Consolidated Financial Statements

Sunova Credit Union Limited

December 31, 2014

Building a better working world

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Sunova Credit Union Limited

We have audited the accompanying consolidated financial statements of **Sunova Credit Union Limited**, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of income and comprehensive income, changes in members' equity and cash flows for the year then ended, and 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.

Auditors' 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 auditors' 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 auditors consider 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** as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of **Sunova Credit Union Limited** as at December 31, 2013 and for the year then ended were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 27, 2014.

Ernst & Young LLP

Winnipeg, Canada
April 6, 2015

Chartered Accountants

Sunova Credit Union Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

	2014	2013
	$	$
ASSETS		
Cash	**5,004,569**	5,520,192
Investments and deposits *[note 7]*	**92,536,418**	96,297,192
Members' loans – net of allowance for doubtful loans *[note 8]*	**1,021,283,744**	915,215,673
Other assets *[note 12]*	**2,797,409**	4,281,720
Investments in associates *[notes 6 and 23]*	**—**	8,770,898
Investment property *[note 11]*	**10,195,000**	12,210,000
Property and equipment *[note 9]*	**34,657,999**	32,397,487
Intangible assets *[note 10]*	**905,997**	1,089,157
Goodwill *[note 13]*	**6,145,481**	2,333,144
	1,173,526,617	1,078,115,463
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' savings and deposits *[note 14]*	**1,088,865,120**	997,615,411
Accounts payable and accrued liabilities *[note 17]*	**5,011,019**	3,499,885
Income taxes payable *[note 20]*	**1,261,337**	543,468
Loans payable *[note 15]*	**—**	5,000,425
Derivative financial instrument *[note 16]*	**475,931**	—
Deferred income tax liabilities *[note 20]*	**2,122,379**	2,204,094
Total liabilities	**1,097,735,786**	1,008,863,283
Members' equity		
Members' shares *[note 19]*	**25,637,396**	26,499,961
Retained surplus	**50,153,435**	42,752,219
Total members' equity	**75,790,831**	69,252,180
	1,173,526,617	1,078,115,463

See accompanying notes

On behalf of the Board:

Director

Director

Sunova Credit Union Limited

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Year ended December 31

	2014	2013
	$	$
Income		
Interest from members' loans	**39,960,539**	35,636,701
Investment income	**1,925,061**	1,821,139
	41,885,600	37,457,840
Cost of funds		
Interest paid to members	**18,266,596**	17,241,573
Interest on loans payable	**1,181,643**	182,476
	19,448,239	17,424,049
Financial margin	**22,437,361**	20,033,791
Provision for doubtful loans *[note 8]*	**(657,199)**	(550,800)
Other income *[note 24]*	**11,153,347**	7,219,333
Net (losses) gains on fair value adjustments of rental property *[note 11]*	**(768,523)**	83,351
Financial margin and other income after provision for doubtful loans	**32,164,986**	26,785,675
Operating expenses		
Personnel	**12,688,601**	11,425,463
Administration	**4,012,596**	3,197,724
Occupancy	**3,553,348**	3,510,903
Organizational	**624,870**	421,073
Member security	**1,019,936**	943,143
	21,899,351	19,498,306
Income before income taxes	**10,265,635**	7,287,369
Provision for income taxes *[note 20]*	**1,701,253**	1,354,113
Net income and comprehensive income for the year	**8,564,382**	5,933,256

See accompanying notes

Sunova Credit Union Limited

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

Year ended December 31

	Members' shares $	Retained surplus $	Total equity $
Balance, January 1, 2014	**26,499,961**	**42,752,219**	**69,252,180**
Net income and comprehensive income for the year	**—**	**8,564,382**	**8,564,382**
Share dividend on common shares *[note 19]*	**891,186**	**(891,186)**	**—**
Share dividend on surplus shares *[note 19]*	**271,980**	**(271,980)**	**—**
Common shares issued – net of redemptions	**(2,491,326)**	**—**	**(2,491,326)**
Surplus shares issued – net of redemptions	**465,595**	**—**	**465,595**
Balance, December 31, 2014	**25,637,396**	**50,153,435**	**75,790,831**
Balance, 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 19]*	843,994	(843,994)	—
Share dividend on surplus shares *[note 19]*	230,115	(230,115)	—
Common shares issued – net of redemptions	1,896,160	—	1,896,160
Surplus shares issued – net of redemptions	(168,602)	—	(168,602)
Balance, December 31, 2013	26,499,961	42,752,219	69,252,180

