CAISSE POPULAIRE GROUPE FINANCIER LTÉE

Consolidated Financial Statements

For the year ended September 30, 2017

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Consolidated Financial Statements

For the year ended September 30, 2017 **Contents**

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Independent Auditor's Report

To the members of **Caisse Populaire Groupe Financier Ltée**

We have audited the accompanying consolidated financial statements of **Caisse Populaire Groupe Financier Ltée** ("Caisse"), which comprise the consolidated balance sheet as at September 30, 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in members' equity and consolidated statement of 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

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained 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 **Caisse Populaire Groupe Financier Ltée** as at September 30, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants

Winnipeg, Manitoba
December 14, 2017

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CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Balance Sheet

As at September 30	2017	2016
	$	$
Assets		
Funds on hand and on deposit (Note 3)	**65,842,721**	41,510,008
Other assets (Note 4)	**3,230,299**	2,460,877
Investments (Note 5)	**171,414,692**	196,575,282
Income taxes recovery	**87,687**	210,707
Loans to members (Notes 7 and 8)	**1,222,302,577**	1,167,275,663
Property and equipment (Note 9)	**16,672,380**	17,110,482
Intangible assets (Note 10)	**6,364,189**	6,793,583
	1,485,914,545	1,431,936,602
Liabilities and Members' Equity		
Other liabilities (Note 11)	**6,815,154**	7,965,673
Securitized borrowings (Note 12)	**31,759,888**	27,291,496
Deferred income tax liability (Note 14)	**965,934**	217,904
Members' deposits (Note 13)	**1,341,117,838**	1,295,826,009
Derivative financial instruments (Note 6)	**228,128**	840,677
Members' shares (Note 15)	**1,297,684**	1,315,261
	1,382,184,626	1,333,457,020
Commitments (Note 22)		
Members' Equity (Note 21)		
Members' shares (Note 15)	**9,797,926**	10,118,808
Accumulated other comprehensive income	**(127,757)**	(102,097)
Retained earnings	**94,059,750**	88,462,871
	103,729,919	98,479,582
	1,485,914,545	1,431,936,602

Approved on behalf of the Board of Directors:

Paul Pronovault Director

C Hébert Director

CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Statement of Comprehensive Income

For the year ended September 30	2017	2016
	$	$
Revenue		
Interest from loans to members	**42,931,275**	42,849,774
Investment income	**4,750,895**	4,536,951
	47,682,170	47,386,725
Cost of Funds		
Interest paid to members	**21,363,251**	22,496,176
Interest on borrowings	**441,844**	616,062
	21,805,095	23,112,238
Financial margin	**25,877,075**	24,274,487
Operating Expenses		
Personnel (Note 16)	**14,514,078**	14,400,605
Administrative	**4,660,732**	4,216,756
Occupancy	**3,426,782**	3,149,870
Members' security	**1,239,934**	1,227,966
Organizational	**930,822**	622,201
Gross operating expenses	**24,772,348**	23,617,398
Less other income	**(6,651,129)**	(6,448,253)
Net operating expenses	**18,121,219**	17,169,145
Net income before provision for impaired loans	**7,755,856**	7,105,342
Provision for impaired loans	**760,000**	590,000
Net income before income taxes	**6,995,856**	6,515,342
Provision for income taxes (Note 14)	**1,398,977**	1,160,389
Net income for the year	**5,596,879**	5,354,953
Other Comprehensive Income (Net of Tax)		
Change in unrealized losses on fair value hedges	**25,660**	84,325
Total comprehensive income for the year	**5,571,219**	5,270,628

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

CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Statement of Changes in Members' Equity

For the year ended September 30, 2017

	Accumulated Other Comprehensive Income	Members' Shares	Retained Earnings	Total
	$	$	$	$
Balance at September 30, 2015	(17,772)	10,358,186	83,107,918	93,448,332
Total comprehensive income for the year	(84,325)	-	5,354,953	5,270,628
Net redemption of members' shares	-	(382,507)	-	(382,507)
Transfer from liabilities	-	143,129	-	143,129
Balance at September 30, 2016	**(102,097)**	**10,118,808**	**88,462,871**	**98,479,582**
Total comprehensive income for the year	**(25,660)**	**-**	**5,596,879**	**5,571,219**
Net redemption of members' shares	**-**	**(338,459)**	**-**	**(338,459)**
Transfer from liabilities	**-**	**17,577**	**-**	**17,577**
Balance at September 30, 2017	**(127,757)**	**9,797,926**	**94,059,750**	**103,729,919**

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

CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Statement of Cash Flows

For the year ended September 30	**2017**	2016
	$	$
Cash Flows from Operating Activities		
Net income for the year	**5,596,879**	5,354,953
Adjustments for		
Interest and investment revenue	**(47,682,170)**	(47,386,020)
Interest expense	**21,805,095**	23,111,710
Depreciation expense	**1,275,410**	1,040,379
Provision for deferred tax	**752,917**	410,213
Provision for impaired loans	**760,000**	590,000
Ineffective portion of swaps	**(107,610)**	(2,522)
Loss on disposal of property and equipment	**149,213**	-
Gain on disposal of investments	**(1,272,868)**	-
Net change in other assets	**(769,422)**	142,553
Net change in income taxes payable	**599,393**	946,541
Net change in other liabilities	**(1,150,519)**	1,466,667
Changes in member activities (net)		
Change in loans to members - net of repayments	**(56,399,409)**	(3,280,546)
Change in members' deposits - net of withdrawals	**46,246,592**	49,167,561
Cash flows related to interest and income taxes		
Interest received on loans to members	**43,008,282**	43,213,761
Interest received on investments	**5,945,636**	4,221,244
Interest paid on members' deposits	**(22,759,858)**	(23,294,392)
Interest paid on borrowings	**-**	(3,253)
Income taxes paid	**(476,373)**	(1,160,389)
Total cash flows from operating activities	**(4,478,812)**	54,538,460
Cash Flows from Investing Activities		
Purchase of investments	**(3,094,812)**	(52,321,600)
Disposal of investments	**28,333,529**	640,770
Purchase of property and equipment	**(500,168)**	(450,280)
Purchase of systems software	**(56,958)**	(1,303,231)
Total cash flows from investing activities	**24,681,591**	(53,434,341)
Cash Flows from Financing Activities		
Issuance of securitized borrowings	**13,511,875**	-
Repayment of securitized borrowings	**(9,043,482)**	(13,258,075)
Net redemption of common and surplus shares	**(338,459)**	(382,507)
Total cash flows from financing activities	**4,129,934**	(13,640,582)
Net increase (decrease) in cash and cash equivalents	**24,332,713**	(12,536,463)
Cash and cash equivalents, beginning of year	**41,510,008**	54,046,471
Cash and cash equivalents, end of year	**65,842,721**	41,510,008

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting Entity

Caisse Populaire Groupe Financier Ltée (the "Caisse") is incorporated under the Credit Unions and Caisses Populaires Act of the Province of Manitoba ("The Act"). The Caisse serves members primarily in Manitoba and provides retail and commercial banking, and wealth management services. The Caisse has twenty-seven branches located throughout Winnipeg and southern Manitoba, with its registered office located at 205 Provencher Boulevard, Winnipeg, Manitoba, Canada.

