CAISSE POPULAIRE GROUPE FINANCIER LTÉE

Consolidated Financial Statements

For the year ended September 30, 2019

CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Financial Statements

For the year ended September 30, 2019 **Contents**

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Independent Auditor's Report

To the members of Caisse Populaire Groupe Financier Ltée

Opinion

We have audited the consolidated financial statements of **Caisse Populaire Groupe Financier Ltée** and its subsidiaries ("the Caisse"), which comprise the consolidated balance sheet as at September 30, 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in members' equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Caisse as at September 30, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Caisse's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Caisse or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Caisse's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Caisse's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Caisse's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Caisse to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Caisse to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

BDO Canada LLP

Chartered Professional Accountants

Winnipeg, Manitoba
December 12, 2019

CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Balance Sheet

As at September 30	2019	2018
	$	$
Assets		
Funds on hand and on deposit (Note 8)	**29,849,143**	48,791,421
Other assets	**3,639,518**	3,281,692
Investments (Note 10)	**176,820,623**	180,872,779
Income tax recovery	**-**	78,626
Loans to members (Note 4)	**1,351,938,595**	1,267,828,515
Derivative financial instruments (Note 9)	**5,251**	-
Property and equipment (Note 15)	**15,582,887**	16,096,090
Intangible assets (Note 15)	**5,295,514**	5,945,536
	1,583,131,531	1,522,894,659
Liabilities and Members' Equity		
Other liabilities	**6,258,400**	6,624,812
Securitized borrowings (Note 11)	**44,170,616**	32,000,478
Income tax payable	**676,392**	-
Deferred income tax liability (Note 14)	**1,644,529**	1,645,751
Members' deposits (Note 5)	**1,417,571,561**	1,375,106,426
Derivative financial instruments (Note 9)	**-**	26,763
Members' shares (Note 6)	**1,327,571**	1,326,360
	1,471,649,069	1,416,730,590
Commitments (Note 13)		
Members' Equity (Note 7)		
Members' shares (Note 6)	**9,174,649**	9,463,044
Accumulated other comprehensive income	**-**	(31,265)
Retained earnings	**102,307,813**	96,732,290
	111,482,462	106,164,069
	1,583,131,531	1,522,894,659

Approved on behalf of the Board of Directors:

Carol Hébert ______________________ Director

______________________ Director

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

CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Statement of Comprehensive Income

For the year ended September 30	2019	2018
	$	$
Revenue		
Interest from loans to members	**49,953,912**	45,899,920
Investment income	**6,084,000**	4,744,434
	56,037,912	50,644,354
Cost of Funds		
Interest paid to members	**28,795,879**	24,095,411
Interest on borrowings	**732,385**	579,167
	29,528,264	24,674,578
Financial margin	**26,509,648**	25,969,776
Operating Expenses		
Personnel (Note 17)	**15,253,023**	14,518,890
Administrative	**5,007,628**	4,917,991
Occupancy	**3,012,670**	3,052,449
Members' security	**1,329,682**	1,276,510
Organizational	**662,448**	885,158
Gross operating expenses	**25,265,451**	24,650,998
Less other income	**(6,359,830)**	(6,559,924)
Net operating expenses	**18,905,621**	18,091,074
Net income before provision for impaired loans	**7,604,027**	7,878,702
Provision for impaired loans	**825,000**	4,020,000
Net income before income taxes	**6,779,027**	3,858,702
Provision for income taxes (Note 14)	**1,189,945**	1,186,162
Net income for the year	**5,589,082**	2,672,540
Other Comprehensive Income (Net of Tax)		
Change in unrealized gains on fair value hedges	**-**	96,492
Total comprehensive income for the year	**5,589,082**	2,769,032

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, 2019

	Accumulated Other Comprehensive Income	Members' Shares	Retained Earnings	Total
	$	$	$	$
Balance at September 30, 2017	(127,757)	9,797,926	94,059,750	103,729,919
Total comprehensive income for the year	96,492	-	2,672,540	2,769,032
Net redemption of members' shares	-	(306,206)	-	(306,206)
Transfer to liabilities	-	(28,676)	-	(28,676)
Balance at September 30, 2018	**(31,265)**	**9,463,044**	**96,732,290**	**106,164,069**
IFRS 9 transition adjustment on October 1, 2018 (Note 3)	**-**	**-**	**(13,559)**	**(13,559)**
Discontinuation of hedge accounting	**31,265**	**-**	**-**	**31,265**
Total comprehensive income for the year	**-**	**-**	**5,589,082**	**5,589,082**
Net redemption of members' shares	**-**	**(287,184)**	**-**	**(287,184)**
Transfer to liabilities	**-**	**(1,211)**	**-**	**(1,211)**
Balance at September 30, 2019	**-**	**9,174,649**	**102,307,813**	**111,482,462**

