Sunrise Credit Union Limited
Consolidated Financial Statements
For the year ended December 31, 2019

Management's Responsibility

To the Members of Sunrise Credit Union Limited:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the consolidated financial statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external accountants. The Board is also responsible for recommending the appointment of the Credit Union's external auditor.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

March 18, 2020

Signed "Tony Keown"

V.P. of Finance

Independent Auditor's Report

To the Members of Sunrise Credit Union Limited:

Opinion

We have audited the accompanying consolidated financial statements of Sunrise Credit Union Limited (the "Credit Union") and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated income statement, consolidated statements of changes in members' equity and 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 Credit Union as at December 31, 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 Credit Union 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.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management 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 Credit Union’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union’s financial reporting process.

Auditor's Responsibilities for the Audit of the 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 Credit Union’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Credit Union 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 Group 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.

Brandon, Manitoba

MNP LLP

March 18, 2020

Chartered Professional Accountants

Sunrise Credit Union Limited
Consolidated Statement of Financial Position
As at December 31, 2019

	2019	*2018*
Assets		
Cash and cash equivalents	**48,821,575**	29,703,754
Accounts receivable	**1,399,533**	234,858
Investments and accrued interest *(Note 6)*	**145,642,178**	101,005,746
Members' loans receivable and accrued interest *(Note 7)*	**1,104,927,488**	997,454,873
Income taxes	**-**	70,709
Prepaid expenses and deposits	**2,398,461**	2,169,815
Property and equipment *(Note 8)*	**16,877,081**	12,283,086
Intangible assets *(Note 9)*	**2,824,034**	3,345,331
Deferred tax *(Note 10)*	**350,000**	310,000
	1,323,240,350	1,146,578,172
Liabilities		
Member deposits and accrued interest *(Note 13)*	**1,193,680,607**	1,029,522,341
Income taxes payable	**777,717**	357,201
Trade payables and accrued liabilities	**7,752,338**	8,363,717
Lease liability *(Note 14)*	**5,109,966**	-
Securitized debt *(Note 15)*	**23,818,330**	27,218,561
	1,231,138,958	1,065,461,820
Members' equity		
Member shares *(Note 17)*	**14,307,437**	14,807,665
Retained earnings	**62,169,024**	56,785,926
Contributed surplus	**15,624,931**	9,522,761
	92,101,392	81,116,352
	1,323,240,350	1,146,578,172

Approved on behalf of the Board

Signed "Janice McClelland"
Director

Signed "Glenn Young"
Director

The accompanying notes are an integral part of these financial statements

Sunrise Credit Union Limited
Consolidated Income Statement
For the year ended December 31, 2019

	2019	*2018*
Financial income		
Member loans	**44,197,714**	36,763,400
Investments	**4,739,019**	3,385,309
	48,936,733	40,148,709
Interest expense		
Deposits	**18,264,375**	13,506,154
Interest on borrowed money	**515**	183
	18,264,890	13,506,337
Gross financial margin	**30,671,843**	26,642,372
Operating Expenses		
Administration	**6,119,516**	5,135,974
Amortization	**1,738,616**	3,161,494
Member security	**1,016,442**	878,845
Occupancy	**2,779,674**	2,319,469
Organizational	**736,576**	615,455
Personnel	**16,007,657**	14,056,178
	28,398,481	26,167,415
Net operating income	**2,273,362**	474,957
Other income	**6,957,070**	6,798,967
Income before provision for impaired loans, property held for resale and income taxes	**9,230,432**	7,273,924
Provision for impaired loans and property held for resale *(Note 7)*	**1,335,575**	1,371,305
Income before provision (recovery) for income taxes	**7,894,857**	5,902,619
Income taxes (recovery)		
Current	**2,287,261**	1,519,242
Deferred	**-**	(250,000)
	2,287,261	1,269,242
Net income	**5,607,596**	4,633,377

The accompanying notes are an integral part of these financial statements

Sunrise Credit Union Limited
Consolidated Statement of Changes in Equity
For the year ended December 31, 2019

	Member shares	*Retained earnings*	*Contributed surplus*	*Total equity*
Balance December 31, 2017	**14,282,329**	**52,344,864**	**6,210,386**	**72,837,579**
Net income	**-**	**4,633,377**	**-**	**4,633,377**
Acquired through business combinations *(Note 23)*	**818,295**	**-**	**3,312,375**	**4,130,670**
Issuance of member shares	**8,415**	**-**	**-**	**8,415**
Redemption of member shares	**(301,374)**	**-**	**-**	**(301,374)**
Dividend on preference shares, net of tax recovery	**-**	**(192,315)**	**-**	**(192,315)**
Balance December 31, 2018	**14,807,665**	**56,785,926**	**9,522,761**	**81,116,352**
Net income	**-**	**5,607,596**	**-**	**5,607,596**
Acquired through business combination *(Note 23)*	**13,390**	**-**	**6,102,170**	**6,115,560**
Issuance of member shares	**6,360**	**-**	**-**	**6,360**
Redemption of member shares	**(519,978)**	**-**	**-**	**(519,978)**
Dividend on preference shares, net of tax recovery	**-**	**(224,498)**	**-**	**(224,498)**
Balance December 31, 2019	**14,307,437**	**62,169,024**	**15,624,931**	**92,101,392**

Sunrise Credit Union Limited
Consolidated Statement of Cash Flows
For the year ended December 31, 2019