These consolidated financial statements have been approved for issue by the Board of Directors on December 14, 2017.

Basis of Presentation

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

These consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments measured at fair value.

The consolidated financial statements' values are presented in Canadian dollars which is the Caisse's functional and presentation currency.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Caisse's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

Basis of Consolidation

These consolidated financial statements include the accounts of the Caisse and its wholly-owned subsidiaries: C Finance Inc., and Immobilières CSB Inc. On September 30, 2017, the Caisse wound up its wholly-owned subsidiaries Télé-Pop Inc. and C.C. Prêts et Placements Ltée and these financial statements reflect the revenue and expenses for the year's operations. The Caisse's wholly-owned subsidiaries have December 31 fiscal year ends.

All intercompany balances, transactions and profits and losses have been eliminated.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and current accounts with Credit Union Central of Manitoba ("CUCM") and Caisse Centrale Desjardins ("CCD") less borrowings that are repayable on demand.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

Other Assets

Accounts receivable are classified as loans and receivables and are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses, which approximates fair value.

Investments

Liquidity Deposits

These deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost, which approximates fair value.

Shares

These instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

Where there is a significant or prolonged decline in the fair value of an equity instrument that constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Investments (continued)

Other

These investments are classified as held to maturity as they are considered non derivative financial assets with fixed or determinable payments and fixed maturities that the Caisse management has the positive intention and ability to hold to maturity. These are initially recorded 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 and Hedges

Hedges

The Caisse, in accordance with its risk management strategies, enters into various derivative financial instruments to preserve the value of its loans to members and to protect itself against the risk of fluctuations in interest rates.

The Caisse preserves the value of its loans to members and manages interest rate risk through interest rate swaps. These derivatives are carried at fair value. Derivatives used to preserve the value of its loans to members have been designated as fair value hedges and are presented with loans to members. Derivatives used to manage interest rate risk have been designated as cash flow hedges and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, on the consolidated balance sheet.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Caisse's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Caisse has chosen to test the effectiveness of its hedges on a monthly basis.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments and Hedges (continued)

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Caisse's cash flow hedges are primarily hedges of floating rate deposits.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income.

For fair value hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the derivative financial instrument and the risk associated with the financial instrument hedged are recognized immediately in income as other income.

If the Caisse closes out its hedge position early, the cumulative gains and losses recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method.

Other Comprehensive Income

Other comprehensive income ("OCI") includes unrealized gains and losses on financial assets classified as available-for-sale as well as the change in the fair value of the effective portion of cash flow hedges.

Other Non-Hedge Derivatives

The Caisse designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). Financial instruments included in this category are interest rate swaps not designated as hedging instruments. These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

Embedded Derivatives

The prepayment option included in the Caisse's loan agreements have been identified as embedded derivatives. Given that interest differential penalties meet the criteria of being closely related to the host contract, they are not required to be reported separately.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Loans to Members

All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

Loans to members are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred, and are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

If there is objective evidence that an impairment loss on loans to members carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate. Short-term balances are not discounted.

The Caisse first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

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. Any subsequent reversal of an impairment loss is recognized in net income.

Bad Debts Written Off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provision for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Property and Equipment

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

Buildings	2.5%
Parking lot	8%
Furniture and equipment	10%
Computer equipment	10% to 33%
Telecommunication equipment	6.7% to 10%
Leasehold improvements	10% to 20%

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

Intangible Assets

Systems Software

Acquired and internally developed systems software are carried at cost, less accumulated depreciation 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 Caisse and the cost can be measured reliably.

Intangible assets available for use are depreciated over their useful lives on a straight line basis at a rate of 6.7% to 33%. The method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Goodwill

Goodwill represents the excess of purchase price of certain subsidiaries acquired by the Caisse over the net amount attributable to assets acquired and liabilities assumed. It is carried at original cost less any impairment subsequently incurred. Goodwill is assessed for impairment annually or more frequently if events or circumstances occur that may result in the recoverable amount of the cash generating unit ("CGU") falling below its carrying value. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other groups of assets. The goodwill balances are allocated to either individual or groups of CGU that are expected to benefit from the synergies of the business combination. Goodwill impairment is quantified by comparing a CGU's carrying value to its recoverable amount, which is the higher of its fair value less cost to sell and its value in use. Impairment losses are recognized immediately and may not be reversed in future periods.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Impairment of Non-Financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's CGU. The Caisse has one CGU for which impairment testing is performed.

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

Income Taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base except for taxable temporary differences arising on the initial recognition of goodwill.

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

The amount of the deferred income tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date and are expected to apply when the liabilities / assets are settled / recovered.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Financial Liabilities

All members' deposits, other liabilities, securitized borrowings and members' shares are classified as other financial liabilities. Other financial liabilities are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument and subsequently measured at amortized cost using the effective interest rate method.

Securitized Borrowings

For securitization transactions, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

If the criteria for derecognition has been met, the securitization is treated as a sale and the mortgages are derecognized and removed from the consolidated balance sheet.

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Members' Shares

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

Members' shares are classified as a liability or members' equity in accordance with IAS 32 - Financial Instrument Presentation and IFRIC 2 - Members' Shares in Co-operative Entities and Similar Instruments. If members' shares are classified as members' equity, they are recognized at cost. If members' shares are classified as liabilities, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which approximates fair value.

In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in members' equity. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends, interest or otherwise.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Revenue Recognition

Interest on loans to members is recorded using the effective interest method except for loans which are considered impaired. The amount of initial impairment and any subsequent changes are recorded through the provision for impaired loans as an adjustment to the specific allowance.