See accompanying notes

Sunova Credit Union Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31

	2014 $	2013 $
OPERATING ACTIVITIES		
Net income for the year	**8,564,382**	5,933,256
Add (deduct) items not involving cash		
Depreciation and amortization		
Property and equipment	**2,058,887**	2,064,418
Intangible assets	**183,160**	174,460
Investment property valuation adjustment *[note 11]*	**768,523**	(83,351)
Deferred income taxes	**(81,715)**	580,944
Loss (gain) on sale of property and equipment	**(50,466)**	30,328
Provision for doubtful loans	**657,199**	550,800
Unrealized loss on derivative financial instrument	**475,931**	—
Gain on sale of investment in associates	**(2,520,519)**	—
Non-cash gain on acquisitions	**(865,000)**	—
Equity earnings from associates	**—**	(70,071)
	9,190,382	9,180,784
Net change in non-cash working capital balances related to operations *[note 25]*	**(8,559,082)**	3,159,874
Cash provided by operating activities	**631,300**	12,340,658
INVESTING ACTIVITIES		
Property and equipment, intangible assets and investment property additions	**(2,987,339)**	(508,734)
Proceeds on disposal of property and equipment	**91,792**	—
Proceeds on disposal of investment in associates	**9,251,417**	—
Acquisition of subsidiary, net of cash acquired *[note 6]*	**(476,637)**	—
Cash provided by (used in) investing activities	**5,879,233**	(508,734)
FINANCING ACTIVITIES		
Issuance of members' shares – net of redemptions	**(2,491,326)**	1,896,160
Redemption of surplus shares	**465,595**	(168,602)
Change in loans payable	**(5,000,425)**	(13,001,094)
Cash used in financing activities	**(7,026,156)**	(11,273,536)
Net increase (decrease) in cash during the year	**(515,623)**	558,388
Cash, beginning of year	**5,520,192**	4,961,804
Cash, end of year	**5,004,569**	5,520,192
Supplemental cash flow information		
Interest received	**41,880,679**	37,260,003
Interest paid	**18,959,909**	17,679,640
Income taxes paid	**901,668**	380,670

See accompanying notes

Sunova Credit Union Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

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 located at 233 Main Street, Selkirk, Manitoba, Canada.

These consolidated financial statements have been approved for issue by the Board of Directors [the “Board”] on April 6, 2015. The Board of Directors have the power to amend the consolidated financial statements after issuance only in the case of discovery of an error.

2. BASIS OF PRESENTATION

The consolidated financial statements of Sunova Credit Union have been prepared in accordance with International Financial Reporting Standards [“IFRS”] and adopted by the Accounting Standards Board [“AcSB”] of Canada.

The consolidated financial statements have been prepared under the historical cost convention as modified for the measurement at fair value of available-for-sale or fair value through profit or loss financial assets and financial liabilities and investment property.

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 12 months after the year-end date [current] and more than 12 months after the year-end date [non-current], presented in the notes. The Credit Union classifies its expenses by the nature of expenses method.

The following balances are generally classified as current: cash, investments and deposits, members’ loans due within one year or on demand, income taxes 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 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 April 6, 2015, the date 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 judgment 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 judgment 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 5.

3. SUMMARY OF 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 wholly owned subsidiary, 4081013 Manitoba Ltd, which is consolidated from the effective date of acquisition *[note 6]*. 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-accounted 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, fair value through profit or loss ["FVTPL"] and available-for-sale ["AFS"] financial assets. Management determines the classification of its financial instruments at initial recognition. The Credit Union uses trade-date accounting 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 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.

Loan syndication

As part of its normal operating activities, the Credit Union syndicates loans receivable. When a loan is syndicated, all of the risks and rewards associated with ownership of the loan are transferred to the purchaser and no guarantees, provisions for recourse or over-collateralizations are made by the Credit Union. As a result, the portion of the underlying assets and liabilities associated with syndicated loans that have been derecognized at the time of sale are not reported in the Credit Union's consolidated statement of financial position and any gains or losses on sale are recognized in the consolidated statement of income and comprehensive income.

Allowance for doubtful loans

The Credit Union maintains an allowance for doubtful loans that reduces 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 group and historical loss experience for loans with credit risk characteristics similar to those in the group. 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 income and comprehensive income in the provision for doubtful loans as a recovery.

Available-for-sale financial assets

AFS financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM or 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 accumulated other 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 other comprehensive income is recognized in the consolidated statement of income. However, interest is calculated using the effective interest method and dividends on AFS equity instruments are recognized in the consolidated statement of 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 held-to-maturity financial assets 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.

Derivative financial instruments

Derivative financial instruments, including interest rate swaps and 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 income and comprehensive income for the year.

Derecognition of financial assets

The Credit Union derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Credit Union recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Credit Union retains substantially all the risks and rewards of ownership of a transferred financial asset, the Credit Union continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the consolidated statement of income and comprehensive income.

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.

Derecognition of financial liabilities

The Credit Union derecognizes financial liabilities when, and only when, the Credit Union`s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated statement of income and comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is 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 consolidated 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.

Investments 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 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 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 meters.

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 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 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. Depreciation is provided over the estimated useful life of the assets as follows:

Buildings	2%-5% straight-line
Furniture and equipment	20% straight-line
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 10 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 circumstances occur that indicate 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 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 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 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 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 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 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

Income tax expense for the year comprises current and deferred income tax.

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

Deferred income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates that have been enacted or substantively enacted by the consolidated statement of financial position date and are expected to apply when the corresponding taxes will be paid or refunded. Temporary differences consist 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.

