	Weighted average
Capitalization rate	6.50%	8.25%	6.88%

Additional valuation assumptions include the rental revenue per square metre, grade quality of the property and comparable market data.

12 Other assets

	2013 $	2012 $
Accounts receivable	211,755	120,991
Prepaid expenses and deposits	1,307,645	793,772
Property held for resale	2,762,320	459,029
	4,281,720	1,373,792

The carrying value above reasonably approximates fair value at the statement of financial position date. Property held for resale is presented net of the allowance amounting to $424,877 (2012 - $404,877).

13 Members' savings and deposits

	2013 $	2012 $
Demand deposits	589,057,458	514,584,173
Term deposits	233,476,325	154,774,327
Registered savings plans	171,073,484	148,816,901
	993,607,267	818,175,401
Accrued interest	4,008,144	4,263,735
	997,615,411	822,439,136
Current	845,984,876	670,410,107
Non-current	151,630,535	152,029,029
	997,615,411	822,439,136

Members' savings and deposits amounting to $333,992,572 (2012 - $245,370,719) are at fixed interest rates and all other members' savings and deposits amounting to $659,614,695 (2012 - $572,804,682) are at variable rates.

14 Loans payable

The Credit Union has approved lines of credit equal to 10% of its members' deposits with Central or $99,761,541. The line of credit with Central is payable on demand with interest payable on a variable rate basis. As collateral for the line of credit, the Credit Union has pledged an assignment of term and contract deposits. At December 31, 2013, the line of credit was unutilized.

On December 31, the Credit Union entered into a demand loan payable with Central in the amount of $5,000,000 (2012 - $18,000,000). The loan bears interest at 3.10% (2012 - 3.08%) and matured on January 30, 2014 (2012 - January 30, 2013).

The amount of demand loan payable with Central at December 31, 2013 is $5,000,425 (2012 - $18,001,519).

The demand loans were repaid on maturity.

15 Accounts payable and accrued liabilities

	2013 $	2012 $
The Deposit Guarantee Corporation of Manitoba assessment	229,720	210,403
Accrued expenses and payables	3,270,165	3,447,083
	3,499,885	3,657,486

The carrying value above reasonably approximates fair value at the statement of financial position date. All accounts payable and accrued liabilities are current.

16 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 members' equity that meets or exceeds the following requirements:

a) its capital shall not be less than 5% of the book value of its assets;

b) its retained surplus 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.

The capital levels as at December 31 are as follows:

	2013 %	2012 %
Total regulatory capital	5.58%	5.75%
Retained earnings	3.10%	3.10%
Risk weighted capital	11.62%	11.06%

In accordance with the Act and Deposit Guarantee Corporation of Manitoba ("Deposit Guarantee Corporation") regulations, unrealized gains on fair value adjustments of property and equipment at transition to IFRS and unrealized gains on fair value adjustments of investment property are not included in the above capital calculations.

The Credit Union is in compliance with the capital requirements at December 31, 2013 and 2012.

Liquidity reserve

The Credit Union shall maintain in cash on hand and investments in Central not less than 8% of its total members' deposits. As at December 31, 2013 the Credit Union had liquidity reserves equal to 8.38% of its total savings and deposits (2012 - 8.70%).

The Credit Union is in compliance with the liquidity reserve requirements at December 31, 2013 and 2012.

Capital is managed in accordance with policies established by the Board. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate. The Credit Union makes periodic dividend payments on eligible shares, within the context of its overall capital management plan.

17 Members' shares

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

Authorized shares

Common shares

Authorized common share capital consists of an unlimited number of common shares, with an issue price per share to be not less than $5 and redeemable in the amount of consideration received for the share. Under the terms of a share purchase program, members are required to purchase additional common shares. A member ceases to participate in the program when they have a maximum of 200 common shares. The total amount of common shares purchased or redeemed by the Credit Union shall not reduce the Credit Union's equity below 5% of assets.

Surplus shares

Authorized surplus share capital consists of an unlimited number of surplus shares, with an issue price of $1 per share and redeemable at $1 per share.

Distribution to members and share dividends

During the year, pursuant to Board approval, the Credit Union declared:

a) 4.50% share dividend of $843,994 (2012 - 4.71% for $773,875) based on common shares held by the membership.

b) 4.50% share dividend of $230,115 (2012 - 4.71% for $205,596) based on surplus shares held by the membership.