Investment income is recorded using the effective interest method, except as it relates to adjustments in the rates received from CUCM or CCD, these are recorded when payment is received.

Commissions, service charges and other income are recognized as income when the related service is provided or entitlement to receive the income is earned.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the translation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Caisse's accounting periods beginning on or after October 1st, 2017 or later periods that the Caisse has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Caisse are:

i. IFRS 9 - Financial Instruments amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 also introduces a simplified hedge accounting model that will allow entities to better reflect their risk management activities. Entities are required to apply IFRS 9 for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Caisse is in the process of evaluating the impact of the new standard.

ii. IFRS 15 - Revenue from Contracts with Customers. IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. Entities are required to apply IFRS 15 for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Caisse is in the process of evaluating the impact of the new standard.

iii. IFRS 16 Leases supersedes IAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance lease from the perspective of a lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Caisse is in the process of evaluating the impact of the new standard.

2. Critical Accounting Estimates and Judgments

The Caisse makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair Value of Financial Instruments

The Caisse determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, are disclosed in Note 19.

Derecognition of Financial Instruments

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If Caisse has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred assets. If control has been retained, Caisse recognizes the transferred asset to the extent of its continuing involvement. If control has not been retained, Caisse derecognizes the transferred asset.

Financial liabilities are derecognized when the obligation related to the liabilities have been discharged, redeemed or otherwise extinguished.

In instances where Caisse’s securitizations do not result in a transfer of contractual cash flows, Caisse has not derecognized the transferred assets and has instead recorded a securitized borrowing with respect to the initial consideration received (see Note 12).

Provision for Impaired Loans

In determining whether an impairment loss should be recorded in the statement of comprehensive income the Caisse makes judgment on whether objective evidence of impairment exists for financial assets that are individually significant. Where this does not exist the Caisse uses its judgment to group loans to members with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

2. Critical Accounting Estimates and Judgments (continued)

In determining the collective loan loss provision, management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 8.

Income Taxes

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

Property and Equipment

The estimated useful life, residual value and depreciation method chosen are the Caisse's best estimate of such and are based on industry norms, historical experience of management and other estimates. These estimates also consider the period and distribution of future cash inflows.

Goodwill

The Caisse used cash flow projections to assess goodwill impairment. The five year cash flow projections used in its impairment analysis was approved by the Board of Directors. Key assumptions used therein reflect past experience and are consistent with external sources of information. A discount rate of 3.5% was applied to its cash flow projections.

Readers are cautioned that this list is not exhaustive and other items may also be affected by estimates and judgments.

3. Funds on Hand and on Deposit

The Caisse's current account is held with CUCM. Included in the balance of funds on hand and on deposit is $14,424,359 ($4,853,975 at September 30, 2016) denominated in US dollars.

4. Other Assets

	2017	2016
	$	$
Accounts receivable	**1,690,052**	1,126,228
Prepaid expenses	**1,540,247**	1,334,649
	3,230,299	2,460,877

5. Investments

	2017	2016
	$	$
Liquidity Deposits		
Term deposits	**158,000,000**	165,492,800
Shares		
CCD shares	**-**	15,266,000
CUCM shares	**10,736,000**	10,270,000
Other shares	**1,348,859**	1,228,048
	12,084,859	26,764,048
Other		
Securities	**801**	1,646,499
Municipal debentures	**1,052,336**	1,200,498
	1,053,137	2,846,997
Accrued interest and dividends	**276,696**	1,471,437
	171,414,692	196,575,282

Included in liquidity term deposits is an amount of $NIL ($10,492,800 at September 30, 2016) denominated in US dollars.

Liquidity Deposits

The term deposits bear interest at rates ranging from 0.78% to 1.35% and have original maturity dates of 6 months or less.

5. Investments (continued)

Shares

CCD and CUCM shares are issued and redeemable at par value. There is no separately quoted market value for these shares however fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

The Caisse is not intending to dispose of any CUCM shares as the services supplied by CUCM is relevant to the day to day activities of the Caisse. Dividends on these shares are at the discretion of the Board of Directors of CUCM.

Other

The securities and municipal debentures bear interest at rates ranging from 3.15% to 6.5% (3.15% to 6.5% in 2016) and mature between December 2018 and December 2030.

6. Derivative Financial Instruments

The Caisse has entered into interest rate swap contracts with CCD to hedge the Caisse's exposure to interest rate risks. As at September 30, 2017, the Caisse had entered into interest rate swap contracts for a total of $17,000,000 of notional principal whereby it has agreed to pay at fixed interest rates and receive at variable interest rates. These swap contracts have fixed interest rates ranging from 2.19% to 4.33% and will mature from March 2018 to August 2021.

7. Loans to Members

	2017	2016
	$	$
Consumer		
Term loans	**28,796,428**	32,041,499
Mortgages	**513,399,208**	490,045,364
Lines of credit	**34,445,935**	38,072,900
Commercial		
Term loans	**63,505,477**	59,125,898
Mortgages	**397,880,064**	363,838,675
Lines of credit	**39,783,622**	39,296,018
Agricultural		
Term loans	**18,534,285**	19,227,599
Mortgages	**112,882,595**	110,805,230
Lines of credit	**13,169,897**	14,617,131
	1,222,397,511	1,167,070,314
Accrued interest receivable	**4,018,581**	4,095,589
Total loans	**1,226,416,092**	1,171,165,903
Allowance for impaired loans (Note 8)	**(4,113,515)**	(3,890,240)
Net loans to members	**1,222,302,577**	1,167,275,663

7. Loans to Members (continued)

Included in the balance of loans to members is $1,161,825 ($2,478,622 at September 30, 2016) denominated in US dollars.

Credit Quality of Loans

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

	2017	2016
	$	$
Unsecured loans	**61,789,777**	40,626,953
Loans secured by cash or members' deposits	**11,822,187**	15,856,383
Loans secured by real property	**898,253,980**	854,813,972
Loans secured by chattels	**119,387,678**	130,285,653
Loans insured by government	**135,162,470**	129,582,942
	1,226,416,092	1,171,165,903

Concentration of Risk

The Caisse has an exposure to groupings of individual loans which concentrate risk and create exposure to particular industry segments as follows:

	2017	2016
	$	$
Agriculture		
Crop production	**124,183,926**	122,498,168
Livestock farming	**38,577,635**	35,624,230
Commercial		
Accommodations and food services	**42,720,801**	46,086,772
Construction	**61,296,175**	61,153,429
Real estate, rental and leasing	**237,792,531**	217,721,279
Manufacturing	**6,746,609**	12,095,855
Public administration	**14,201,668**	14,388,851

The majority of loans to members are with members located throughout southern Manitoba. A sizeable portion of the Caisse's loan portfolio is secured by residential property in southern Manitoba. Therefore, the Caisse is exposed to the risks in reduction of the loan to valuation ratio coverage should the residential property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

No individual or related groups of loans to members exceed the Caisse’s established thresholds as at September 30, 2017 and 2016.