Foreign currency translation

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

Accounting standards and amendments adopted

The Credit Union has adopted the following new and revised standards that were applicable to the Credit Union, along with any consequential amendments, on January 1, 2014 unless otherwise noted. The changes were made in accordance with the applicable transition provisions.

Offsetting Financial Assets and Financial Liabilities

The IASB issued an amendment to IAS 32 "Financial Instruments" clarifying the existing requirements related to the offsetting of financial assets and financial liabilities. The adoption of this amendment did not have an impact on the consolidated financial statements.

IFRIC 21 Levies

IFRIC 21 clarified that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application was required for IFRIC 21. This interpretation has no impact on the Credit Union as it has applied the recognition principles under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

4. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Future accounting changes

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the consolidated financial statements and that are expected to impact the Credit Union are disclosed below. The Credit Union intends to adopt these standards, as applicable, when they become effective.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IFRS 39, "Financial Instruments – Recognition and Measurement" and all previous versions of IFRS 9. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets are measured as at FVTPL or fair value through other comprehensive income ["FVTOCI"] or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at FVTPL. The model has three stages: [i] on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; [ii] if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and [iii] when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.

The standard applies to annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. The impact of the revised standard on the Credit Union's financial position and performance has not yet been assessed.

Annual improvements 2011–2013 cycle

These improvements are effective from July 1, 2014 and are not expected to have a material impact on the Credit Union. They include:

IFRS 13, Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 [or IAS 39, as applicable].

IAS 40, Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property [i.e., property, plant and equipment]. The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Credit Union is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IAS 16 and IAS 38: clarification of acceptable methods of depreciation and amortization

The amendments clarify the principle in IAS 16 and IAS 38, that revenue reflects a pattern of economic benefits that are generated from operating a business [of which the asset is part] rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Credit Union given that the Credit Union has not used a revenue-based method to depreciate its non-current assets.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the 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 judgments, 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.

Going concern

Management has made an assessment of the Credit Union's ability to continue as a going concern and is satisfied that the Credit Union has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Credit Union's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

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 income and comprehensive income, the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a 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 22.

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 the 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 judgment 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.

6. BUSINESS ACQUISITIONS AND DISPOSITIONS

Effective November 1, 2012, the Credit Union purchased a 49% ownership interest in common shares and preferred shares of 4081013 Manitoba Ltd. for cash consideration of $1,644,887. The Credit Union determined that it had significant influence over the investment acquired and used the equity basis of accounting for this investment.

On August 29, 2014, the Credit Union acquired an additional 17% ownership in common and preferred shares of 4081013 Manitoba Ltd. for cash consideration of $595,000, increasing its ownership interest to 66% as of that date ["4081013 Manitoba Ltd. step acquisition"]. The Credit Union began consolidating the operating results, cash flows and net assets of 4081013 Manitoba Ltd. as of August 29, 2014. In conjunction with the 4081013 Manitoba Ltd. step acquisition, the Credit Union re-measured its previously held 49% interest in 4081013 Manitoba Ltd. to fair value which resulted in a gain of $70,113 recorded in the consolidated statement of income and comprehensive income. Total acquisition costs of $36,953 relating to the 4081013 Manitoba Ltd. step acquisition were expensed as incurred.

The fair value of the identifiable assets acquired and liabilities assumed of 4081013 Manitoba Ltd. as at August 29, 2014 were:

	$
Cash	118,363
Accounts receivable	88,100
Other assets	20,562
Property and equipment	126,909
Goodwill	3,812,337
Accounts payable	(326,076)
Due to related party	(340,195)
Fair value of net identifiable assets	3,500,000
Fair value of consideration transferred – cash	595,000
Value of investment in 4081013 Manitoba Ltd. at the acquisition date	1,644,887
Gain recognized on the step acquisition	70,113
Fair value of non-controlling interest	1,190,000
	3,500,000

The fair value of the non-controlling interest was determined based on its proportionate share of the fair value of the net assets acquired. The goodwill is attributable to the value of the natural operational and strategic synergies within the complementary financial services businesses, as well as the established reputation of the brokerage within the Steinbach community. It is not expected to be deductible for tax purposes. The Credit Union is not able to determine what the additional revenue and net income from the acquisition would have been if the acquisition had taken place at the beginning of the year as the required information is not readily available.

On September 30, 2014, the Credit Union entered into a non-cash share swap to acquire the remaining outstanding shares of 4081013 Manitoba Ltd. In consideration for acquiring 34% of 4081013 Manitoba Ltd., the Credit Union transferred its 25% ownership in Oakbank Insurance Ltd. The fair value of the consideration received was determined with reference to the fair value of the August 29, 2014 acquisition of 4081013 Manitoba Ltd. noted above. The fair value of the consideration received was valued at $1,190,000 which resulted in a gain on the disposition of the shares of Oakbank Insurance of $794,887 being recorded in the consolidated statement of income and comprehensive income. As a result of the share swap, the non-controlling interest in 4081013 Manitoba Ltd. was reclassified to members' equity.