Issued shares

	2013 $	2012 $
4,047,332 common shares (2012 - 3,668,100)	20,236,660	18,340,500
6,263,301 surplus shares (2012 - 5,357,794)	6,263,301	5,357,794
	26,499,961	23,698,294

	2013	2012
Common shares		
Beginning of year	3,668,100	2,678,838
Issued during the year	850,079	1,788,607
Redeemed during the year	(470,847)	(799,345)
End of year	4,047,332	3,668,100
Surplus shares		
Beginning of year	5,357,794	4,610,629
Issued during the year	1,074,109	979,471
Redeemed during the year	(168,602)	(232,306)
End of year	6,263,301	5,357,794
Total members’ shares	10,310,633	9,025,894

18 Income taxes

The significant components of the provision for income taxes included in the consolidated statement of net income and comprehensive income are composed of:

	2013 **$**	**2012** **$**
Current income taxes		
Based on current year taxable income	995,455	433,121
Adjustment recognized for current tax of prior periods	(222,286)	99,179
	773,169	532,300
Deferred income taxes		
Origination and reversal of temporary differences	115,409	(61,800)
Increase in future tax rates	456,785	-
Adjustment recognized for deferred taxes of prior periods	8,750	(35,550)
	580,944	(97,350)
Total provision for income taxes	1,354,113	434,950

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

	2013 **%**	**2012** **%**
Federal base rate	38.00	38.00
Federal abatement	(10.00)	(10.00)
Additional deduction for credit unions	(16.28)	(17.00)
Net federal tax rate	11.72	11.00
Provincial tax rate	1.00	1.00
	12.72	12.00

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory rate of 12.72% (2012 - 12%) are as follows:

	2013 $	2012 $
Net income for the year	7,287,369	4,038,063
Expected provision for income taxes at statutory rates	926,953	484,568
Non-taxable items		
Non-deductible portion of expenses/non-taxable income	15,910	7,009
Dividends deductible for tax	(136,618)	(117,527)
Impact of change in future tax rates	456,785	-
Higher tax rate applicable to subsidiaries	308,464	50,423
Adjustment recognized for tax of prior periods	(213,536)	63,629
Other	(3,845)	(53,152)
Total provision for income taxes	1,354,113	434,950

Based on the Income Tax Act, Credit Unions are entitled to a deduction from taxable income related to payments in respect of shares and therefore any dividends paid or payable by the Credit Union would result in tax savings of 12.72% (2012 - 12%). As a result, dividends declared resulted in income tax savings of $136,618 (2012 - $117,527) in the statement of net income and comprehensive income.

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

	2013 $	2012 $
Deferred tax assets		
Members' loans	166,564	140,670
Loss carry-forward of subsidiaries	79,035	56,190
	245,599	196,860
Deferred tax liabilities		
Property and equipment and investment properties	(2,310,670)	(1,703,400)
Goodwill and intangible assets	(139,023)	(116,610)
	(2,449,693)	(1,820,010)
Total deferred taxes	(2,204,094)	(1,623,150)

The Credit Union has no material unrecognized temporary differences related to its wholly-owned subsidiaries or associates. One of the Credit Union's subsidiaries has accumulated non-capital losses of approximately $169,348 (2012 - $120,408) which can be used to offset future taxable income. The benefit of these losses has been recorded as an asset.

These losses expire as follows:

	$
2030	18,293
2031	52,474
2033	98,581
	169,348

Current income taxes payable as at December 31, 2013 are $543,468 (2012 - $150,969).

	2013 $	2012 $
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	166,564	140,670
Deferred tax assets to be recovered after more than 12 months	79,035	56,190
	245,599	196,860
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	(2,449,693)	(1,820,010)
	(2,449,693)	(1,820,010)
Net deferred tax liability	(2,204,094)	(1,623,150)

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

During the year, the 2013 federal government budget substantively enacted on March 21, 2013 that the additional deduction for credit unions would be phased out over the next 5 years. The deduction of 16.28% received in the current year is expected to decrease to 12% by 2017. As a result of this reduction, the deferred tax components that are expected to reverse in greater than twelve months from December 31, 2013 were established using the rate expected to be enforce of 16%. As a result, the Credit Union recorded an deferred tax expense in the current period of $456,785 related to this change.

19 Risk management

The Credit Union's risk management policies are designed to identify and analyse 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 and products.

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

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and floating rates for various periods. 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, foreign exchange rates, and credit risk	Monitoring of investment restrictions and monitoring of counterparty risk
Members' loans	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching, periodic use of derivatives and monitoring of counterparty risk
Members' savings and deposits	Sensitivity to changes in interest rates, liquidity and foreign exchange rates	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 consolidated statement of net income and comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by management and reported to the Board.