8. Allowance for Impaired Loans

The allowance for impaired loans is comprised of the following:

	2017	2016
	$	$
Collective allowance	**616,030**	561,873
Specific allowance	**3,497,485**	3,328,367
Total allowance	**4,113,515**	3,890,240

During the years ended September 30, 2017 and 2016, the Caisse did not acquire any assets in respect of problem loans.

Movement in total allowance for impaired loans is as follows:

				2017
	Consumer	**Agricultural**	**Commercial**	**Total**
	$	**$**	**$**	**$**
Balance at September 30, 2016	**572,600**	**48,334**	**3,269,306**	**3,890,240**
Provision for impaired loans for the year	**29,692**	**(6,959)**	**737,267**	**760,000**
	602,292	**41,375**	**4,006,573**	**4,650,240**
Loans written off	**183,916**	**-**	**352,809**	**536,725**
Balance at September 30, 2017	**418,376**	**41,375**	**3,653,764**	**4,113,515**
Gross principal balance of individually impaired loans at September 30, 2017	**3,265,356**	**172,487**	**41,871,862**	**45,309,705**

				2016
	Consumer	Agricultural	Commercial	Total
	$	$	$	$
Balance at September 30, 2015	367,334	101,260	3,614,347	4,082,941
Provision for impaired loans for the year	311,400	15,265	263,335	590,000
	678,734	116,525	3,877,682	4,672,941
Loans written off	106,134	68,191	608,376	782,701
Balance at September 30, 2016	572,600	48,334	3,269,306	3,890,240
Gross principal balance of individually impaired loans at September 30, 2016	8,479,244	722,714	12,232,337	21,434,295

8. Allowance for Impaired Loans (continued)

An analysis of individual loans that are impaired or potentially impaired and included in the specific allowance based on period of delinquency is as follows:

	2017		2016	
	Carrying Value	**Specific Allowance**	Carrying Value	Specific Allowance
	$	**$**	$	$
Period of delinquency				
Less than 30 days	**634,360**	**-**	2,348,094	152,965
31 to 90 days	**333,272**	**10,222**	191,428	20,735
Greater than 90 days	**11,873,374**	**2,413,783**	16,681,821	2,563,178
Total impaired loans in arrears	**12,841,006**	**2,424,005**	19,221,343	2,736,878
Total impaired loans not in arrears	**32,468,699**	**1,073,480**	2,212,952	591,489
Total impaired loans	**45,309,705**	**3,497,485**	21,434,295	3,328,367

Key Assumptions in Determining the Allowance for Impaired Loans Collective Allowance

The Caisse has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events, the Caisse estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Caisse to reduce any differences between loss estimates and actual loss experience.

An estimate of the collective allowance is based on the period of repayments that are past due and historical write offs.

For purposes of the collective provision, loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

8. Allowance for Impaired Loans (continued)

Loans with repayments past due but not regarded as individually impaired and considered in determining the collective allowance are as follows:

				2017
	Consumer	**Agricultural**	**Commercial**	**Total**
	$	**$**	**$**	**$**
1 to 30 days	**3,382,553**	**111,390**	**10,136,157**	**13,630,100**
31 to 90 days	**3,175,697**	**116,449**	**6,733,220**	**10,025,366**
Greater than 90 days	**-**	**-**	**898,446**	**898,446**
Balance at September 30, 2017	**6,558,250**	**227,839**	**17,767,823**	**24,553,912**

				2016
	Consumer	Agricultural	Commercial	Total
	$	$	$	$
1 to 30 days	6,610,263	641,049	6,238,222	13,489,534
31 to 90 days	3,144,629	119,737	954,881	4,219,247
Greater than 90 days	-	-	-	-
Balance at September 30, 2016	9,754,892	760,786	7,193,103	17,708,781

9. Property and Equipment

	Land	Buildings and Parking Lots	Furniture and Equipment	Computer and Telecommunication Equipment	Leasehold Improvements	Total
Cost	$	$	$	$	$	$
Balance at September 30, 2015	1,915,559	18,856,293	6,430,479	5,998,889	896,680	34,097,940
Additions	393,750	17,289	23,896	15,345	-	450,280
Disposals	-	-	-	-	-	-
	2,309,349	18,873,582	6,454,375	6,014,234	896,680	34,548,220
Balance at September 30, 2016	2,309,349	18,873,582	6,454,375	6,014,234	896,680	34,548,220
Additions	-	11,541	12,995	457,768	17,864	500,168
Disposals	-	-	(494,463)	(2,535,889)	(22,957)	(3,053,309)
Balance at September 30, 2017	**2,309,349**	**18,885,123**	**5,972,907**	**3,936,113**	**891,587**	**31,995,079**
Accumulated Depreciation						
Balance at September 30, 2015	-	5,426,487	5,216,292	5,040,129	859,956	16,542,864
Depreciation expense	-	431,896	225,480	225,818	11,680	894,874
Disposals	-	-	-	-	-	-
	-	5,858,383	5,441,772	5,265,947	871,636	17,437,738
Balance at September 30, 2016	-	5,858,383	5,441,772	5,265,947	871,636	17,437,738
Depreciation expense	-	432,650	220,313	187,149	11,900	852,012
Disposals	-	-	(423,128)	(2,523,380)	(20,543)	(2,967,051)
Balance at September 30, 2017	**-**	**6,291,033**	**5,238,957**	**2,929,716**	**862,993**	**15,322,699**
Net Book Value						
As at September 30, 2016	2,309,349	13,015,199	1,012,603	748,287	25,044	17,110,482
As at September 30, 2017	**2,309,349**	**12,594,090**	**733,950**	**1,006,397**	**28,594**	**16,672,380**