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	2019	2018
	$	$
Cash Flows from Operating Activities		
Net income for the year	**5,589,082**	2,672,540
Adjustments for		
Interest and investment revenue	**(56,037,912)**	(50,644,354)
Interest expense	**29,528,264**	24,674,578
Depreciation expense	**1,311,980**	1,348,507
Provision for deferred tax	**(1,222)**	698,196
Provision for impaired loans	**825,000**	4,020,000
Ineffective portion of swaps	**-**	(2,114)
Gain on disposal of property and equipment	**-**	(159,397)
Net change in other assets	**(357,826)**	(51,393)
Net change in income tax recovery	**1,238,222**	483,204
Net change in other liabilities	**(366,412)**	(190,342)
Changes in member activities, net		
Change in loans to members, net of repayments	**(84,138,860)**	(49,201,496)
Change in members' deposits, net of withdrawals	**40,764,056**	32,928,280
Cash flows related to interest and income taxes		
Interest received on loans to members	**49,144,133**	45,434,340
Interest received on investments	**5,986,469**	4,345,091
Interest paid on members' deposits	**(27,827,185)**	(23,614,270)
Income taxes paid	**(483,204)**	(474,143)
Total cash flows used in operating activities	**(34,825,415)**	(7,732,773)
Cash Flows from Investing Activities		
Purchase of investments	**(161,080,083)**	(167,361,537)
Disposal of investments	**165,229,770**	158,302,793
Purchase of property and equipment	**(149,504)**	(436,237)
Proceeds on disposal of property and equipment	**-**	242,070
Total cash flows from (used in) investing activities	**4,000,183**	(9,252,911)
Cash Flows from Financing Activities		
Issuance of securitized borrowings	**22,816,700**	7,521,383
Repayment of securitized borrowings	**(10,646,562)**	(7,280,793)
Net redemption of common and surplus shares	**(287,184)**	(306,206)
Total cash flows from (used in) financing activities	**11,882,954**	(65,616)
Net decrease in cash and cash equivalents	**(18,942,278)**	(17,051,300)
Funds on hand and on deposit, beginning of year	**48,791,421**	65,842,721
Funds on hand and on deposit, end of year	**29,849,143**	48,791,421

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

1. Corporate Information

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 nineteen 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 12, 2019.

2. Basis of Presentation

Statement of Compliance

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").

Basis of Measurement

These consolidated financial statements were prepared under the historical cost convention, except for derivative financial instruments measured at fair value.

The Caisse’s functional and presentation currency is the Canadian dollar.

Judgements and Estimates

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

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

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

- The Caisse determines the fair value of certain financial instruments using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows (Notes 4, 5 and 10).

2. Basis of Presentation (continued)

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

Basis of Consolidation

These consolidated financial statements include the accounts of Caisse and its wholly-owned subsidiaries, C Finance Inc. and Immobilières CSB Inc.

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after October 1, 2018 did not materially affect the Caisse's financial statements other than those described below.

IFRS 9 Financial Instruments

On October 1, 2018 the Caisse adopted IFRS 9 *Financial Instruments* ("IFRS 9"), which supersedes IAS 39, *Financial Instruments: Recognition and Measurement ("IAS 39").* IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities; the new guidance for measuring impairment of financial assets; and new hedge accounting guidance. The Caisse adopted IFRS 9 retrospectively, however, despite the retrospective adoption of IFRS 9, the Caisse is not required, upon initial application, to restate comparatives.

The Caisse early adopted the amendment to IFRS 9 *Prepayment Features with Negative Compensation*.