	2019	2018
Cash provided by (used for) the following activities		
Operating activities		
Interest received from members' loans	**43,546,193**	36,075,570
Interest and dividends received from investments	**4,739,019**	3,335,925
Other non-interest income received	**5,848,872**	6,295,814
Cash paid to suppliers and employees	**(27,354,252)**	(23,255,112)
Interest paid on deposits	**(16,873,834)**	(13,042,584)
Interest paid on borrowed money	**(515)**	(183)
Income taxes paid	**(1,712,465)**	(1,238,073)
	8,193,018	8,171,357
Financing activities		
Net change in members' deposits	**74,289,140**	41,508,739
Proceeds from issuance of member shares	**6,360**	8,415
Redemption of member shares	**(519,978)**	(301,858)
Advance of securitized debt	**(3,400,231)**	12,834,058
	70,375,291	54,049,354
Investing activities		
Net change in members’ loans receivable	**(44,871,410)**	(105,045,310)
Purchases of investments and accrued interest	**(32,419,943)**	-
Proceeds on disposal investments	**-**	1,524,556
Purchases of property and equipment	**(710,910)**	(529,516)
Cash received from business combinations	**18,050,701**	23,770,654
Proceeds from disposal of property and equipment	**501,074**	-
	(59,450,488)	(80,279,616)
Increase (decrease) in cash and cash equivalents	**19,117,821**	(18,058,905)
Cash and cash equivalents, beginning of year	**29,703,754**	47,762,659
Cash and cash equivalents, end of year	**48,821,575**	29,703,754

The accompanying notes are an integral part of these financial statements

1. Reporting entity information

Sunrise Credit Union Limited (the “Credit Union”) was formed pursuant to the Credit Unions and Caisses Populaires Act of Manitoba (“the Act”) and operates seventeen Credit Union branches. The Credit Union serves members in southwestern Manitoba.

The consolidated financial statements of the Credit Union, as at and for the year ended December 31, 2019 comprises the Credit Union and its wholly owned subsidiary, VCU Financial Group Inc. VCU Financial Group Inc. has five wholly owned subsidiaries, 5847487 Manitoba Ltd., K & L Brugger Investments Inc., 5221170 Manitoba Ltd., Gray Asset Management Ltd. and K & R Investment Management Inc. Together, these entities are referred to as Sunrise Credit Union Limited. The address of the Credit Union’s registered office is 2305 Victoria Ave, Brandon, Manitoba.

Basis of measurement

The financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments at fair value through profit and loss.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

2. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations adopted by the International Accounting Standards Board (“IASB”).

These consolidated financial statements for the year ended December 31, 2019 were approved and authorized for issue by the Board of Directors on March 18, 2020.

3. Change in accounting policies

The Credit Union adopted the following new and/or revised standards, effective January 1, 2019. As indicated, adoption of the following new and/or revised standards, had a material impact on the Credit Union’s financial statements.

Leases

Effective January 1, 2019 (hereafter referred to as the “date of initial application”), the Credit Union adopted IFRS 16 *Leases* as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in 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*.

Transition

The Credit Union applied the changes in the accounting policies resulting from IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognized as an adjustment to the opening balance of retained earning at January 1, 2019. The comparative information contained within these financial statements has not been restated and continues to be reported under previous lease standards. In addition, the following practical expedients were applied:

- The Credit Union did not reassess whether a contract is, or contains, a lease at the date of initial application of IFRS 16 *Leases*. Instead, the Credit Union applied IFRS 16 to all contracts that were previously identified as leases under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. Contracts that were not previously identified as containing a lease under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. As a result, the definition of a lease under IFRS 16 has only been applied to contracts entered into (or changed) on or after the date of initial application.

3. Change in accounting policies *(Continued from previous page)*

- When applying IFRS 16 to leases previously classified as operating leases under IAS 17, the Credit Union has:
  - Adjusted the right-of-use assets at the date of initial application by the amount of any provision for onerous leases recognized in the statement of financial position in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application.
  - Used hindsight in determining the lease term when contract contains options to extend or terminate the lease.

The application of the standard has resulted in a change in the Credit Union's accounting policy for recognition of leases.

Initial application of IFRS 16

The Credit Union recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of reamining lease payments, discounted using its incremental borrowing rate at the date of initial application. The weighted avearage incremental borrowing rate applied is 3.50%

The application of the standard has resulted in an increase of property and equipment of $5,109,966 and an increase in lease liability of $5,109,966.

4. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Credit Union and its subsidiary VCU Financial Group Inc. VCU Financial Group Inc. has five wholly owned subsidiaries including, 5847487 Manitoba Ltd., K & L Brugger Investments Inc., 5221170 Manitoba Ltd., Gray Asset Management Ltd. and K & R Investment Management Inc. Asset and liability balances, unrealized gains and losses or income and expenses arising from inter-company transactions, are eliminated upon consolidation.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and demand deposits. Other investments (term deposits and certificates of deposit) purchased with an original maturity date of three months or less are also reported as cash.

Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Central Term deposits and shares

Credit Union Central of Manitoba deposits are accounted for at amortized cost. Credit Union Central of Manitoba shares are carried at fair value with adjustments recognized in profit or loss.

4. Sumary of significant accounting policies *(Continued from previous page)*

Portfolio investments

Investments are initially recorded at fair value. Subsequently they are recorded at fair value with adjustments recognized in profit or loss. Investments are purchased with the intention to hold them to maturity, or until market conditions cause alternative investments to become more attractive.

Investment in mortgage pool

Investments in the mortgage pool are carried at amortized cost. Premiums on the mortgage pool are amortized on a straight line basis over the term of the mortgages.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Amortization is provided using the following methods and rates intended to amortize the cost of the assets over their estimated useful lives:

	Method	***Rate***
Buildings	straight-line	20-40 years
Computer software	straight-line	5-10 years
Computer equipment	straight-line	3-5 years
Furniture and fixtures	straight-line	3-10 years
Leasehold improvements	straight-line	term of lease
Parking lot	straight-line	10 years
Roof	straight-line	10 years
Trademarks	straight-line	15 years

The useful lives of items of property and equipment are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated income statement as other operating income or other operating costs, respectively.