7. INVESTMENTS AND DEPOSITS

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

	2014			
	AFS $	L&R $	HTM $	Total $
Credit Union Central of Manitoba				
Shares	4,223,590	—	—	4,223,590
Current account				
Canadian	—	47,379,467	—	47,379,467
U.S.	—	13,722,475	—	13,722,475
Term and contract deposits	—	20,000,000	—	20,000,000
	4,223,590	81,101,942	—	85,325,532
Other investments				
Concentra Financial Services Association – debenture	—	—	1,000,000	1,000,000
Concentra Trust shares	10	—	—	10
Municipality of West St. Paul	—	—	1,166,246	1,166,246
Town of Stonewall	—	—	1,658,053	1,658,053
Town of Beausejour	—	—	1,466,743	1,466,743
City of Selkirk	—	—	134,771	134,771
Town of Powerview	—	—	110,604	110,604
Municipality of Springfield	—	—	1,572,409	1,572,409
	4,223,600	81,101,942	7,108,826	92,434,368
Accrued interest receivable	—	66,250	35,800	102,050
	4,223,600	81,168,192	7,144,626	92,536,418

	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

	2014		2013	
	Interest rates ranging from	**Maturity dates ranging from**	**Interest rates ranging from**	**Maturity dates ranging from**
Term and contract deposits	**2.54% to 2.72%**	**2 years**	1.10% to 2.72%	1 month to 3 years
Municipal debentures	**2.88% to 6.00%**	**2 to 18 years**	2.88% to 6%	1 to 19 years
Concentra Financial Services Association – debenture	**5.82%**	**7 years**	5.82%	8 years
Concentra Financial Services Association – term deposit	**—**	**—**	2.40%	2 months

8. MEMBERS' LOANS

At December 31, 2014, members' loans are presented net of allowances for doubtful loans totaling $1,583,067 [2013 – $3,432,697], consisting of individually significant allowances of $472,261 [2013 – $2,453,292] for loans considered impaired and $1,110,806 [2013 – $979,405] as collective allowances.

	2014		
	Gross loan balance	**Allowances**	**Net loan balance**
	$	$	$
Personal	**807,722,168**	**(365,036)**	**807,357,132**
Commercial	**189,043,074**	**(57,225)**	**188,985,849**
Agricultural	**24,594,722**	**(50,000)**	**24,544,722**
	1,021,359,964	**(472,261)**	**1,020,887,703**
Accrued interest	**1,506,847**	**—**	**1,506,847**
Collective allowances	**—**	**(1,110,806)**	**(1,110,806)**
	1,022,866,811	**(1,583,067)**	**1,021,283,744**
Current			**432,355,320**
Non-current			**588,928,424**
			1,021,283,744
Specific allowance			**(472,261)**
Collective allowance			**(1,110,806)**
			(1,583,067)

	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
Agricultural	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 allowance	—	(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

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:

	2014		
	Impaired loan balance $	Specific allowance $	Net impaired loan balance $
Personal	**1,968,334**	**(365,036)**	**1,603,298**
Commercial	**331,708**	**(57,225)**	**274,483**
Agricultural	**248,610**	**(50,000)**	**198,610**
	2,548,652	**(472,261)**	**2,076,391**
Accrued interest	**42,458**	**—**	**42,458**
	2,591,110	**(472,261)**	**2,118,489**

	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

The total allowance for doubtful loans consists of the following:

	2014			
	Personal $	**Commercial** $	**Agricultural** $	**Total** $
Specific allowance	**365,036**	**57,225**	**50,000**	**472,261**
Collective allowance	**780,400**	**293,073**	**37,333**	**1,110,806**
	1,145,436	**350,298**	**87,333**	**1,583,067**

	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

Sunova Credit Union Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

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

2014

	Personal		**Commercial**		**Agricultural**		**Total**
	Specific allowance $	**Collective allowance** $	**Specific allowance** $	**Collective allowance** $	**Specific allowance** $	**Collective allowance** $	$
Balance, beginning of year	**332,844**	**757,864**	**2,070,448**	**195,232**	**50,000**	**26,309**	**3,432,697**
Change in impairment provision	**335,911**	**22,536**	**189,887**	**97,841**	**—**	**11,024**	**657,199**
Loans written-off in the year	**(303,719)**	**—**	**(2,203,110)**	**—**	**—**	**—**	**(2,506,829)**
	365,036	**780,400**	**57,225**	**293,073**	**50,000**	**37,333**	**1,583,067**

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

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.