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 of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to the Board. Based on current differences between financial assets and financial liabilities as at December 31, 2013, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by $2,552,401 (2012 - $1,488,182) over the next twelve months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by $2,552,401 (2012 - $1,488,182) over the next twelve months.

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

The following schedule shows the Credit Union's sensitivity to interest rate changes as at December 31, 2013. Amounts with floating rates or due or payable on demand are classified as maturing within less than one year, regardless of maturity. Loans and deposits subject to fixed rates are based on contractual terms. Amounts that are not interest sensitive have been grouped together.

	Assets $	Liabilities and members' equity $	Net asset/ liability gap $
Expected repricing or maturity date			
Less than one year	447,139,334	731,500,575	(284,361,241)
1 to 2 years	74,372,215	50,323,653	24,048,562
2 to 3 years	169,893,025	51,920,215	117,972,810
3 to 4 years	115,698,698	29,048,263	86,650,435
4 to 5 years	168,832,340	18,196,894	150,635,446
Over 5 years	31,319,500	2,141,510	29,177,990
Not interest sensitive	70,860,351	194,984,353	(124,124,002)
	1,078,115,463	1,078,115,463	-

The average rate for interest bearing assets is 3.96% (2012 - 4.19%) and for interest bearing liabilities is 1.86% (2012 - 2.03%).

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.

Credit risk

Credit risk is the risk that a Credit Union member or counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the 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 date of the consolidated statement of financial position. Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in loans to members and investing activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is reported to the Board.

Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member.

The Board 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 emphasises responsible lending in its relationships with members and to establish that loans are within the member's ability to repay, rather than relying exclusively on collateral.

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

The Credit Union has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Credit Union considers three components: (i) the "probability of default" by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Credit Union derives the "exposure at default"; and (iii) the likely recovery ratio on the defaulted obligations (the "loss given default"). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

The classes of financial instruments to which the Credit Union is most exposed are members' loans and investments and deposits.

			2013
Credit risk exposure	**Outstanding $**	**Undrawn commitments $**	**Total exposure $**
Accounts receivable	211,755	-	211,755
Investments	96,297,192	-	96,297,192
Personal loans	708,086,684	51,808,485	759,895,169
Agricultural loans	24,758,526	7,445,956	32,204,482
Commercial loans	184,443,273	77,501,373	261,944,656
Accrued interest	1,359,887	-	1,359,887
Property held for sale	2,276,320	-	2,276,320
Total exposure	1,017,433,637	136,755,814	1,154,189,461

			2012
Credit risk exposure	**Outstanding** **$**	**Undrawn commitments** **$**	**Total exposure** **$**
Accounts receivable	120,991	-	120,991
Investments	76,021,048	-	76,021,048
Personal loans	567,119,682	47,745,145	614,864,827
Agricultural loans	25,888,095	8,832,161	34,720,256
Commercial loans	175,841,601	80,466,522	256,308,123
Accrued interest	1,257,670	-	1,257,670
Property held for sale	459,029	-	459,029
Total exposure	846,708,116	137,043,828	983,751,944

The above tables represent a worst case scenario of credit risk exposure to the Credit Union at December 31, 2013 and 2012, without taking into account any collateral held or other credit enhancements attached.

a) 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. The managed assets consist of cash resources held with Central. The majority 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.

b) Personal loans

Personal loans primarily consist of personal loans, and $602,680,535 (2012 - $466,493,508) of real estate mortgages which are fully secured by residential property. The Credit Union's policy is to not exceed a loan-to-value ratio of 80%.

c) Agricultural and commercial loans and lines of credit

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

The Credit Union manages credit concentration by establishing lending limits for each industry based on risk ratings for the respective industries. As at December 31, 2013, the Credit Union has not exceeded its lending limit for any industry type. The commercial lending by industry is as follows:

	2013 %	2012 %
Agricultural	13.0	14.4
Construction	7.2	6.6
Retail	7.5	5.5
Hospitality	9.2	9.1
Industrial	5.8	5.9
Real estate rental	22.6	20.3
Public administration	12.9	13.8
Educational services	9.4	9.6
Other services	12.4	14.8

The credit quality of the loan portfolio for those loans which are neither past due or impaired can be assessed by reference to the Deposit Guarantee Corporation's risk rating model. The Credit Union assesses the probability of a default using the risk rating tools below and taking into account statistical analysis as well as the experience and judgement of the Credit department. Members' loans are divided into eight ratings and are regularly reviewed and updated as appropriate.