Investment property

Investment property held by the Credit Union consists of foreclosed assets held for sale and other buildings. Investment property is initially recognized at cost, including transaction costs. Cost is comprised of the balance of the loan at the date on which the Credit Union obtains title to the asset. Subsequent to initial recognition, these assets are stated at fair value at each reporting date, with any gain or loss from a change in the fair value recognized in the consolidated income statement in the period.

Intangible assets

Intangible assets are comprised primarily of customer lists.

Intangible assets are initially recognized at cost (fair value when acquired through a business combination) and are subsequently measured at cost less accumulated amortization and impairment. The estimated useful life of customer list is 30 years. Amortization expense related to the customer lists is calculated using the straight-line method based on the estimated useful life of intangible assets.

4. Sumary of significant accounting policies *(Continued from previous page)*

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The amount recoverable is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Accounts payable

Accounts payable are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Member deposits

Member deposits are initially recognized at fair value, net of transaction costs directly attributable to the issuance of the instrument, and are subsequently measured at amortized cost using the effective interest rate method.

Member shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income is recognized on the consolidated income statement for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

4. Sumary of significant accounting policies *(Continued from previous page)*

Fees and commission revenue are amortized over the term of the instrument using the effective interest rate method. Loan syndication fees are included in other income on completion of the syndication arrangement. Incremental direct costs for originating or acquiring a loan are netted against origination fees. Commission revenue is recognized net of broker commission expense as earned on the effective date of each policy.

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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 and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

Recognition of deferred 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 tax asset to be utilized. Deferred 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.

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the year end date. Translation gains and losses are recognized in the consolidated income statement for the current period.

Financial instruments

Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of investments and accrued interest, members' loans receivable and accrued interest, and accounts receivable.

4. Sumary of significant accounting policies *(Continued from previous page)*

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in net income. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and Central shares.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in net income. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of Central shares.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, and risks affecting the performance of the business model.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions

The calculation of ECL impairment allowances is based on the expected value of probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Credit Union expects to receive.

4. Sumary of significant accounting policies *(Continued from previous page)*

Expected Credit Loss ("ECL") model has three stages:

12-month ECL (Stage 1)

Where credit risk is low or where there has been no significant increase in credit risk, a 12-month ECL allowance is calculated which represents the expected credit losses that result from default events on the financial instrument that are possible within the 12-month after the reporting date on otherwise performing, non-credit impaired financial instruments.

Lifetime ECL (not credit impaired) (Stage 2)

If credit risk increases significantly relative to initial recognition of the financial instrument, the allowance is increased to cover full lifetime ECL. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. The Credit Union's process for assessing credit risk and defining default is included in Note 20. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Credit Union places the financial instrument in the Stage 1 category and reverts to recognizing 12-month ECL.

Lifetime ECL (credit impaired) (Stage 3)

When a financial instrument is considered credit-impaired, the allowance continues to reflect lifetime expected credit losses and interest revenue is calculated based on the carrying amount of the asset, net of the allowance, rather than its gross carrying amount. The Credit Union's policy for assessing default resulting in credit impairment is described in Note 20. Any financial instruments where the borrower has filed for bankruptcy or consumer proposal will also be re-staged to Stage 3.

Changes in the allowance, including the movement between 12-month and lifetime expected credit losses, is recorded in the provision for impaired loans.

For member loans receivable, the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for trade receivables that do not contain a significant financing component. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.Loss allowances for expected credit losses are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets; and
- For loan commitments and financial guarantee contracts, as a provision;
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision.

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 21 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

4. Sumary of significant accounting policies *(Continued from previous page)*

Derecognition of financial assets

The Credit Union applies its accounting policies for the derecognition of a financial asset to a part of a financial asset only when:

- The part comprises only specifically identified cash flows from a financial asset;
- The part comprises only a pro-rata share of the cash flows from a financial asset; or
- The part comprises only a pro-rata share of specifically identified cash flows from a financial asset.

In all other situations the Credit Union applies its accounting policies for the derecognition of a financial asset to the entirety of a financial asset.

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union’s derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset’s original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

4. Sumary of significant accounting policies *(Continued from previous page)*

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilies are measured at amortized cost using the effective interest rate method.

Interest, gains and losses related to financial liabilities are recognized in net income.

Derecognition of financial liabilities

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Dividend income

Dividend income is recorded in profit or loss when the Credit Union’s right to receive payments is established, it is probable that the economic benefits associated with the dividend will flow to the Credit Union, and the amount of the dividend can be measured reliably.

Interest

Interest income and expense are recognized in profit or loss using the effective interest method.

The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The ‘gross carrying amount’ of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Offsetting

Financial assets and financial liabilities are offset, with the net amount presented in the statement of financial position, when, and only when, the Credit Union has a current and legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or when arising from a group of similar transactions if the resulting income and expenses are not material.

Collateral

The Credit Union recognizes the proceeds from the sale of any non-cash collateral that has been pledged to it and a liability measured at fair value for its obligation to return the collateral.

If a debtor defaults under the terms of its contract and is no longer entitled to the return of any collateral, the Credit Union recognizes the collateral as an asset initially measured at fair value or, if it has already sold the collateral, derecognizes its obligation to return the collateral.

4. Sumary of significant accounting policies *(Continued from previous page)*

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2019 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IAS 1 Presentation of Financial Statements

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

Securitization debt

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 de-recognition 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. None of the securitized transactions the Credit Union has entered into qualify for de-recognition.