	2014			
	1 - 30 days $	**31 - 60 days** $	**61 days and greater** $	**Total** $
Personal	**10,665,857**	**569,270**	**122,022**	**11,357,149**
Commercial	**5,702,534**	**—**	**—**	**5,702,534**
Agricultural	**707,994**	**—**	**—**	**707,994**
	17,076,385	**569,270**	**122,022**	**17,767,677**

	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

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, 2014								
Opening cost	**1,422,938**	**29,125,531**	**7,777,800**	**1,684,398**	**2,051,978**	**455,355**	**479,644**	**42,997,644**
Additions	**706,009**	**1,610,636**	**205,906**	**261,376**	**17,130**	**100,799**	**107,869**	**3,009,725**
Transfer from Investment property *[note 11]*	**1,351,000**	**—**	**—**	**—**	**—**	**—**	**—**	**1,351,000**
Disposals/write-offs	**—**	**—**	**—**	**—**	**—**	**—**	**(185,227)**	**(185,227)**
Closing cost	**3,479,947**	**30,736,167**	**7,983,706**	**1,945,774**	**2,069,108**	**556,154**	**402,286**	**47,173,142**
At December 31, 2014								
Opening accumulated depreciation	**—**	**(2,206,671)**	**(5,485,840)**	**(1,507,480)**	**(614,233)**	**(455,355)**	**(330,578)**	**(10,600,157)**
Disposals/write-offs	**—**	**—**	**—**	**—**	**—**	**—**	**143,901**	**143,901**
Depreciation expense	**—**	**(638,973)**	**(1,028,242)**	**(180,130)**	**(98,183)**	**(27,787)**	**(85,573)**	**(2,058,887)**
Closing accumulated depreciation	**—**	**(2,845,644)**	**(6,514,082)**	**(1,687,610)**	**(712,416)**	**(483,142)**	**(272,250)**	**(12,515,143)**
Net book value	**3,479,947**	**27,890,523**	**1,469,625**	**258,164**	**1,356,692**	**73,013**	**130,036**	**34,657,999**

	Land $	Buildings $	Furniture and equipment $	Computer equipment $	Security equipment $	PC software $	Automobiles $	Total $
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 $2,058,887 [2013 – $2,064,418] is included in occupancy expense in the consolidated statement of income and comprehensive income.

10. INTANGIBLE ASSETS

	2014	**2013**
	$	$
Cost		
At January 1	**1,784,147**	1,736,687
Additions	**—**	47,460
At December 31	**1,784,147**	1,784,147
Accumulated amortization		
At January 1	**694,990**	520,530
Amortization	**183,160**	174,460
At December 31	**878,150**	694,990
Net book value at December 31	**905,997**	1,089,157

Amortization expense on intangible assets of $183,160 [2013 – $174,460] is included in occupancy expense in the consolidated statement of income and comprehensive income.

11. INVESTMENT PROPERTY

The movements in investment property were as follows:

	2014	**2013**
	$	$
Balance, beginning of year	**12,210,000**	12,001,961
Transfer to property and equipment *[note 9]*	**(1,351,000)**	—
Capital expenditures	**104,523**	124,688
Unrealized fair value adjustment	**(768,523)**	83,351
Balance, end of year	**10,195,000**	12,210,000
Rental income from investment property	**801,829**	702,012
Direct operating costs of investment property	**370,033**	334,724

During 2014, one of the investment properties was subdivided into four parcels with separate titles. The parcel of land that related to the Credit Union's Riverbend branch was transferred to property and equipment at fair value on the date of the transfer *[note 9]*.

Investment properties with an aggregate fair value of $10,195,000 [2013 – $12,210,000] 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, 2014 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:

	2014 $	**2013** $
Less than 1 year	**705,586**	724,339
Between 1 and 5 years	**2,399,534**	2,269,514
More than 5 years	**3,982,014**	4,577,196
	7,087,134	7,571,049

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 is 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, 2014 are as follows:

	Maximum	**Minimum**	**Weighted average**
Capitalization rate	6.00%	7.75%	6.31%

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

12. OTHER ASSETS

	2014 $	**2013** $
Accounts receivable	**291,012**	211,755
Prepaid expenses and deposits	**1,468,521**	1,307,645
Property held for resale	**1,037,876**	2,762,320
	2,797,409	4,281,720

The carrying value above reasonably approximates fair value at the consolidated statement of financial position date. Property held for resale is presented net of an allowance amounting to $476,052 [2013 – $424,877].

13. GOODWILL

The summary of movement in goodwill is presented below:

	2014 $	**2013** $
Balance, beginning of the year	**2,333,144**	2,333,144
Acquisition during the year *[note 6]*	**3,812,337**	—
Balance, end of the year	**6,145,481**	2,333,144

The goodwill acquired in 2014 through business acquisition has been allocated to 4081013 Manitoba Ltd., a separate cash-generating unit for the purposes of impairment testing.

The recoverable amount of the cash generating unit is determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management. The key assumptions of the value-in-use calculations are those regarding industry growth rates, expected changes in revenues and direct costs during the year. Changes in revenues and direct costs are based on past practices and expectations of future changes in the market.

For the year ended December 31, 2014, the goodwill impairment review did not reveal any event or change in circumstances to indicate carrying values may be impaired.