	2013 %	2012 %
Rating 1 - Excellent risk	2.8	3.5
Rating 2 - Very good risk	15.5	18.6
Rating 3 - Good risk	39.3	36.7
Rating 4 - Acceptable risk	36.7	33.8
Rating 5 - Caution risk	5.5	7.1
Rating 6 - At risk	0.3	0.0
Rating 7 - Impaired with no loan loss allowance	0.0	0.1
Rating 8 - Impaired with loan loss allowance	0.1	0.2

Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity at all times as described in note 16. 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, securitizations and asset-liability maturity management techniques. Management monitors rolling forecasts of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management.

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

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

		Payable on a fixed date				
	Payable on demand $	Less than 1 year $	1 to 2 years $	2 to 5 years $	Over 5 years $	Total $
Financial assets						
Cash on hand	5,520,192	-	-	-	-	5,520,192
Investments and deposits	46,997,223	22,807,872	-	20,582,673	5,909,424	96,297,192
Members' loans	302,074,431	79,517,559	74,372,215	433,841,391	25,410,077	915,215,673
Total financial assets	354,591,846	102,325,431	74,372,215	454,424,064	31,319,501	1,017,033,057
Financial liabilities						
Members' savings and deposits	663,622,839	182,342,537	50,323,653	99,184,872	2,141,510	997,615,411
Loans payable	-	5,000,425	-	-	-	5,000,425
Accounts payable and accrued liabilities	-	3,499,885	-	-	-	3,499,885
Total financial liabilities	663,622,839	190,842,847	50,323,653	99,184,872	2,141,510	1,006,115,721

Foreign exchange risk

Foreign exchange risk is the risk that arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial instruments 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 assets and liabilities

Differences between book value and fair value of investments and deposits, members' loans, member 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. Members' loans and member 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 net realizable value. Furthermore, as many of the Credit Union's financial instruments lack an available trading market, the fair value of members' loans and member savings and deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of instruments. The inputs to the valuation model for fixed rate loans include scheduled loan amortization rates, 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. Other inputs may include the addition of an interest rate spread to incorporate an appropriate risk premium over Government of Canada rates. The significant assumptions included in the determination of fair value include estimates of credit losses, estimates of interest rates and the estimates of discount rates.

The most significant assumption relates to the discount rates utilized. It is estimated that a 10 basis point change in the discount rate would change the fair value of loans to members and investments by approximately $1,934,000 (2012 - $1,504,000), and the fair value of members' deposits by approximately $403,000 (2012 - $389,000).

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

The carrying value of accounts receivable and accounts payable and accrued liabilities is deemed to equal their fair value given the short-term nature of these balances.

Fair value of financial assets and liabilities

As at December 31, 2013:

	AFS $	Financial assets/liabilities at cost or amortized cost $	Estimated fair value $	Fair value greater (less) than book value $
Financial assets				
Cash on hand	-	5,520,192	5,520,192	-
Investments and deposits	4,080,424	92,216,768	97,086,329	789,148
Members' loans	-	915,215,673	919,999,690	4,784,017
Total financial assets	4,080,424	1,012,952,633	1,022,606,211	5,573,165
Financial liabilities				
Members' savings and deposits	-	997,615,411	997,851,249	235,838
Total financial liabilities	-	997,615,411	997,851,249	235,838

As at December 31, 2012:

	AFS $	Financial assets/liabilities at cost or amortized cost $	Estimated fair value $	Fair value greater (less) than book value $
Financial assets				
Cash on hand	-	4,961,804	4,961,804	-
Investments and deposits	5,735,544	70,285,504	76,751,025	729,977
Members' loans	-	766,699,246	770,427,450	3,728,204
Total financial assets	5,735,544	841,946,554	852,140,279	4,458,181
Financial liabilities				
Members' savings and deposits	-	822,439,136	823,536,761	1,097,625
Total financial liabilities	-	822,439,136	823,536,761	1,097,625

Fair value hierarchy

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

- *Level 1: Unadjusted quoted prices in 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. Assets measured at fair value and classified as level 2 include cash on hand, AFS investments, member loans and members' savings and deposits.

- *Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities*

  Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. There are no assets measured at fair value classified as Level 3.

The Credit Union uses the following techniques to determine the fair value measurements categorized in Level 2.

The fair value of derivatives financial assets and liabilities is determined using observable market inputs including forward exchange and interest rates, as applicable, at the measurement date, with the resulting value discounted back to present values.