Since all mortgages securitized by the Credit Union are required to be fully insured, including mortgages securitized for reinvestment purposes, they pose no credit risk to the Credit Union before or after the securitization transaction. As the Credit Union remains exposed to the interest rate and prepayment risks associated with the underlying assets, the assets, liabilities, revenues and expenses have not been derecognized and the transactions are accounted for as secured financing transactions in the Credit Union's statement of financial position and statement of comprehensive income.

5. Significant accounting judgments, estimates and assumptions

Judgments, estimates and assumptions

The preparation of the Credit Union's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

5. Significant accounting judgments, estimates and assumptions *(Continued from previous page)*

Key assumptions in determining the allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates, interest rates
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to value ratios

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

5. Significant accounting judgments, estimates and assumptions *(Continued from previous page)*

Financial instruments not traded on active markets

Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

Income taxes

The Credit Union 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 Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes that 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.

6. Investments and accrued interest

	2019	*2018*
Credit Union Central of Manitoba		
Term deposits	**125,702,400**	82,728,600
Shares	**12,436,905**	8,538,010
Other Investments		
Municipal debentures and bonds	**40,377**	52,116
Mortgage pool investments	**754,175**	3,744,476
Concentra Financial shares	**6,473,464**	5,646,452
Accrued interest	**234,857**	296,092
Total	**145,642,178**	101,005,746

Term deposits consist of three term deposits earning interest at rates between 1.87% to 2.29% (2018 - 1.84% to 2.17%), maturing from January 2020 to July 2022.

Municipal debenture and bonds consist of one debenture earning interest at 7.00% (2018 - 7.00%), maturing in December 2022.

Mortgage pools consists of one investment earning interest of 2.35% (2018 - 2.35%).

Concentra financial shares consist of shares in Concentra earning interest of 4.60% (2018 - 4.60%), maturing in 2022.

Pursuant to Regulation, the Credit Union is required to maintain 8% of its member deposits in specified liquidity deposits. As of December 31, 2019 the Credit Union met the required with liquidity of 15.52% (2018 - 11.81%).

7. Members' loans receivable and accrued interest

Principal and allowance by loan type:

					2019
	Principal 12-month ECL (performing)	**Principal Lifetime ECL (credit-impaired)**	**Allowance Stage 1 & 2 (not credit-impaired)**	**Allowance Stage 3 (credit-impaired)**	**Net carrying value**
Personal and other	65,755,906	1,279,355	207,187	777,653	**66,050,421**
Real estate secured	326,896,725	3,020,141	155,189	824,388	**328,937,289**
Commercial	391,540,204	2,682,647	290,144	897,750	**393,034,957**
Agricultural	315,628,718	1,626,796	221,522	129,171	**316,904,821**
Subtotal	1,099,821,553	8,608,939	874,042	2,628,962	**1,104,927,488**
Total allowance				3,503,004	

					2018
	Principal 12-month ECL (performing)	Principal Lifetime ECL (credit-impaired)	Allowance Stage 1 & 2 (not credit-impaired)	Allowance Stage 3 (credit-impaired)	Net carrying value
Personal and other	63,915,344	418,873	163,387	316,669	63,854,161
Real estate secured	303,411,886	1,561,868	180,880	607,436	304,185,438
Commercial	330,889,223	6,210,334	109,292	722,040	336,268,225
Agricultural	292,848,286	365,640	-	66,877	293,147,049
	991,064,739	8,556,715	453,559	1,713,022	997,454,873
Total allowance				2,166,581	

Loan allowance details:

	2019	*2018*
Balance, beginning of year	**2,166,581**	1,796,740
Provision for impaired loans	**1,684,779**	1,114,115
Subtotal	**3,851,360**	2,910,855
Less: accounts written off, net of recoveries	**348,356**	744,274
Balance, end of year	**3,503,004**	2,166,581

8. Property and equipment

	Land	*Buildings*	*Computer software*	*Computer equipment*	*Furniture and fixtures*	*Leasehold improvement*	*Parking lot*	*Roof*	*Trade marks*	*Total*
Cost										
At December 31, 2017	1,021,829	9,470,380	2,405,474	1,049,055	4,057,791	2,493,112	10,577	111,050	6,771	20,626,039
Additions	10,457	**-**	126,217	247,279	145,563	-	-	-	-	529,516
Amalgamation	64,736	3,672,606	121,340	118,062	546,888	-	-	-	-	4,523,632
Disposals	-	-	(121,340)	(105,248)	(28,582)	-	-	-	-	(255,170)
At December 31, 2018	1,097,022	13,142,986	2,531,691	1,309,148	4,721,660	2,493,112	10,577	111,050	6,771	25,424,017
Additions	**-**	**-**	**195,233**	**25,724**	**489,953**	**-**	**-**	**-**	**-**	**710,910**
Amalgamation	**55,100**	**1,011,319**	**433,751**	**506,326**	**786,444**	**-**	**3,000**	**-**	**-**	**2,795,940**
Disposals	**(386,803)**	**-**	**(335,603)**	**(101,872)**	**(337,332)**	**-**	**-**	**-**	**-**	**(1,161,610)**
Recognition on adoption of IFRS 16	**-**	**5,109,966**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,109,966**
At December 31, 2019	**765,319**	**19,264,271**	**2,825,072**	**1,739,326**	**5,660,725**	**2,493,112**	**13,577**	**111,050**	**6,771**	**32,879,223**
Amortization										
At December 31, 2017	-	4,049,049	1,633,580	940,898	2,750,393	290,755	10,577	18,509	3,049	9,696,810
Additions	-	356,313	219,949	92,161	340,701	119,517	-	11,105	451	1,140,197
Amalgamation	-	1,983,598	23,059	80,934	373,056	-	-	-	-	2,460,647
Disposals	-	-	(25,279)	(104,738)	(26,706)	-	-	-	-	(156,723)
At December 31, 2018	-	6,388,960	1,851,309	1,009,255	3,437,444	410,272	10,577	29,614	3,500	13,140,931
Additions	**-**	**374,724**	**227,970**	**139,888**	**343,664**	**119,517**	**-**	**11,105**	**451**	**1,217,319**
Amalgamation	**-**	**741,877**	**433,751**	**477,405**	**758,981**	**-**	**3,000**	**-**	**-**	**2,415,014**
Disposals	**-**	**-**	**(335,603)**	**(101,872)**	**(333,647)**	**-**	**-**	**-**	**-**	**(771,122)**
At December 31, 2019	**-**	**7,505,561**	**2,177,427**	**1,524,676**	**4,206,442**	**529,789**	**13,577**	**40,719**	**3,951**	**16,002,142**
Net book value										
At December 31, 2018	1,097,022	6,754,026	680,382	299,893	1,284,216	2,082,840	-	81,436	3,271	12,283,086
At December 31, 2019	**765,319**	**11,758,710**	**647,645**	**214,650**	**1,454,283**	**1,963,323**	**-**	**70,331**	**2,820**	**16,877,081**