14. MEMBERS' SAVINGS AND DEPOSITS

	2014	**2013**
	$	$
Demand deposits	**587,192,424**	589,057,458
Term deposits	**316,419,344**	233,476,325
Registered savings plans	**180,756,878**	171,073,484
	1,084,368,646	993,607,267
Accrued interest	**4,496,474**	4,008,144
	1,088,865,120	997,615,411
Current	**872,338,114**	845,984,876
Non-current	**216,527,006**	151,630,535
	1,088,865,120	997,615,411

Members' savings and deposits amounting to $429,197,949 [2013 – $333,992,572] are at fixed interest rates and the remaining members' savings and deposits amounting to $655,170,697 [2013 – $659,614,695] are at variable rates.

15. LOANS PAYABLE

The Credit Union has approved lines of credit equal to 10% of its members' deposits with Central or $108,886,512. 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, 2014, the line of credit was unutilized.

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

16. DERIVATIVE FINANCIAL INSTRUMENT

During the year, the Credit Union entered into an interest rate swap agreement with Central in order to hedge against exposure to interest rate fluctuations. The agreement represents a notional amount of $25,000,000 which is used as the basis for determining the payment under the contract and is not actually exchanged between the Credit Union and the Central. The swap agreement matures on March 31, 2019 and with fixed interest rates paid at 2.0625% and received at 1.30%. The fair value of the interest rate swap at December 31, 2014 was a liability of $475,931.

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014 $	**2013** $
The Deposit Guarantee Corporation of Manitoba assessment	**289,422**	229,720
Accrued expenses and payables	**4,721,597**	3,270,165
	5,011,019	3,499,885

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

18. 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 consists 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:

	2014	2013
Total regulatory capital	**5.76%**	5.58%
Retained earnings	**3.55%**	3.10%
Risk weighted capital	**13.93%**	11.62%

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. No changes in the measurement basis for the capital requirements occurred in the current year.

The Credit Union is in compliance with the capital requirements at December 31, 2014 and 2013.

Liquidity reserve

The Credit Union shall maintain in cash and investments in Central not less than 8% of its total members' deposits. As at December 31, 2014, the Credit Union had liquidity reserves equal to 8.90% of its total savings and deposits [2013 – 8.38%].

The Credit Union is in compliance with the liquidity reserve requirements at December 31, 2014 and 2013.

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.

19. 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 at the discretion of the Board 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] 4.63% share dividend of $891,186 [2013 – 4.50% for $843,994] based on common shares held by the membership.

[b] 4.63% share dividend of $271,980 [2013 – 4.50% for $230,115] based on surplus shares held by the membership.

	2014 $	**2013** $
Issued		
3,727,304 common shares [2013 – 4,047,332]	**18,636,521**	20,236,660
7,000,876 surplus shares [2013 – 6,263,301]	**7,000,875**	6,263,301
	25,637,396	26,499,961

	#	#
Common shares		
Beginning of year	**4,047,332**	3,668,100
Issued during the year	**531,540**	850,079
Redeemed during the year	**(851,568)**	(470,847)
End of year	**3,727,304**	4,047,332
Surplus shares		
Beginning of year	**6,263,301**	5,357,794
Issued during the year	**2,135,761**	1,074,109
Redeemed during the year	**(1,398,186)**	(168,602)
End of year	**7,000,876**	6,263,301
Total members' shares	**10,728,180**	10,310,633

20. INCOME TAXES

The significant components of the provision for income taxes included in the consolidated statement of income and comprehensive income consist of the following:

	2014 $	**2013** $
Current income taxes		
Based on current year taxable income	**1,782,969**	995,455
Adjustment recognized for current tax of prior periods	**—**	(222,286)
	1,782,969	773,169
Deferred income taxes		
Origination and reversal of temporary differences	**(113,001)**	115,409
Increase in future tax rates	**—**	456,785
Adjustment recognized for deferred taxes of prior periods	**31,286**	8,750
	(81,715)	580,944
Total provision for income taxes	**1,701,253**	1,354,113

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

	2014	**2013**
	%	%
Federal base rate	**38.00**	38.00
Federal abatement	**(10.00)**	(10.00)
Additional deduction for credit unions	**(15.40)**	(16.28)
Net federal tax rate	**12.60**	11.72
Provincial tax rate	**1.00**	1.00
	13.60	12.72

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory rate of 13.60% [2013 – 12.72%] are as follows:

	2014	**2013**
	$	$
Income before income taxes	**10,265,635**	7,287,369
Expected provision for income taxes at statutory rates	**1,396,126**	926,953
Non-taxable items		
Non-deductible portion of expenses/non-taxable income	**21,666**	15,910
Dividends deductible for tax	**(158,191)**	(136,618)
Impact of change in future tax rates	**—**	456,785
Higher tax rate applicable to subsidiaries	**422,290**	308,464
Adjustment recognized for tax of prior periods	**31,286**	(213,536)
Other	**(11,924)**	(3,845)
Total provision for income taxes	**1,701,253**	1,354,113

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 13.60% [2013 – 12.72%]. As a result, dividends declared resulted in income tax savings of $158,191 [2013 – $136,618] in the consolidated statement of income and comprehensive income.