Classification and Measurement of Financial Instruments

On adoption of IFRS 9, in accordance with its transitional provisions, the Caisse has not restated prior periods but has reclassified the financial assets held at October 1, 2018 retrospectively, based on new classification requirements and the characteristics of each financial instrument as at the transition date. For financial liabilities, IFRS 9 retains most of IAS 39 requirements. The Caisse did not choose the option of designating any financial liabilities at fair value through profit or loss ("FVTPL") as such, the adoption of IFRS 9 did not impact the Caisse's accounting policies for financial liabilities.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through profit and loss ("FVPTL"), and fair value through other comprehensive income ("FVTOCI").

3. Adoption of New Accounting Standards (continued)

The following table shows the original classification and carrying amount under IAS 39 and the new classification and carrying amount under IFRS 9 for each class of the Caisse's financial assets and financial liabilities as at October 1, 2018.

		IAS 39		IFRS 9	
Financial Instrument	**Note**	**Classification**	**$000's**	**Classification**	**$000's**
Financial assets					
Funds on hand and on deposit	8	Loans and receivables	48,791	Amortized cost	48,791
Accounts receivable		Loans and receivables	1,681	Amortized cost	1,681
Investments – liquidity deposits	10	Loans and receivables	165,560	Amortized cost	165,560
Investments – shares	10	Available for sale	14,152	FVTPL	14,152
Investments – municipal debentures	10	Held to maturity	1,161	Amortized cost	1,161
Loans to members	4	Loans and receivables	1,267,829	Amortized cost	1,267,829
Financial liabilities					
Accounts payable and accrued liabilities		Other financial liabilities	6,625	Amortized cost	6,625
Members' deposits	5	Other financial liabilities	1,375,106	Amortized cost	1,375,106
Securitized borrowings	11	Other financial liabilities	32,000	Amortized cost	32,000
Derivative financial instruments		Other financial liabilities	27	Amortized cost	27
Members' shares	6	Other financial liabilities	1,326	Amortized cost	1,326

3. Adoption of New Accounting Standards (continued)

Impairment of Financial Assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. This applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Caisse applies the impairment requirements of IFRS 9, see Notes 4 and 10.

Disclosure

Amendments were also made to IFRS 7, *Financial Instruments: Disclosures*, introducing expanded qualitative and quantitative disclosures related to IFRS 9, which the Caisse has also adopted for the annual period beginning October 1, 2018.

Impact of Application of New Accounding Standards

The following table presents the impact of adopting IFRS 9 on the consolidated balance sheet as at October 1, 2018:

	Balance, September 30, 2018	IFRS 9 Adjustments	Adjusted Balance, October 1, 2018
	$	$	$
Loans to members	1,267,828,515	(13,559)	1,267,814,956
Retained earnings	96,732,290	(13,559)	96,718,731

Adoption of the ECL model in IFRS 9 resulted in an increase in the loss allowance related to loans to members and a corresponding reduction to retained earnings.

4. Loans to Members

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

	2019	2018
	$	$
Consumer		
Term loans	**29,207,990**	28,786,478
Mortgages	**603,657,280**	546,761,348
Lines of credit	**31,111,027**	32,171,567
Commercial		
Term loans	**58,820,393**	75,946,730
Mortgages	**412,739,768**	388,124,572
Lines of credit	**44,171,647**	46,092,021
Agriculture		
Term loans	**15,977,062**	19,001,191
Mortgages	**146,518,068**	119,708,789
Lines of credit	**12,195,071**	14,383,113
	1,354,398,306	1,270,975,809
Accrued interest receivable	**5,293,940**	4,484,161
Total loans	**1,359,692,246**	1,275,459,970
Allowance for impaired loans	**(7,753,651)**	(7,631,455)
Net loans to members	**1,351,938,595**	1,267,828,515

Terms and Conditions

Loans to members can have either a variable or fixed rate of interest.

Consumer loans and consumer lines of credit are non real estate secured and, as such, have various repayment terms. They are secured by various types of collateral, including charges on specific equipment or personal property, investments and personal guarantees.

Consumer mortgages are loans secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

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

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

Included in the balance of loans to members is $52,288 ($63,931 at September 30, 2018) denominated in US dollars.

4. Loans to Members (continued)

Recognition and Initial Measurement

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

Classification and Subsequent Measurement

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

Derecognition and Contract Modifications

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

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

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

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

Credit Risk

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

4. Loans to Members (continued)

Credit Risk Management

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

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 risks 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;
- Maintaining the Caisse’s watch list for loans whose credit risk has increased since origination with appropriate follow-up and risk mitigation techniques;
- Developing and maintaining the Caisse’s internal credit risk grading system; and
- Audit procedures and processes are in existence for the Caisse's lending activities.