9. Intangible assets

Amortization and impairment losses

Intangible assets consist of customer listings and are amortized on a straight-line basis over a period of 30 years and is reported in the income statement.

	2019	*2018*
Opening balance	**3,345,331**	5,366,628
Amortization	**(521,297)**	(2,021,297)
	2,824,034	3,345,331

10. Income tax

The tax effects of temporary differences which give rise to the deferred tax asset reported in the statement of financial position is from differences between accounts deducted for accounting and income tax purposes for property and equipment, allowance for impaired loans and intangibles.

Net deferred income tax assets (liability) are comprised of the following:

Deferred income tax expense recognized in profit (loss)

The deferred income tax recovery recognized in profit (loss) for the current year is a result of the following changes:

	2019	*2018*
Deferred tax asset		
Intangibles	**(13,000)**	(13,000)
Allowance for impaired loans	**151,000**	111,000
Property and equipment	**212,000**	212,000
Net balance	**350,000**	310,000

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

	2019	*2018*
Applicable tax rate	**38.00 %**	38.00 %
Federal abatement	**(10.00)%**	(10.00)%
General rate reduction	**(13.00)%**	(13.00)%
Provincial tax rate	**5.51 %**	- %
Other	**7.84 %**	6.50 %
Average effective tax rate (tax expense divided by profit before tax)	**28.35 %**	21.50 %

11. Director and officer indemnification

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

12. Pension plan

The Credit Union has a defined contribution pension plan for full-time employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these financial statements. The Credit Union matches employee contributions at rates ranging from 8% of the employee salary. The expense and payments for the year ended December 31, 2019 were $827,289 (2018 - $729,534). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.

13. Member deposits and accrued interest

	2019	2018
Registered plans	**148,587,566**	130,913,853
Chequing	**432,659,202**	376,911,710
Savings	**128,309,967**	107,478,831
Plan 24	**183,369,598**	120,923,223
Term deposits	**294,360,265**	288,291,256
Accrued interest savings and deposits	**6,394,009**	5,003,468
	1,193,680,607	1,029,522,341

Member deposits are subject to the following terms:

- Chequing, Plan 24 and savings products are due on demand and bear interest at rates up to 2.95% (2018 - 1.65%).
- Term deposits are subject to fixed and variable rates of interest ranging from 1.00% to 8.45%, (2018 - 1.00% to 5.50%) with interest payments due monthly, annually or on maturity.
- Registered plans are subject to fixed and variable rates of interest ranging from 1.00% to 4.00%, (2018 - 1.00% to 5.50%) with interest payments due monthly, annually, or on maturity.

14. Leases (as lessee)

Leases as lessee

The Credit Union leases one building. The lease term spans up to 5 years and include options to renew the lease for an additional 10 years after the end of the initial contract term.

Right-of-use assets

Right-of-use assets of the Credit Union have been presented within property and equipment in the statement of financial position. Refer to Note 8 for information pertaining to right-of-use assets arising from lease arrangemetns in which the entity is a lessee.

Lease liabilities

The following table sets out a maturity analysis of lease liabilities:

	2019	2018
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**498,750**	-
One to five years	**1,995,000**	-
More than five years	**2,992,500**	-
Total undiscounted lease liabilities at December 31, 2019	**5,486,250**	-
Lease liabilities included in the statement of financial position at December 31, 2019	**5,109,966**	-
Current	**311,032**	-
Non-current	**4,798,934**	-

15. Securitization debt

	2019	*2018*
CMHC mortgage pools	**23,818,330**	27,218,561

CMHC mortgage pools consist of seven mortgage pools bearing interest rates of 1.74% and 2.36% (2018 - 1.74% and 2.36%). Mortgage pool maturities range from November 2020 to October 2022.

16. Line of credit

The Credit Union has an approved borrowing limit of 10% of member deposits held with Credit Union Central of Manitoba. Line of credit borrowings are secured by an assignment, hypothecation, charge and pledge of all book debts and accounts to Credit Union Central and bear an annual interest rate based on the Chartered Banks overnight funds rate, with no fixed repayment dates. The line of credit was not utilized at December 31, 2019.

17. Member shares

Authorized:

Common shares: Authorized common share capital consists of an unlimited number of common shares with an issue price of $5 per share and redeemable in the amount of consideration received for the share.

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

Preference shares: Authorized Class A non-cumulative preference share capital consists of 1,000,000 preference shares with an issue price per share of $10 with an aggregate consideration which shall not exceed $30,000,000 and redeemable in the amount of consideration received for the share. Dividends are payable at the discretion of the Board of Directors.