10. Intangible Assets

Cost	Goodwill	Systems Software	Total
	$	$	$
Balance at September 30, 2015	1,091,515	6,268,632	7,360,147
Additions	-	1,303,231	1,303,231
Balance at September 30, 2016	1,091,515	7,571,863	8,663,378
Additions	-	56,958	56,958
Disposals	-	(70,383)	(70,383)
Balance at September 30, 2017	**1,091,515**	**7,558,438**	**8,649,953**
Accumulated Depreciation			
Balance at September 30, 2015	106,519	1,617,771	1,724,290
Depreciation expense	-	145,505	145,505
Balance at September 30, 2016	106,519	1,763,276	1,869,795
Depreciation expense	-	423,398	423,398
Disposals	-	(7,429)	(7,429)
Balance at September 30, 2017	**106,519**	**2,179,245**	**2,285,764**
Net Book Value			
As at September 30, 2016	984,996	5,808,587	6,793,583
As at September 30, 2017	**984,996**	**5,379,193**	**6,364,189**

11. Other Liabilities

	2017	2016
	$	$
Accrued expenses and payables	**6,045,900**	7,379,676
Items in transit	**769,254**	585,997
	6,815,154	7,965,673

12. Securitized Borrowings

As a complement to its existing capital, liquidity and interest rate risk management strategies, the Caisse periodically enters into asset transfer agreements with third parties, which include securitization of insured residential mortgages through its participation in the National Housing Act Mortgage-Backed Securities (NHA MBS) program.

Caisse has determined the funds raised from securitization transactions during the year should be accounted for as securitized borrowings as the Caisse did not transfer substantially all of the risks and rewards of ownership, including principal prepayment, interest rate and credit risk of the mortgages in the securitization transaction. As at September 30, 2017, the carrying amount of the associated residential mortgages held as security and the related liability are as follows:

	2017	2016
	$	$
Securitized consumer mortgages	**31,759,888**	27,291,496
Securitized borrowings	**31,759,888**	27,291,496
Net position	**-**	-

Securitized borrowings represent the funding secured by insured mortgages assigned under the NHA MBS program. As the securitization of mortgages does not lead to derecognition of the mortgages under accounting standards, proceeds received through securitization of these mortgages are recorded as securitized borrowings on the consolidated balance sheet.

The breakdown of the securitized borrowings is as follows:

	2017	2016
	$	$
Current	**4,566,000**	6,428,000
Non-current	**27,193,888**	20,863,496
	31,759,888	27,291,496

NHA MBS mortgage pools consist of seven mortgage pools bearing interest rates from 1.33% to 2.00% (2016 – from 1.12% to 1.77%). Mortgage pool maturities range from July 2018 to May 2022.

13. Members' Deposits

	2017	2016
	$	$
Chequing accounts	**337,945,458**	303,169,095
Savings accounts	**189,071,086**	177,731,758
Term deposits	**461,317,703**	467,456,588
Registered plans	**344,123,021**	337,853,235
	1,332,457,268	1,286,210,676
Accrued interest payable	**8,660,570**	9,615,333
	1,341,117,838	1,295,826,009

Included in chequing accounts and term deposits is an amount of $15,428,356 ($16,171,494 at September 30, 2016) to be settled in US dollars.

Concentration of Risk

The Caisse does not have individual or related groups of members' deposits which would cause a significant risk to the Caisse at September 30, 2017 and 2016.

The majority of members' deposits are with members located throughout southern Manitoba.

14. Income Taxes

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

	2017	2016
	$	$
Current Tax Expense		
Based on current year taxable income	**646,060**	750,176
Deferred Tax Expense		
Origination and reversal of temporary differences	**752,917**	410,213
Total income tax expense	**1,398,977**	1,160,389

14. **Income Taxes** (continued)

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	2017	2016
	$	$
Deferred Tax		
Change in unrealized losses on derivative financial instruments	**4,887**	-

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

	2017	2016
	%	%
Combined federal and provincial statutory income tax rates	**27.0**	27.0
Credit Union rate reduction	**(12.2)**	(12.2)
Provincial Profits Tax	**0.9**	0.9
Non-deductible and other items	**4.3**	2.3
	20.0	18.0

The tax effects of temporary differences which give rise to the net future income tax asset or liability is related to the amortization of property and equipment, and systems software, the allowance for impaired loans, goodwill, losses carried forward and other provisions in the consolidated financial statements.

14. Income Taxes (continued)

The movement in deferred income tax liabilities and assets are as follows:

	Balance at September 30 2016	Recognized in Net Income	Balance at September 30 2017
	$	$	$
Deferred Tax Liabilities			
Property, equipment and systems software	**467,552**	**151,038**	**618,590**
Goodwill	**71,750**	**(71,750)**	**-**
Other	**162,300**	**388,100**	**550,400**
	701,602	**467,388**	**1,168,990**
Deferred Tax Assets			
Allowance for impaired loans	**105,036**	**49,488**	**154,524**
Provision for write down of investments	**349,866**	**(346,203)**	**3,663**
Losses carried forward	**-**	**28,403**	**28,403**
Derivative financial instruments	**28,796**	**(12,330)**	**16,466**
	483,698	**(280,642)**	**203,056**
Net deferred tax liability	**(217,904)**	**(748,030)**	**(965,934)**

	Balance at September 30 2015	Recognized in Net Income	Balance at September 30 2016
	$	$	$
Deferred Tax Liabilities			
Property, equipment and systems software	52,752	414,800	467,552
Goodwill	67,531	4,219	71,750
Other	160,700	1,600	162,300
	280,983	420,619	701,602
Deferred Tax Assets			
Allowance for impaired loans	110,239	(5,203)	105,036
Provision for write down of investments	349,866	-	349,866
Accrued amounts	6,478	(6,478)	-
Derivative financial instruments	6,709	22,087	28,796
	473,292	10,406	483,698
Net deferred tax asset (liability)	192,309	(410,213)	(217,904)

14. Income Taxes (continued)

	2017	2016
	$	$
Deferred Tax Liabilities		
Deferred tax liabilities to be settled within 12 months	**550,400**	162,300
Deferred tax liabilities to be settled beyond 12 months	**618,590**	539,302
	1,168,990	701,602
Deferred Tax Assets		
Deferred tax assets to be recovered within 12 months	**199,393**	133,832
Deferred tax assets to be recovered beyond 12 months	**3,663**	349,866
	203,056	483,698
Net deferred tax liability	**(965,934)**	(217,904)

15. Members' Shares

	2017	2016
	$	$
Liabilities		
Common (34,592; 2016 – 34,234)	**172,960**	171,170
Surplus	**1,124,724**	1,144,091
	1,297,684	1,315,261
Members' Equity		
Surplus	**9,797,926**	10,118,808
	11,095,610	11,434,069

As a condition of membership, each member must purchase one common share. No member may hold more than 10% of the total number of shares. Each member of the Caisse has one vote regardless of the number of shares the member holds. Funds invested by members in members' shares are not insured by the Deposit Guarantee Corporation of Manitoba.