The Caisse monitors consumer, commercial and agricultural loans primarily by delinquency status.

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

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

4. Loans to Members (continued)

Amounts Arising from ECL

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

Stage	**1 – No Significant Increase in Credit Risk Since Initial Recognition**	**2 – Significant Increase in Credit Risk Since Initial Recognition**	**3 – Credit-Impaired**
Definition	From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk ("SICR") relative to its initial recognition.	Following a SICR relative to the initial recognition of the financial asset.	When a financial asset is considered to be credit-impaired (i.e. when credit default has occurred).
Criteria for movement	At origination, all member loans are categorized into stage 1. A commercial or agricultural loan that has experienced a SICR or default may migrate back to stage 1 if the increase in credit risk and/or default is cured and the movement in the credit risk grading is approved by credit managers. For personal loans, migration back to stage 1 may occur upon approval of loan officers if all signs of previous credit deterioration are remedied and the member has 6 months of principal and interest payments made with no delinquency.	The Caisse determines a SICR has occurred when: • the loan moves to the Caisse's watch list; or • a contractual payment is more than 30 days past due. Additionally, the Caisse incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition.	A member loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the member loan have occurred: • a breach of contract such as a default or delinquency in interest or principal payments; • significant financial difficulty of the borrower; • the restructuring of a loan by the Caisse on terms that the Caisse would not consider otherwise; • payment on a loan is overdue 90 days or more; or • it is becoming probable that the borrower will enter bankruptcy or other financial reorganization. A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

4. **Loans to Members** (continued)

Amounts Arising from ECL (continued)

<table>
<tr><th>Stage</th><th>1 – No Significant Increase in Credit Risk Since Initial Recognition</th><th>2 – Significant Increase in Credit Risk Since Initial Recognition</th><th>3 – Credit-Impaired</th></tr>
<tr><td>ECL methodology</td><td>Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the next 12 months (12-month expected credit loss).</td><td colspan="2">Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the lifetime of the instrument (lifetime expected credit loss).</td></tr>
<tr><td>Collective or individual assessment</td><td colspan="2">Collective assessment of member loans grouped on the basis of similar risk characteristics based on loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.</td><td>Each credit-impaired member loan is individually assessed.</td></tr>
<tr><td>Application of ECL methodology</td><td colspan="2">ECL on a group of member loans is measured on the basis of a loss rate approach. The Caisse develops loss rates for member loans in stage 1 and loss rates for member loans stage 2, based on historical default and loss experiences for those types of member loans, adjusted for current economic conditions and forecasts of future economic conditions. The loss rates are also applied to the estimate of drawdown for undrawn loan commitments (unadvanced loans, unused lines of credit, letters of credit).

For member loans in stage 1 with undrawn loan commitments, the estimate of drawdown within 12 months of the reporting date is based on historical drawdown information.

For member loans in stage 2 with undrawn loan commitments, the estimate of drawdown over the life of the loan commitment is also based on historical drawdown information.</td><td>The probability of default on credit-impaired member loans is 100%, therefore, the key estimation relates to the amount of the default. ECL on a credit-impaired member loan is measured based on the Caisse's best estimate of the difference between the loan's carrying value and the present value of expected cash flows discounted at the loan's original effective interest rate.</td></tr>
<tr><td>Key forward-looking information</td><td colspan="3">Local unemployment rates, local economic outlook, credit environment, and other relevant economic variables impacting subsets of the Caisse's members.</td></tr>
</table>

4. Loans to Members (continued)

Credit Quality Analysis

The following tables set out information about the credit quality of member loans based on the Caisse's credit risk rating grade. Personal, commercial and agricultural loans are not rated, therefore, information has been presented by their level of delinquency. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