Issued:

	2019	*2018*
29,948 Common shares (2018 - 27,128)	**149,740**	135,640
7,289,203 Surplus shares (2018 - 7,518,372)	**7,289,203**	7,518,372
686,850 Preference shares (2018 - 715,365)	**6,868,494**	7,153,653
Total	**14,307,437**	14,807,665

During the year, the Credit Union during the amalgamation issued 2,678 (2018 - 2,203), issued 1,272 (2018 - 1,683) and redeemed 1,130 (2018 - 1,219) common shares, redeemed 229,169 (2018 - 371,273) surplus shares, and issued 13,359 (2018 - 11,880) and redeemed 41,875 (2018 - 4,281) preference shares.

When an individual becomes a member of the Credit Union, they are issued a common share at $5 per share. Each member of the Credit Union has one vote, regardless of the number of shares held.

Surplus shares are established as a means of returning excess earnings to the members and at the same time increasing the Credit Union's equity base. The articles of incorporation for Sunrise Credit Union Limited disclose the conditions concerning surplus shares

18. Dividends on preference shares

During the year, the Board of Directors declared a dividend on preference shares in the amount of $273,778 (2018 - $234,640). The amount net of tax savings of $49,000 (2018 - $42,000), has been reflected as a charge to retained earnings.

19. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") consists of Executives, Regional Managers and Directors of Sunrise Credit Union Limited. Loans made to KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities. These benefits are subject to tax with the total value of the benefit included in the compensation figures below.

There are no loans that are impaired in relation to loan balances with KMP.

There are no benefits or concessional terms and conditions applicable to the family members of KMP. There are no loans that are impaired in relation to the loan balances with family or relatives of KMP.

Aggregate compensation of KMP during the year consisted of:

	2019	*2018*
Salary and short-term benefits	**1,818,590**	1,325,588

The total value of loans outstanding to KMP at year end amount to:

	2019	*2018*
Aggregate of loans to KMP	**6,673,046**	6,034,608
The total value of revolving credit facilities KMP	**828,000**	668,000
	7,501,046	6,702,608

During the year the aggregate value of loans disbursed to KMP amounted to:

	2019	*2018*
Mortgages	**1,485,109**	2,351,745
Loans	**104,165**	321,196
	1,589,274	2,672,941

During the year the interest earned on loans and interest paid on deposits for KMP amounted to:

	2019	*2018*
Interest and other revenue earned on loans to KMP	**241,933**	175,490
Interest paid on deposits KMP	**29,293**	20,844

The total value of member deposits from KMP as at year end amounted to:

	2019	*2018*
Chequing and demand deposits	**953,216**	1,097,055
Term deposits	**1,280,110**	1,050,789
Registered plans	**1,627,855**	1,382,010
	3,861,181	3,529,854

19. Related party transactions *(Continued from previous page)*

Directors, Committee Members, Management and Staff

Transactions with Directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union.

Payments made for honoraria and per diems paid to Directors amounted to $155,826 (2018 - $134,195) reimbursement of expense amounted to $89,219 (2018 - $42,373) and meeting, training and conference costs amounted to $61,898 (2018 - $50,759) for the year ended. Total loans to Directors and staff as at year end amounted to 2.62% (2018 - 2.75%) of total assets of the Credit Union.

Credit Union Central of Manitoba

The Credit Union is a member of the Credit Union Central of Manitoba, which acts as a depository for surplus funds from, and makes loans to Credit Unions. The Credit Union Central of Manitoba also provides other services for a fee to the Credit Union and acts in an advisory capacity. All transactions with Credit Union Central of Manitoba are recorded at the exchange amount, which is the amount agreed to by the two parties.

Interest earned on investments during the year ended amounted to $4,332,130 (2018 - $3,043,478).

Interest and charges paid on borrowings during the year ended amounted to $515 (2018 - $183).

Payments made for affiliation dues, liquidity assessment, research and development assessment, cheque clearing and data processing for the year ended amounted to $2,295,053 (2018 - $2,184,640).

Deposit Guarantee Corporation of Manitoba

The Deposit Guarantee Corporation of Manitoba (DGCM) is a deposit insurance corporation which guarantees the deposits of all members of Manitoba Credit Unions and Caisse Populaires.

The payments made to DGCM during the year represent the net statutory annual assessment in the amount of $930,763 (2018 - $799,623).

Celero Solutions

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

20. Capital management

The Credit Union provides financial services to its members and is subject to the capital requirements set out in the Credit Union and Caisses Populaires Act of Manitoba (the “Act”).

The Act prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by The Act have been based on the Basel II framework, consistent with the financial industry in general. The Act also requires a risk-weighted asset calculation for credit and operational risk.

Under this approach, Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by the Act. Regulatory standards require Credit Unions to maintain a minimum total eligible capital to risk-weighted assets of 8%.

Capital Disclosures requires the Credit Union to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

20. Capital management *(Continued from previous page)*

The Credit Union's objectives when managing capital are:

• To ensure the long term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses;
• To comply at all times with the capital requirements set out in the Act.

The Credit Union measures the adequacy of capital using two methods:

• Total capital as a percent of total assets;
• Total capital as a percent of risk-weighted assets. Under this method the Credit Union reviews its loan portfolio and other assets and assigns a risk-weighting using definitions and formulas set out in the Act and by the Deposit Guarantee Corporation of Manitoba. The more risk associated with an asset, a higher weighting is assigned. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.
• Establishing policies for capital management, monitoring and reporting;
• Establishing policies for related areas such as asset liability management;
• Reporting to the Board of Directors regarding financial results and capital adequacy;
• Reporting to the Deposit Guarantee Corporation of Manitoba on its capital adequacy; and
• Establishing budgets and reporting variances to those budgets.