Authorized Shares

Common Shares

Authorized common share capital consists of an unlimited number of common shares with an issue price per share of not less than $5, redeemable at par only when a membership is withdrawn.

15. Members' Shares (continued)

Common shares that are available for redemption are classified as a liability. The difference between the total members' shares and the liability amount are classified as members' equity.

The withdrawal of members' shares is subject to the Caisse maintaining adequate regulatory capital.

Surplus Shares

Authorized surplus shares consists of an unlimited number of surplus shares, issued and redeemable at $1 per share at the option of the Caisse. Surplus shares are issued as part of patronage rebates and/or distributions. The withdrawal of surplus shares is subject to the Caisse maintaining adequate regulatory capital, as is the payment of any distributions on these shares.

Surplus shares that are available for redemption are classified as a liability. The difference between the total surplus shares and the liability amount are classified as members' equity.

Patronage rebates and/or distributions are at the discretion of the Board of Directors.

16. Personnel Expenses

	2017	2016
	$	$
Salaries and wages	**11,557,774**	11,390,466
Employee benefits	**2,218,175**	2,315,051
Other	**738,129**	695,088
	14,514,078	14,400,605

17. Related Party Transactions

Key management personnel is defined under IFRS as those persons having authority and responsibility for planning, directing and controlling the activities of the Caisse, directly or indirectly. Key management personnel of the Caisse includes executive management and Board of Directors.

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

	2017	2016
	$	$
Compensation		
Salaries, and other short-term employee benefits	**1,294,581**	1,327,932

17. Related Party Transactions (continued)

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

	2017	2016
	$	$
Honouraria and per diems	**41,100**	42,750
Training and other costs	**4,103**	3,798
	45,203	46,548

The Caisse's policy for lending to key management personnel and for receiving deposits from key management personnel is that the loans are approved and deposits are accepted on the same terms and conditions which apply to members for each class of loan and type of deposit. Loans to key management personnel and deposits from the latter are as follows:

	2017	2016
	$	$
Loans to key management personnel		
Aggregate value of loans advanced	**960,299**	1,692,496
Interest received on loans advanced	**42,654**	19,952
Aggregate value of unadvanced loans	**-**	14,985
Total value of lines of credit advanced	**67,826**	20,872
Interest received on lines of credit advanced	**2,322**	507
Unused value of lines of credit	**113,175**	479,118
Deposits from key management personnel		
Aggregate value of term and savings accounts	**1,872,125**	3,312,497
Total interest paid on term and savings accounts	**22,841**	58,360

18. Financial Instrument Classification

The carrying amount of the Caisse's financial instruments by classification is as follows:

	Available-for-Sale	Held to Maturity	Loans and Receivables	Other Financial Liabilities	Total
	$	$	$	$	$
September 30, 2017					
Funds on hand and on deposit	**-**	**-**	**65,842,721**	**-**	**65,842,721**
Accounts receivable	**-**	**-**	**1,690,052**	**-**	**1,690,052**
Investments (Note 5)					
Term deposits	**-**	**-**	**158,220,789**	**-**	**158,220,789**
Shares	**12,097,260**	**-**	**-**	**-**	**12,097,260**
Securities and municipal debentures	**-**	**1,096,643**	**-**	**-**	**1,096,643**
Loans to members	**-**	**-**	**1,222,302,577**		**1,222,302,577**
Accounts payable	**-**	**-**	**-**	**(6,815,154)**	**(6,815,154)**
Securitized borrowings	**-**	**-**	**-**	**(31,759,888)**	**(31,759,888)**
Members' deposits	**-**	**-**	**-**	**(1,341,117,838)**	**(1,341,117,838)**
Derivative financial instruments	**-**	**-**	**-**	**(228,128)**	**(228,128)**
Members' shares	**-**	**-**	**-**	**(1,297,684)**	**(1,297,684)**
	12,097,260	**1,096,643**	**1,448,086,139**	**(1,381,218,692)**	**80,031,350**
September 30, 2016					
Funds on hand and on deposit	-	-	41,510,008	-	41,510,008
Accounts receivable	-	-	1,126,228	-	1,126,228
Investments (Note 5)					
Term deposits	-	-	165,809,603	-	165,809,603
Shares	27,869,229	-	-	-	27,869,229
Securities and municipal debentures	-	2,896,450	-	-	2,896,450
Loans to members	-	-	1,167,275,663	-	1,167,275,663
Accounts payable	-	-	-	(7,965,673)	(7,965,673)
Securitized borrowings	-	-	-	(27,291,496)	(27,291,496)
Members' deposits	-	-	-	(1,295,826,009)	(1,295,826,009)
Derivative financial instruments	-	-	-	(840,677)	(840,677)
Members’ shares	-	-	-	(1,315,261)	(1,315,261)
	27,869,229	2,896,450	1,375,721,502	(1,333,239,116)	73,248,065

19. Fair Value Measurement

Assets and liabilities recorded at fair value in the consolidated balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The input levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. There are no assets or liabilities 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 and liabilities measured at fair value and classified as Level 2 include investments in shares and derivative financial instruments.
- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.

  Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

  There are no assets or liabilities measured at fair value classified as Level 3.

There were no transfers between levels for the years ended September 30, 2017 and 2016.

<u>Valuation Process Applied</u>

The following table sets out the valuation technique used in determination of fair values within level 2 including the key inputs used:

Assets or Liabilities	**Valuation Approach and Inputs Used**
CUCM, CCD and other shares	CUCM shares are subject to a rebalancing mechanism. CUCM and CCD shares are issued and redeemable at par value. There is no separately quoted market value for these shares. However, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis. Other shares are held at their carrying amount which is deemed to approximate fair value.
Derivative financial instruments	The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instrument, the time value of money, interest rate yield curves and volatility factors.

19. Fair Value Measurement (continued)

The following table sets out the assets and liabilities for which fair values are disclosed in the notes to the financial statements as at September 30, 2017.