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

	2014	**2013**
	$	$
Deferred tax assets		
Members' loans	**177,729**	166,564
Loss carryforward of subsidiaries	**70,698**	79,035
	248,427	245,599
Deferred tax liabilities		
Property and equipment and investment properties	**(2,275,109)**	(2,310,670)
Goodwill and intangible assets	**(95,697)**	(139,023)
	(2,370,806)	(2,449,693)
Total deferred taxes	**(2,122,379)**	(2,204,094)

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 $151,485 [2013 – $169,348] 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	70,294
2034	10,424
	151,485

Current income taxes payable as at December 31, 2014 are $1,261,337 [2013 – $543,468].

	2014	2013
	$	$
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**177,729**	166,564
Deferred tax assets to be recovered after more than 12 months	**70,698**	79,035
	248,427	245,599
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	**(2,370,806)**	(2,449,693)
Total deferred taxes	**(2,122,379)**	(2,204,094)

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

21. RISK MANAGEMENT

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

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 12-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, 2014, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by $2,399,469 [2013 – $2,552,401] over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by $2,399,469 [2013 – $2,552,401] over the next 12 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 exposure as at December 31, 2014. 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	494,088,990	798,656,339	(304,567,349)
1 to 2 years	158,735,751	72,749,032	85,986,719
2 to 3 years	120,753,537	48,294,087	72,459,450
3 to 4 years	181,995,675	22,305,445	159,690,230
4 to 5 years	124,031,974	27,566,515	96,465,459
Over 5 years	30,083,661	3,548,754	26,534,907
Not interest sensitive	63,837,029	200,406,445	(136,569,416)
	1,173,526,617	1,173,526,617	—

The average rate for interest bearing assets is 3.87% [2013 – 3.96%] and for interest bearing liabilities is 1.78% [2013 – 1.86%].

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

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

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

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

	2014		
	Outstanding $	**Undrawn commitments** $	**Total exposure** $
Credit risk exposure			
Accounts receivable	**291,012**	**—**	**291,012**
Investments	**104,424,447**	**—**	**104,424,447**
Personal loans	**804,722,168**	**53,292,475**	**858,014,643**
Agricultural loans	**24,594,722**	**6,748,069**	**31,342,791**
Commercial loans	**189,043,074**	**75,110,125**	**264,153,199**
Accrued interest	**1,506,847**	**—**	**1,506,847**
Property held for sale	**1,037,876**	**—**	**1,037,876**
	1,125,620,146	**135,150,669**	**1,260,770,815**

	2013		
	Outstanding $	**Undrawn commitments** $	**Total exposure** $
Credit risk 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
	1,017,433,637	136,755,814	1,154,189,461

The above tables represent a worst case scenario of credit risk exposure to the Credit Union at December 31, 2014 and 2013, 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 $699,940,160 [2013 – $602,680,535] of real estate mortgages which are fully secured by residential property. The Credit Union's lending 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, 2014, the Credit Union has not exceeded its lending limit for any industry type. The commercial lending by industry is as follows:

	2014	**2013**
	%	%
Agricultural	**12.6**	13.0
Construction	**6.6**	7.2
Retail	**6.6**	7.5
Hospitality	**9.6**	9.2
Industrial	**5.6**	5.8
Real estate rental	**24.6**	22.6
Public administration	**14.9**	12.9
Educational services	**9.1**	9.4
Other services	**10.3**	12.4

The credit quality of the loan portfolio for those loans that are neither past due nor 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 judgment of the Credit department. Members' loans are divided into eight ratings and are regularly reviewed and updated as appropriate.

	2014	**2013**
	%	%
Rating 1 – Excellent risk	**0.1**	2.8
Rating 2 – Very good risk	**14.3**	15.5
Rating 3 – Good risk	**29.3**	39.3
Rating 4 – Acceptable risk	**48.9**	36.7
Rating 5 – Caution risk	**7.1**	5.5
Rating 6 – At risk	**0.2**	0.3
Rating 7 – Impaired with no loan loss allowance	**—**	—
Rating 8 – Impaired with loan loss allowance	**0.1**	0.1

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 18. 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	5,004,569	—	—	—	—	5,004,569
Investments and deposits	65,325,542	102,051	20,152,705	220,578	6,735,542	92,536,418
Members' loans	328,402,063	122,598,776	143,592,363	397,121,861	29,568,681	1,021,283,744
	398,732,174	122,700,827	163,745,068	397,342,439	36,304,223	1,118,824,731
Financial liabilities						
Members' savings and deposits	659,667,171	213,863,987	107,947,462	102,594,743	4,791,757	1,088,865,120
Derivative financial instrument	—	475,931	—	—	—	475,931
Accounts payable and accrued liabilities	—	5,011,019	—	—	—	5,011,019
	659,667,171	219,350,937	107,947,462	102,594,743	4,791,757	1,094,352,070

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.

22. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Differences between book value and fair value of investments and deposits, members' loans, members' 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 members' 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 members' 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 Credit Unions 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 credit unions 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 $1,735,173 [2013 – $1,934,000], and the fair value of members' deposits by approximately $619,788 [2013 – $403,000].