Capital management is the process whereby the level of capital is determined to support operations, risks and growth. The Credit Union uses various management processes to manage capital risk. A capital management framework is included in policies and procedures established by the Board of Directors. In addition, the Act establishes standards to which the Credit Union must comply.

The primary capital policies and procedures include the following:

- Adhere to regulatory capital requirements as minimum benchmarks (such as growth, operations, enterprise risk);
- Co-ordinate strategic risk management and capital management;
- Develop financial performance targets/budgets/goals;
- Administer a patronage program that is consistent with capital requirements;
- Administer an employee incentive program that is consistent with capital requirements;
- Develop a planned growth strategy that is coordinated with capital growth;
- Update plans that consider the strengths, weaknesses, opportunities and threats to the Credit Union.

Deposit Guarantee Corporation of Manitoba prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by Deposit Guarantee Corporation of Manitoba have been based on the Basel II framework, consistent with the financial industry in general.

The Credit Union follows a risk-weighted asset calculation for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by Deposit Guarantee Corporation of Manitoba. Regulatory standards require credit unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum tier 1 capital to total assets of 5% and tier 2 capital to tier 1 capital of less than 100%.

Tier 1 capital is defined as a credit union’s primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings, membership shares, contributed surplus, qualifying investment shares, with deductions for securitization transactions, intangible assets and goodwill. In 2019, two other deductions were included in the calculation of Tier 1 capital, fair value gains/losses on own use property, and fair value gains/losses on investment property.

20. Capital management *(Continued from previous page)*

Tier 2 capital at the Credit Union includes a collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets, qualifying investment shares, subordinated indebtedness and new to 2019, the fair value gains/losses on investment property. The deductions from Tier 2 capital include securitization transactions and unconsolidated substantial investments.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares Deposit Guarantee Corporation of Manitoba regulatory standards to the Credit Union's board policy for 2019:

	Regulatory standards	***Board minimum limits***
Total eligible capital to risk weighted assets	**8.00 %**	**8.00 %**
Retained earnings to total assets	**3.00 %**	**3.00 %**

During the year, the Credit Union complied with all internal and external capital requirements.The following table summarizes key capital information:

	2019	*2018*
Eligible capital		
Member shares	**14,307,437**	14,807,665
Retained earnings	**62,169,014**	56,785,926
Contributed surplus	**15,624,931**	9,522,761
Total eligible capital	**92,101,382**	81,116,352

Equity not less than 5% of assets, as calculated in accordance with the Act	**6.98 %**	7.07 %
Retained earnings not less than 3% of assets	**5.90 %**	5.78 %
Capital not less than 8% of risk-weighted value of assets	**11.68 %**	10.50 %

21. Financial instruments risk management

Risk management policy

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk and liquidity risk.

The Credit Union, as part of operations, has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows risk management policies approved by its Board of Directors.

The Credit Union measures the adequacy of capital using two methods:

- Ensure all activities are consistent with the mission, vision and values of the Credit Union;
- Balance risk and return;
- Manage credit, market and liquidity risk through preventative and detective controls;
- Ensure credit quality is maintained;
- Ensure credit, market, and liquidity risk is maintained at acceptable levels;
- Diversify risk in transactions, member relationships and loan portfolios;
- Price according to risk taken; and
- Using consistent credit risk exposure tools.

21. Financial instruments and risk management *(Continued from previous page)*

Various Board of Director committees are involved in financial instrument risk management oversight, including the Audit Committee and Lending Committee. The risk policies, procedures and objectives have not changed materially from the prior year.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from members' loans receivable. Management and the Board of Directors review and update the credit risk policy annually. The Credit Union's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the statement of financial position. See note 7 for further information.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Credit Union due to its primary service area being southern Manitoba and surrounding areas.

Credit risk management

The Credit Union uses a risk management process for its credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. Management of credit risk is established in policies and procedures by the Board of Directors.

The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements;
- Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;
- Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;
- Borrowing member capacity (repayment ability) requirements;
- Borrowing member character requirements;
- Limits on aggregate credit exposure per individual and/or related parties;
- Limits on concentration to credit risk by loan type, industry and economic sector;
- Limits on types of credit facilities and services offered;
- Internal loan approval processes and loan documentation standards;
- Loan re-negotiation, extension and renewal processes;
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
- Control and monitoring processes including portfolio risk identification and delinquency tolerances;
- Timely loan analysis processes to identify, access and manage delinquent and impaired loans;
- Collection processes that include action plans for deteriorating loans;
- Overdraft control and administration processes; and
- Loan syndication processes.

Credit commitments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

The Credit Union makes the following instruments available to its members:

(a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;

21. Financial instruments and risk management *(Continued from previous page)*

(b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2019	*2018*
Unadvanced lines of credit	**129,410,164**	125,617,745
Guarantees and standby letters of credit	**3,204,113**	1,309,723
Commitments to extend credit	**56,323,220**	85,763,119

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers members' loans receivable to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union’s internal credit risk management practices.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications. The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers. When a financial instrument is considered to have low credit risk, it is assumed that there has not been a significant increase in credit risk since initial recognition.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings.

Measurement of expected credit losses

The Credit Union measures expected credit losses for members' loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential mortgages, commercial mortgages, other secured loans or non-secured loans). Otherwise, expected credit losses are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Credit Union considers items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, assumptions about prepayments, timing and extent of missed payments or default events, probabilities of default and other assumptions and inputs used in calculating the amount of cash shortfalls depending on the type or class of financial instrument. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

21. Financial instruments and risk management *(Continued from previous page)*

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid.