Assets or Liabilities	Valuation Technique	Significant Unobservable Inputs
Funds on hand and on deposit	The carrying amount of the funds on hand and on deposit approximates their fair value.	-
Accounts receivable	The carrying amount of short-term trade receivables (less than 12 months) approximates their fair value.	-
Investment in securities	The carrying amount of investment in securities approximates fair value as maturity dates are less than 12 months.	-
Investment in municipal debentures	The carrying amount of investment in municipal debentures approximates fair value.	-
Loans to members	The fair market value of loans to members is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset is originally priced.	Discount spot rates range from 2.89% to 6.39% based on maturity date of the loans.
Accounts payable	The carrying amount of short-term accounts payable (less than 12 months) approximates their fair value.	-
Securitized borrowings	The fair market value of securitized borrowings is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the liability is originally priced.	Discount spot rates range from 2.43% to 2.69% based on renewal date of the borrowings.
Members' deposits	The fair market value of members' deposits is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the liability is originally priced.	Discount spot rates range from 0.85% to 2.65% based on renewal date of the deposits.
Members' shares	The carrying amount of members' shares approximate their fair value.	-

19. Fair Value Measurement (continued)

The following table represents the fair values of on and off balance sheet financial instruments of the Caisse. In addition, the value of intangibles such as long-term member relationships are not included in the fair value amounts. The Caisse considers the value of intangibles to be significant.

			2017			2016
	Book Value	**Fair Value**	**Excess over Book Value**	Book Value	Fair Value	Excess over Book Value
	$	**$**	**$**	$	$	$
(in thousands)						
Assets						
Funds on hand and on deposit	**65,843**	**65,843**	**-**	41,510	41,510	-
Accounts receivable	**1,690**	**1,690**	**-**	1,126	1,126	-
Investments	**171,415**	**171,880**	**465**	196,575	197,168	593
Loans to members	**1,222,303**	**1,227,039**	**4,736**	1,167,276	1,186,584	19,308
	1,461,251	**1,466,452**	**5,201**	1,406,487	1,426,388	19,901
Liabilities						
Accounts payable	**6,815**	**6,815**	**-**	7,966	7,966	-
Securitized borrowings	**31,760**	**31,324**	**(436)**	27,291	27,298	7
Members' deposits	**1,341,118**	**1,343,787**	**2,669**	1,295,826	1,303,774	7,948
Derivative financial instruments	**228**	**228**	**-**	841	841	-
Members' shares	**1,298**	**1,298**	**-**	1,315	1,315	-
	1,381,219	**1,383,452**	**2,233**	1,333,239	1,341,194	7,955

Interest rate sensitivity is the main cause of changes in the fair value of the Caisse's financial instruments. The book values are generally not adjusted to reflect the fair value, as it is the Caisse's intention to realize their value over time by holding them to maturity.

20. Financial Instrument Risk Management

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Caisse's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Caisse's management. The Board of Directors receives quarterly reports from the Caisse's management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

20. Financial Instrument Risk Management (continued)

Credit Risk

Credit risk is the risk of financial loss to the Caisse if a counterparty to a financial instrument fails to meet its contractual obligations. The Caisse is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk Measurement

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

Objectives, Policies and Procedures

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

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

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, loan administration, credit concentration limits, and risk rating;
- Loan lending limits including Board of Directors limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Caisse's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

20. Financial Instrument Risk Management (continued)

Maximum Exposure to Credit Risk

The Caisse's maximum exposure to credit risk without taking account of any collateral or other credit enhancements is as follows:

	2017	2016
	Maximum Exposure	Maximum Exposure
	$	$
Funds on hand and on deposit	**65,842,721**	41,510,008
Investments	**171,414,692**	196,575,282
Loans to members	**1,226,416,092**	1,171,165,903
Undisbursed loans	**37,285,950**	36,842,118
Unutilized lines of credit	**216,629,603**	210,542,325
Letters of credit	**4,469,287**	3,964,542
	1,722,058,345	1,660,600,178

Details regarding concentration of credit risk, collateral and other credit enhancements held and loans past due but not impaired are disclosed in Note 7 and Note 8.

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

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

Liquidity Risk

Liquidity risk is the risk that the Caisse will not be able to meet all cash outflow obligations as they come due. The Caisse mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk Measurement

The assessment of the Caisse's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

Objectives, Policies and Procedures

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

20. Financial Instrument Risk Management (continued)

Provisions of the Credit Unions and Caisses Populaires Act require the Caisse to maintain liquid assets of at least 8% of members' deposits and borrowings in order to meet member withdrawals. The Caisse has met this requirement as at September 30, 2017 with liquidity reserves equal to 14.15% (15.82% in 2016).

The Caisse manages liquidity risk by:

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

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Caisse's liquidity framework. The Caisse was in compliance with the liquidity requirements throughout the fiscal year and at September 30, 2017.

The following are the contractual maturities of financial liabilities:

						2017
	Carrying Amount	**Gross Nominal Cash Outflow**	**Less than 1 Year**	**1 - 2 years**	**3 - 5 years**	**Greater than 5 years**
(in thousands)	**$**	**$**	**$**	**$**	**$**	**$**
Accounts payable	**6,815**	**(6,815)**	**(6,815)**	**-**	**-**	**-**
Securitized borrowings	**31,760**	**(31,760)**	**(4,566)**	**(10,298)**	**(16,896)**	**-**
Members' deposits	**1,341,118**	**(1,341,118)**	**(963,189)**	**(205,569)**	**(168,836)**	**(3,524)**
Members' shares	**1,298**	**(1,298)**	**(1,298)**	**-**	**-**	**-**
Undisbursed loans	**-**	**(37,286)**	**(37,286)**	**-**	**-**	**-**
Unutilized lines of credit	**-**	**(216,630)**	**(216,630)**	**-**	**-**	**-**
	1,380,991	**(1,634,907)**	**(1,229,784)**	**(215,867)**	**(185,732)**	**(3,524)**

20. Financial Instrument Risk Management (continued)

						2016
	Carrying Amount	Gross Nominal Cash Outflow	Less than 1 Year	1 - 2 years	3 - 5 years	Greater than 5 years
(in thousands)	$	$	$	$	$	$
Accounts payable	7,966	(7,966)	(7,966)	-	-	-
Securitized borrowings	27,291	(27,291)	(6,428)	(5,221)	(15,642)	-
Members' deposits	1,295,826	(1,295,826)	(899,873)	(148,564)	(243,666)	(3,723)
Members' shares	1,315	(1,315)	(1,315)	-	-	-
Undisbursed loans	-	(36,842)	(36,842)	-	-	-
Unutilized lines of credit	-	(210,542)	(210,542)	-	-	-
	1,332,398	(1,579,782)	(1,162,966)	(153,785)	(259,308)	(3,723)

Timing of unutilized lines of credit and undisbursed loan payments are uncertain. Since these payouts are at the discretion of the members the entire amount of potential payments has been included in less than 1 year.