				2019	2018
	12-month ECL	**Lifetime ECL not Credit-impaired**	**Lifetime ECL Credit-impaired**	**Total**	**Total**
	$	**$**	**$**	**$**	$
Consumer Loans					
Current	**665,138,680**		**-**	**665,138,680**	612,904,930
> 30 days past due	**-**	**8,969,339**	**-**	**8,969,339**	5,554,812
> 90 days past due	**-**	**-**	**8,093,773**	**8,093,773**	7,856,628
	665,138,680	**8,969,339**	**8,093,773**	**682,201,792**	626,316,370
Allowance for loan losses	**(402,774)**	**(14,410)**	**(568,427)**	**(985,611)**	(731,715)
Carrying amount	**664,735,906**	**8,954,929**	**7,525,346**	**681,216,181**	625,584,655
Commercial and Agriculture Loans					
Current	**654,561,433**	**-**	**-**	**654,561,433**	628,183,892
> 30 days past due	**-**	**2,929,126**	**-**	**2,929,126**	7,406,747
> 90 days past due	**-**	**-**	**37,462,012**	**37,462,012**	31,818,591
	654,561,433	**2,929,126**	**37,462,012**	**694,952,571**	667,409,230
Allowance for loan losses	**(85,662)**	**(1,947)**	**(6,680,431)**	**(6,768,040)**	(6,899,740)
Carrying amount	**654,475,771**	**2,927,179**	**30,781,581**	**688,184,531**	660,509,490
Balance at September 30	**1,319,211,677**	**11,882,108**	**38,306,927**	**1,369,400,712**	1,286,094,145

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

			2019	2018
	Consumer	**Commercial and Agriculture**	**Total**	Total
	$	**$**	**$**	$
Unadvanced loans	**6,918,724**	**14,042,659**	**20,961,383**	46,422,312
Unused lines of credit	**79,924,339**	**109,984,107**	**189,908,446**	203,725,204
Letters of credit	**-**	**4,055,020**	**4,055,020**	3,421,827
	86,843,063	**128,081,786**	**214,924,849**	253,569,343

4. Loans to Members (continued)

Write-off

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

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.

Allowance for Loan Losses

The following tables presents reconciliations from the opening to the closing balance of the allowance for loan losses by type of member loan. Comparative amounts for 2018 represent the allowance account for credit losses and reflects measurement basis under IAS 39. The allowance for loan losses in these tables include ECL on loan commitments for certain loans to members such as unadvanced loans, unused lines of credit and letters of credit, because the Caisse cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

				2019	2018
	12-month ECL	**Lifetime ECL not Credit-impaired**	**Lifetime ECL Credit-impaired**	**Total**	**Total**
	$	**$**	**$**	**$**	$
Consumer Loans					
Balance at October 1	**327,718**	**6,367**	**411,189**	**745,274**	418,376
Net remeasurement of allowance for loan losses	**75,056**	**8,043**	**277,138**	**360,237**	241,371
Loans written off	**-**	**-**	**(119,900)**	**(119,900)**	(225,657)
Balance at September 30	**402,774**	**14,410**	**568,427**	**985,611**	434,090
Commercial and Agriculture Loans					
Balance at October 1	**83,157**	**3,901**	**6,812,682**	**6,899,740**	3,695,139
Net remeasurement of allowance for loan losses	**2,505**	**(1,954)**	**464,212**	**464,763**	3,778,629
Loans written off	**-**	**-**	**(596,463)**	**(596,463)**	(276,403)
Balance at September 30	**85,662**	**1,947**	**6,680,431**	**6,768,040**	7,197,365
Total allowance for loan losses at September 30	**488,436**	**16,357**	**7,248,858**	**7,753,651**	7,631,455

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

4. Loans to Members (continued)

Quality of Collateral Held

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

	2019	2018
	$	$
Unsecured loans	**119,610,567**	100,898,150
Loans secured by cash or members' deposits	**14,286,674**	16,021,758
Loans secured by real property	**985,805,755**	908,133,114
Loans secured by chattels	**94,425,558**	112,766,852
Loans insured by government	**145,563,692**	137,640,096
	1,359,692,246	1,275,459,970

The total collateral held for loans to members in stage 3 is $37,085,519 (2018 - $32,586,053).

Concentration of Credit Risk

The Caisse monitors concentration of credit risk on the basis of similar risk characteristics, based on loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The Caisse has credit risk concentration from its geographic distribution of loans to members in and around southern Manitoba.