The Credit Union did not have any instruments requiring recurring measurements that were categorized within Level 3 of the fair value hierarchy.

The Credit Union's policy is to recognize transfers into and transfers out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2013, the Credit Union had no transfers between fair value hierarchy levels.

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

				2013
(in thousands of dollars)	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash on hand and on deposit	-	5,520,192	-	5,520,192
Investments	-	96,297,192	-	96,297,192
Loans to members	-	915,215,673	-	915,215,673
Total financial assets	-	1,017,033,057	-	1,017,033,057
Financial liabilities				
Members' deposits	-	997,615,411	-	997,615,411
Accounts payable	-	3,499,885	-	3,499,885
Loans payable	-	5,000,425	-	5,000,425
Total financial liabilities	-	1,006,115,721	-	1,006,115,721

The Credit Union did not have any non-recurring measurements for the year ended December 31, 2013.

21 Investments in associates

	2013 $	2012 $
At January 1	8,700,827	7,056,048
Acquisitions	-	1,644,887
Equity earnings (loss)	70,071	(108)
At December 31	8,770,898	8,700,827

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

The Credit Union has received cash distributions of $417,223 relating to these investments which have been recorded in other income in the consolidated statement of net income and comprehensive income.

22 Net change in non-cash working capital items

	2013 $	2012 $
Loans to members - net of repayments	(149,067,227)	(129,832,474)
Members' savings and deposits - net of withdrawals	175,176,275	71,451,515
Net change in investments and deposits	(20,276,144)	30,170,565
Net change in other assets	(2,907,928)	(200,198)
Net change in accounts payable and accrued liabilities	(157,601)	1,044,425
Net change in income taxes	392,499	38,081
	3,159,874	(27,328,086)

23 Transactions with the Deposit Guarantee Corporation of Manitoba, Credit Union Central of Manitoba and related parties

The Deposit Guarantee Corporation of Manitoba

The Deposit Guarantee Corporation of Manitoba ("the Deposit Guarantee Corporation") incorporated for the purpose of protecting the members of credit unions/caisse from financial loss in respect of their deposits with credit unions/caisse and to ensure credit unions/caisse operate under sound business practices. The Deposit Guarantee Corporation guarantees all deposits of members of Manitoba credit unions/caisse. 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 $933,028 (2012 - $742,346) and are recorded as member security expense.

Amounts payable at year end were $229,720 (2012 - $210,403).

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 provides other services for a fee to the Credit Union and acts in an advisory capacity.

Transactions with Central included income earned on investments referred to in note 7 in the amount of $1,506,469 (2012 - $1,849,058), interest expense of $182,476 (2012 - $5,447) on loans payable referred to in note 14 and fees assessed by Central which include annual affiliation dues in the amount of $258,308 (2012 - $224,491) recorded as organizational expenses.

Related party transactions

Compensation of key management personnel

Key management personnel of the Credit Union include all directors and senior management. The summary of compensation for key management personnel is as follows:

	2013 $	2012 $
Salaries and other short-term employee benefits	1,722,482	1,591,789
Post-employment benefits	27,262	26,698
	1,749,744	1,618,487

As at December 31, 2013, outstanding loans to key management personnel totalled 0.54% (2012 - 0.55%), in aggregate, of the loans to members of the Credit Union. No provisions have been recognized in respect of loans issued to related parties in the current year. As at December 31, 2013, outstanding members' deposits to key management personnel totalled 0.77% (2012 - 0.69%), in aggregate, of the members' deposits of the Credit Union.

Transactions with directors, committee members, management and staff are at terms and conditions as set out by the statutes, by-laws and policies of the Credit Union. Fees and expenses paid by the Credit Union on behalf of the directors were $54,055 (2012 - $56,432).

Loans to directors, staff and equity investment

All loans, deposits and fees that were made to, received from, or charged to directors, officers or persons in whom any of them has a material interest during the year conform to the Credit Union's ordinary practices for members who are not directors or officers.

As at December 31, 2013, outstanding loans to directors, management, staff and equity investments totalled 5.25% (2012 - 2.53%), in aggregate, of the assets of the Credit Union.

24 Director and officer indemnification

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

25 Contingencies

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

26 Savings plan

The Credit Union maintains a savings plan for most employees. For eligible employees, the Credit Union contributes an amount between 5% and 10% of each participant's regular earnings. The net contributions and expense for the year were $390,122 (2012 - $338,661).