The Caisse has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, foreign exchange risk, and equity risk. The Caisse is exposed to market risk in its asset/liability management activities. The level of market risk to which the Caisse is exposed varies depending on market conditions and expectations of future price and yield movements.

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Caisse is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Caisse's goal is to manage the balance sheet interest rate risk to a target level. The Caisse continually monitors the effectiveness of its interest rate mitigation activities.

Risk Measurement

The Caisse's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

20. Financial Instrument Risk Management (continued)

Objectives, Policies and Procedures

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Caisse management and reported to the Deposit Guarantee Corporation of Manitoba in accordance with the Caisse's matching policy. This policy has been approved by the Board of Directors as required by The Regulations to the Act. For the years ended September 30, 2017 and 2016, the Caisse was in compliance with this policy.

To decrease the exposure of wide fluctuations of income during periods of changing interest rates, the Caisse has policies to maintain the best possible matching of maturity of its loans and deposits. The Caisse also enters into interest rate swap contracts to reduce its exposures to changing interest rates.

As at September 30, 2017, the notional principal amount of swaps totaled $17,000,000. These amounts, however, are not indicative of the underlying credit risk. The credit risk is represented by the cost to replace the swap agreements which are estimated to be $228,128 at September 30, 2017. This cost would be incurred only in the event of failure by the counter party, restricted to major chartered banks, to honor its contractual obligations; it is management's responsibility to assess whether an event of failure is remote and the associated credit risk is minimal.

The following schedule shows the Caisse's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within twelve months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest rate sensitive have been grouped together, regardless of maturity.

					As at September 30, 2017
Maturity Dates	**Assets**	**Assets Swaps**	**Liabilities**	**Liabilities Swaps**	**Asset and Liability Gap**
(in thousands)	**$**	**$**	**$**	**$**	**$**
Interest sensitive					
Variable	**490,147**	**17,000**	**376,655**	**-**	**130,492**
0 - 12 months	**310,510**	**-**	**410,319**	**-**	**(99,809)**
Greater than 1 year	**640,682**	**-**	**405,121**	**17,000**	**218,561**
Interest sensitive	**1,441,339**	**17,000**	**1,192,095**	**17,000**	**249,244**
Non-interest sensitive	**44,576**	**-**	**293,820**	**-**	**(249,244)**
Total	**1,485,915**	**17,000**	**1,485,915**	**17,000**	**-**

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

20. Financial Instrument Risk Management (continued)

The notional amount of swaps reflected in the above schedule is added to the balance sheet as variable rate assets of $17,000,000 and fixed rate liabilities of $17,000,000 at September 30, 2017.

An analysis of the Caisse's risk due to changes in interest rates was calculated using financial modelling software and determined that an increase in interest rates of 1% could result in an increase of $536,700 to Caisse’s financial margin while a decrease in interest rates of 1% could result in a decrease to its financial margin of $1,900,100.

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

Foreign Exchange Risk

Foreign exchange risk relates to the Caisse operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Caisse’s foreign exchange risk is related to US dollar deposits denominated in US dollars. Foreign currency changes are continually monitored by management for effectiveness of its foreign exchange mitigation activities and holdings are adjusted according to policy.

Risk Measurement

The Caisse's position is measured daily. Measurement of risk is based on rates charged to members as well as currency purchase costs.

Objectives, Policies and Procedures

The Caisse's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure.

For the years ended September 30, 2017 and 2016, the Caisse's exposure to currency risk is within policy.

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

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Caisse is exposed to this risk through its equity holdings.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

21. Capital Management

Capital is managed in accordance with policies established by the Board of Directors. Management regards a strong capital base as an integral part of the Caisse's strategy. The Caisse has a capital plan to provide a long-term forecast of capital requirements. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

The Caisse considers its capital to include members' shares and retained earnings which is unchanged from the previous year. All member's shares are included in the calculation of capital regardless of being classified as a liability or equity on the consolidated balance sheet.

Regulations under The Act establish the following with respect to capital requirements:

The Caisse shall maintain a level of capital that meets or exceeds the following requirements:

(a) its members' equity shall not be less than 5% of the book value of its assets;

(b) its retained earnings shall not be less than 3% of the book value of its assets; and

(c) a tiered level of capital shall not be less than 8% of the risk weighted value of its assets as defined in the Regulations.

As at September 30, 2017, the Caisse met all of the legislated capital requirements as follows:

	2017	2016
	%	%
Members' Equity	**7.07**	6.97
Retained Earnings	**6.32**	6.17
Risk weighted capital	**11.69**	11.52

22. Commitments

<u>Credit Facilities</u>

The Caisse has an approved line of credit with CUCM equal to 10% of its members' deposits. The line of credit is secured by an assignment of shares and deposits in CUCM, as well as by an assignment of loans receivable from members. The balance outstanding at September 30, 2017 was $NIL ($NIL at September 30, 2016).

The Caisse also has a borrowing limit of up to a maximum of $15,000,000 at September 30, 2017 with the CCD to fund its current operations. Any advances made when borrowings are greater than $15,000,000 must have a guarantee of term deposits equivalent to the amount in excess of $15,000,000. The balance outstanding at September 30, 2017 was $NIL ($NIL at September 30, 2016).

22. Commitments (continued)

Loans to Members

The Caisse has the following commitments to its members at September 30, 2017 on account of undisbursed loans, unutilized lines of credit and letters of credit:

	2017	2016
	$	$
Undisbursed loans	**37,285,950**	36,842,118
Unutilized lines of credit	**216,629,603**	210,542,325
Letters of credit	**4,469,287**	3,964,542
	258,384,840	251,348,985

Other

Credit Union Central of Manitoba

Under the terms of a financial services master agreement, CUCM provides banking, trade and other services to the Caisse. By virtue of this agreement, the Caisse is obliged to pay to CUCM the fees and dues specified in the agreement.

Deposit Guarantee Corporation of Manitoba

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