As at September 30, 2019 and 2018, the Caisse held commercial loans in the following segments:

	2019	2018
	$	$
Agriculture		
Crop production	**141,265,021**	128,839,350
Livestock farming	**42,605,020**	39,286,089
Commercial		
Accommodations and food services	**41,748,000**	42,779,063
Construction	**58,727,922**	58,807,984
Real estate, rental and leasing	**245,287,522**	237,817,786
Manufacturing	**7,688,670**	7,131,258
Public administration	**12,775,133**	17,825,207

No individual or related groups of loans to members exceed the Caisse's established thresholds as at September 30, 2019 and 2018.

4. Loans to Members (continued)

Fair Value Measurement

The fair value of loans to members at September 30, 2019 was $1,355,644,000 (2018 - $1,262,972,000).

The estimated fair value of variable loans is assumed to be equal to book value as the interest rates are re-priced to market on a periodic basis. The estimated fair value of fixed rate loans is determined using level 3 valuations (Note 10) by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

Discount spot rates vary from 3.05% to 6.90% based on maturity date and type of loan.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Caisse normally holds all of its fixed term investments, loans and deposits to their maturity date. Consequently, the fair value presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the ultimate realizable value.

5. Members' Deposits

Members' deposits are as follows:

	2019	2018
	$	$
Chequing accounts	**369,072,777**	359,911,222
Savings accounts	**198,977,981**	181,714,574
Term deposits	**469,398,624**	469,702,131
Registered plans	**368,700,222**	354,057,621
	1,406,149,604	1,365,385,548
Accrued interest payable	**11,421,957**	9,720,878
	1,417,571,561	1,375,106,426

Terms and Conditions

Included in chequing accounts and term deposits is an amount of $10,135,507 ($11,110,757 at September 30, 2018) to be settled in US dollars.

Recognition and Initial Measurement

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

Classification and Subsequent Measurement

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

Concentration of Risk

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

The Caisse does not have individual or related groups of members' deposits which would cause a significant risk to the Caisse at September 30, 2019 and 2018.

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

5. Members' Deposits (continued)

Liquidity Risk

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

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.

Provisions of the Credit Unions and Caisses Populaires Act require the Caisse to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Caisse has met the minimum regulatory requirement of 8% of members' deposits as at September 30, 2019 with liquidity reserves equal to 13.80% (14.30% in 2018).

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.

The maturities of liabilities are shown in Note 9. 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.

Fair Value Measurement

The fair value of members' deposits at September 30, 2019 was $1,422,904,000 ($1,375,802,000 in 2018).

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined using level 3 valuations (Note 10) by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks. Discount spot rates vary from 0.85% to 2.85% based on renewal date of the deposit.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Caisse normally holds all of its fixed term investments, loans and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the ultimate realizable value.

6. Members' Shares

Members’ shares are as follows:

	2019	2018
	$	$
Liabilities		
Common (Issued: 34,386; 34,533 in 2018)	**171,930**	172,665
Surplus	**1,155,641**	1,153,695
	1,327,571	1,326,360
Members’ Equity		
Surplus	**9,174,649**	9,463,044
	10,502,220	10,789,404

Terms and Conditions

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.

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.

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 consist 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.

7. Capital Management

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

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

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

The Caisse considers its capital to include members' shares and retained earnings. 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. There have been no changes in what the Caisse considers to be capital since the previous period.

The Caisse establishes the risk weighted value of its assets in accordance with the Regulations of the Act which establishes the applicable percentage for each class of assets.

As at September 30, 2019, the Caisse met all of the legislated capital requirements as follows:

	2019	2018
	%	%
Members' equity	**7.13**	7.06
Retained earnings	**6.46**	6.35
Risk weighted capital	**11.67**	11.60

8. Funds on Hand and on Deposit

The Caisse's cash and current accounts are held with Credit Union Central of Manitoba ("CUCM") and Caisse Centrale Desjardins ("CCD"). The average yield on the accounts at September 30, 2019 is 1.75% (2018 – 1.50%).

Included in the balance of funds on hand and on deposit is $9,940,857 ($11,104,741 at September 30, 2018) denominated in US dollars.

9. Financial Margin and Interest

The Caisse's major source of income is financial margin, the difference between interest earned on investments and loans to members and interest paid on members' deposits and borrowings. 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 the 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 year ended September 30, 2019, the Caisse was in compliance with this policy.