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.

The derivative financial instrument is presented at FVTPL.

Fair value of financial assets and liabilities

As at December 31, 2014:

	FVTPL $	AFS $	Financial assets / liabilities at cost or amortized cost $	Estimated fair value $	Fair value greater (less) than book value $
Financial assets					
Cash	—	—	**5,004,569**	**5,004,569**	—
Investments and deposits	—	**4,223,600**	**88,312,818**	**93,900,005**	**1,363,587**
Members' loans	—	—	**1,021,283,744**	**1,029,013,999**	**7,730,255**
		4,223,600	**1,114,601,131**	**1,127,918,273**	**9,093,842**
Financial liabilities					
Members' savings and deposits	—	—	**1,088,865,120**	**1,090,522,155**	**1,657,035**
Derivative financial instrument	**475,931**	—	—	**475,931**	—
	475,931	—	**1,088,865,120**	**1,090,998,086**	**1,657,035**

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	—	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
	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
	—	997,615,411	997,851,249	235,838

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 l] 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 l: 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, AFS investments, members' 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 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, 2014, the Credit Union had no transfers between fair value hierarchy levels.

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

	2014			
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Financial assets				
Cash	**—**	**5,004,569**	**—**	**5,004,569**
Investments and deposits	**—**	**92,536,418**	**—**	**92,536,418**
Members' loans	**—**	**1,021,283,744**	**—**	**1,021,283,744**
	—	**1,118,824,431**	**—**	**1,118,824,431**
Financial liabilities				
Members' deposits	**—**	**1,088,865,120**	**—**	**1,088,865,120**
Accounts payable and accrued liabilities	**—**	**5,011,019**	**—**	**5,011,019**
Derivative financial instrument	**—**	**475,931**	**—**	**475,931**
	—	**1,094,352,070**	**—**	**1,094,352,070**

	2013			
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Financial assets				
Cash	—	5,520,192	—	5,520,192
Investments and deposits	—	96,297,192	—	96,297,192
Members' loans	—	915,215,673	—	915,215,673
	—	1,017,033,057	—	1,017,033,057
Financial liabilities				
Members' deposits	—	997,615,411	—	997,615,411
Accounts payable and accrued liabilities	—	3,499,885	—	3,499,885
Loans payable	—	5,000,425	—	5,000,425
	—	1,006,115,721	—	1,006,115,721

The Credit Union did not have any non-recurring measurements for the year ended December 31, 2014.

23. INVESTMENTS IN ASSOCIATES

	2014 $	2013 $
At January 1	**8,770,898**	8,700,827
Dispositions *[note 6]*	**(7,126,011)**	—
Transferred to subsidiary *[note 6]*	**(1,644,887)**	—
Equity (losses) earnings	**—**	70,071
At December 31	**—**	8,770,898

On May 22, 2014, the Credit Union sold all of its investments in associates for proceeds of $9,251,417. Subsequent to the closing date of the sale, the purchasers raised a claim against the excess paid over the fair value of the investment. The Credit Union recognized a gain, net of claims, on disposal of $2,520,519 in net income and other comprehensive income.

24. OTHER INCOME

Other income for the year ended December 31, 2014 includes the gain on revaluation of the Credit Union's previously owned 49% interest in 4081013 Manitoba Ltd. of $70,113 *[note 6]*, the gain on disposition of Oakbank Insurance Ltd. of $794,887 *[note 6]* and the gain on the sale of investments in associates of $2,520,519 *[note 23]*.

25. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2014 $	2013 $
Members' loans – net of repayments	**(106,725,270)**	(149,067,227)
Members' savings and deposits – net of withdrawals	**91,249,709**	175,176,275
Net change in investments and deposits	**3,760,774**	(20,276,144)
Net change in other assets	**1,592,973**	(2,907,928)
Net change in accounts payable and accrued liabilities	**844,863**	(157,601)
Net change in income taxes	**717,869**	392,499
	(8,559,082)	3,159,874

26. 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 $935,631 [2013 – $933,028] and are recorded as member security expense.

Amounts payable at year-end were $289,422 [2013 – $229,720].

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 $1,517,929 [2013 – $1,506,469], interest expense of $606,572 [2013 – $182,476] on loans payable and the interest rate swap contract referred to in note 16 and fees assessed by Central which include annual affiliation dues in the amount of $378,780 [2013 – $258,308] 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:

	2014 $	2013 $
Salaries and other short-term employee benefits	**1,835,546**	1,722,482
Post-employment benefits	**27,699**	27,262
	1,863,245	1,749,744

As at December 31, 2014, outstanding loans to key management personnel totalled 0.64% [2013 – 0.54%], 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, 2014, outstanding members' deposits to key management personnel totalled 0.56% [2013 – 0.77%], 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 $109,355 [2013 – $54,055].

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, 2014, outstanding loans to directors, management, staff and equity investments totalled 4.99% [2013 – 5.25%], in aggregate, of the assets of the Credit Union.

27. 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.

28. 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.

29. 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 $435,532 [2013 – $390,122].