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, 2019				
Maturity Dates	**Assets**	**Asset Swaps**	**Liabilities**	**Liability Swaps**	**Asset and Liability Gap**
(in thousands)	**$**	**$**	**$**	**$**	**$**
Interest sensitive					
Variable	**393,076**	**14,000**	**428,084**	**-**	**(21,008)**
0 - 12 months	**357,129**	**-**	**446,575**	**-**	**(89,446)**
Greater than 1 year	**803,895**	**-**	**411,640**	**14,000**	**378,255**
Interest sensitive	**1,554,100**	**14,000**	**1,286,299**	**14,000**	**267,801**
Non-interest sensitive	**29,032**	**-**	**296,833**	**-**	**(267,801)**
Total	**1,583,132**	**14,000**	**1,583,132**	**14,000**	**-**

The notional amount of swaps reflected in the above schedule is added to the consolidated balance sheet as variable rate assets of $14,000,000 and fixed rate liabilities of $14,000,000 at September 30, 2019.

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

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 a decrease of $75,600 to Caisse’s financial margin while a decrease in interest rates of 1% could result in an increase to its financial margin of $37,000.

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.

10. Investments

Investments are as follows:

	2019	2018
	$	$
Liquidity Deposits		
Term deposits	**160,000,000**	165,000,000
Shares		
CUCM	**12,910,000**	12,612,000
The Cooperators Group Limited	**917,170**	835,770
Concentra Bank	**574,388**	574,388
Other	**57,700**	57,700
	14,459,258	14,079,858
Municipal debentures	**1,587,795**	1,116,882
Accrued interest and dividends	**773,570**	676,039
	176,820,623	180,872,779

Liquidity Deposits

Liquidity deposits include cash held on deposits with CUCM.

Terms and Conditions

The liquidity deposits have various maturities within 6 months and bear interest at rates ranging from 1.80% to 1.86%.

Recognition and Initial Measurement

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

Classification and Subsequent Measurement

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

Credit Risk

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

10. Investments (continued)

Fair Value Measurement

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

Shares

Terms and Conditions

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

CUCM shares are subject to a rebalancing mechanism at least annually and are issued and redeemable at par value. There is no separately quoted market value for these shares. However, fair value is determined to be equivalent to 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 are 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.

Recognition and Initial Measurement

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

Classification and Subsequent Measurement

The Caisse classifies its equity instruments as FVTPL.

Derecognition

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

Fair Value Measurement

Concentra and Co-operators Group Limited shares are held at carrying amount as fair value cannot be measured reliably.

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

10. Investments (continued)

Debentures

Terms and Conditions

The municipal debentures bear interest at rates ranging from 4.10% to 6.50% (3.90% to 6.50% in 2018) and mature between October 2019 and December 2033.

Recognition and Initial Measurement

The Caisse recognizes debentures on the settlement date, which is the date the asset is received by the Caisse. The debentures are initially measured at fair value.

Classification and Subsequent Measurement

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

Derecognition

The Caisse derecognizes debentures when the contractual rights to the cash flows from the debentures expire or the Caisse transfers the debentures.

Fair Value Measurement

There is no separately quoted market value for these investments, however fair value is determined to be equivalent to the carrying amount.

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

10. Investments (continued)

There were no transfers between levels for the years ended September 30, 2019 and 2018.

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

11. 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.

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.

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, 2019, the carrying amount of the associated residential mortgages held as security and the related liability are as follows:

	2019	2018
	$	$
Securitized consumer mortgages	**44,170,616**	32,000,478
Securitized borrowings	**44,170,616**	32,000,478
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:

	2019	2018
	$	$
Current	**8,293,000**	9,944,000
Non current	**35,877,616**	22,056,478
	44,170,616	32,000,478

NHA MBS mortgage pools consist of eleven mortgage pools bearing interest rates from 1.43% to 2.30% (from 1.33% to 2.00% in 2018). Mortgage pool maturities range from October 2019 to May 2024.

12. Foreign Exchange Risk

The Caisse's foreign exchange risk is related to US dollar deposits and loans 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.

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

For the year ended September 30, 2019, 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.

13. Commitments

Credit Facilities

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, 2019 was $NIL ($NIL at September 30, 2018).

The Caisse also has a borrowing limit of up to a maximum of $15,000,000 at September 30, 2019 with the CCD to fund its current operations. The balance outstanding at September 30, 2019 was $NIL ($NIL at September 30, 2018).

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.

14. Income Taxes

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

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

	2019	2018
	$	$
Current Income Tax Expense		
Based on current year taxable income	**1,169,305**	524,724
Deferred Income Tax Expense		
Origination and reversal of temporary differences	**20,640**	252,485
Impact of changes in tax rates	**-**	408,953
	20,640	661,438
Total income tax expense	**1,189,945**	1,186,162

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

	2019	2018
	$	$
Deferred Tax		
Change in unrealized gains (losses) on derivative financial instruments	**2,252**	(18,379)

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

	2019	2018
	%	%
Combined federal and provincial statutory income tax rates	**27.0**	27.0
Credit Union rate reduction	**(12.5)**	(11.4)
Provincial Profits Tax	**0.0**	0.7
Non-deductible and other items	**3.1**	14.4
	17.6	30.7

The tax effects of temporary differences which give rise to the net deferred income tax asset or liability are 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 components of deferred income tax liabilities and assets are as follows:

	2019	2018
	$	$
Deferred Tax Liabilities		
Property, equipment and systems software	**1,892,787**	1,877,378
Other	**(166)**	2,251
	1,892,621	1,879,629
Deferred Tax Assets		
Allowance for impaired loans	**(248,092)**	(233,878)
Net deferred tax liability	**1,644,529**	1,645,751

15. Property, Equipment and Intangible Assets

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 lots	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.

Property and equipment are as follows:

			2019	2018
	Cost	**Accumulated Depreciation**	**Net Book Value**	Net Book Value
	$	**$**	**$**	$
Land	**2,294,884**	**-**	**2,294,884**	2,294,884
Building and parking lots	**18,760,470**	**6,881,448**	**11,879,022**	12,099,725
Furniture and equipment	**5,872,756**	**5,478,959**	**393,797**	563,940
Computer and telecom equipment	**4,355,988**	**3,354,649**	**1,001,339**	1,119,891
Leasehold improvements	**891,587**	**877,742**	**13,845**	17,650
	32,175,685	**16,592,798**	**15,582,887**	16,096,090

15. Property, Equipment and Intangible Assets (continued)

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 in net income and may not be reversed in future periods

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.

Intangible assets are as follows:

			2019	2018
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
	$	**$**	**$**	$
Goodwill	**1,091,515**	**106,519**	**984,996**	984,996
Systems software	**7,327,070**	**3,016,552**	**4,310,518**	4,960,540
	8,418,585	**3,123,071**	**5,295,514**	5,945,536

16. 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:

	2019	2018
	$	$
Compensation		
Salaries, and other short-term employee benefits	**1,381,910**	1,373,303

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:

	2019	2018
	$	$
Honouraria and per diems	**45,350**	35,500
Training and other costs	**3,882**	2,658
	49,232	38,158

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:

	2019	2018
	$	$
Loans to key management personnel		
Aggregate value of loans advanced	**1,551,623**	1,051,113
Interest received on loans advanced	**45,709**	30,806
Total value of lines of credit advanced	**201,700**	85,500
Interest received on lines of credit advanced	**9,597**	3,346
Unused value of lines of credit	**146,800**	221,000
Deposits from key management personnel		
Aggregate value of term and savings accounts	**3,060,837**	1,657,025
Total interest paid on term and savings accounts	**33,391**	16,958

17. Personnel Expenses

	2019	2018
	$	$
Salaries and wages	**11,888,787**	11,699,046
Employee benefits	**2,500,581**	2,055,843
Other	**863,655**	764,001
	15,253,023	14,518,890

18. Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning on or after January 1st, 2019.

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 an operating and finance lease from the perspective of a lessee. All contracts that meet the definition of a lease will be recorded in the balance sheet 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 remain largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Caisse expects the amendment to have an effect on the recognition of leases, and is assessing whether the impact will be material.

IFRIC 23 Uncertainty over Income Tax Treatments issued to provide guidance on recognition and measurement of uncertain income tax treatments. The effective date for IFRIC 23 is January 1, 2019. The Caisse expects the amendment to have an effect on measurement of uncertain income tax treatments.

Amendments to IAS 12 Income Taxes issued to clarify that all income tax consequences of dividends should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events that generated the distributable profits. The effective date for the amendment to IAS 12 is January 1, 2019. The Caisse expects the amendment to have an effect on the recognition of income tax consequences of dividends.