Details of the Credit Union's exposure to credit risk, loss allowance and write-offs have been included in Note 7.

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its members' loans, term deposits and investments held. The Credit Union does not hedge its fair value risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

Contractual repricing and maturity

All financial instruments are reported in the schedule below based on the earlier of their contractual re – pricing date or maturity date. The schedule below does not identify management's expectations of future events where re – pricing and maturity dates differ from contractual dates.

Interest rate sensitive	**Assets**	*Average yield %*	**Liabilities**	*Average costs %*	***2019 Differential***	*2018 Differential*
Variable (floating) maturing within 1 year	626,833,703	3.16 %	(739,220,662)	1.51 %	**(112,386,959)**	(109,860,505)
1 to 2 years	175,674,254	3.72 %	(98,442,820)	2.45 %	**77,231,434**	37,352,355
2 to 3 years	145,509,305	3.67 %	(54,471,312)	2.52 %	**91,037,993**	84,285,112
3 to 4 years	136,604,843	3.90 %	(44,632,149)	2.65 %	**91,972,694**	97,102,301
Over 4 years	204,528,377	4.19 %	(49,137,139)	2.62 %	**155,391,238**	167,706,795
Non-interest sensitive	34,089,868	- %	(337,336,268)	- %	**(303,246,400)**	(276,586,058)
	1,323,240,350		**(1,323,240,350)**		**-**	-

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase the financial margin by $3,027,000. A 1.0% decrease in the interest rate would decrease the financial margin by $4,067,000.

21. Financial instruments and risk management *(Continued from previous page)*

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes. Refer to Note 6 for further information about the Credit Union's regulatory requirement.

The following table details contractual maturities of derivative financial liabilities:

	Less than 1 year	1 to 2 years	After 2 years	Total
Cash and cash equivalents	**48,821,575**	**-**	**-**	**48,821,575**
Investments and accrued interest	**145,106,136**	**15,386**	**520,656**	**145,642,178**
Members' loans receivable	**443,808,432**	**175,380,938**	**485,738,118**	**1,104,927,488**
Accounts receivable	**1,399,533**	**-**	**-**	**1,399,533**
Total	**639,135,676**	**175,396,324**	**486,258,774**	**1,300,790,774**

	Less than 1 year	1 to 2 years	After 2 years	Total
Member deposits and accrued interest	949,997,187	98,442,820	148,240,600	1,196,680,607
Accounts payable	777,717	-	-	777,717
Total	950,774,904	98,442,820	148,240,600	1,197,458,324

Fair value of financial instruments

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates. Fair values have not been determined for property and equipment or any other asset or liability that is not a financial instrument. The fair values of cash resources, variable rate loans and deposits, and accounts payable are assumed to equal their book values. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

Methods and assumptions:

The following methods and assumptions were used to estimate fair values of financial instruments:

a) the stated value for cash and accounts payable and accounts receivable approximate their fair value due to their short-term nature.
b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments.
c) variable interest rate loans that are frequently re-priced, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates.
d) fair value of deposits with no specified maturity term is their stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.
e) fair value of derivative financial instruments is established by referring to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

21. Financial instruments and risk management *(Continued from previous page)*

Estimated fair values of financial instruments are summarized as follows:

	Fair value	**Book value**	**2019 Fair value over (under) book value**	Fair value	Book value	2018 Fair value over (under) book value
Financial assets						
Cash and equivalents	**48,821,575**	**48,821,575**	**-**	29,703,754	29,703,754	**-**
Investments	**145,539,458**	**145,642,178**	**(102,720)**	101,163,669	101,005,746	**157,923**
Members' loans receivable	**1,095,368,451**	**1,104,927,488**	**(9,559,037)**	992,214,410	997,454,873	**(5,240,463)**
Accounts receivable	**1,399,533**	**1,399,533**	**-**	234,858	234,858	**-**
	1,291,129,017	**1,300,790,774**	**(9,661,757)**	123,316,691	,128,399,231	**(5,082,540)**
Financial liabilities						
Member deposits	**1,195,454,216**	**1,193,680,607**	**1,773,609**	026,701,928	,029,522,341	**(2,820,413)**
Accounts payable	**7,752,348**	**7,752,348**	**-**	8,363,717	8,363,717	**-**
	1,203,206,564	**1,201,432,955**	**1,773,609**	,035,065,645	,037,886,058	**(2,820,413)**

Fair value measurements

The Credit Union classifies fair value measurements recognized on the statement of financial position using a three-tier fair value hierarchy, which priorities the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities. Assets measured at fair value and classified as level 1 include cash and cash equivalents and interest rate swaps.
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly. Members' loans, investments, interest rate swaps and members deposits are disclosed at fair value based on level 2 classification.
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions. There are no assets measured at fair value classified at level 3.
  Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

22. Subsequent events

During the course of they year, Minnedosa Credit Union Limited ("Minnedosa") and Sunrise Credit Union Limited ("Sunrise") signed an amalgamation agreement and will carry on operations as Sunrise Credit Union Limited as of July 1, 2020. Upon amalgamation each issued and outstanding common and surplus share of Minnedosa will be converted into an equivalent share of Sunrise. The shares of Sunrise carry substantially teh same rights and restrictions as the shares of the former Minnedosa Credit Union Limited.

23. Business combinations

On January 1, 2019, Sunrise Credit Union Limited ("Sunrise") acquired Strathclair Credit Union Limited ("Strathclair") as part of an amalgamation and commenced operations under the name "Sunrise Credit Union". Each issued and outstanding share of Strathclair was converted to an equivalent share of Sunrise Credit Union Limited.

On April 1, 2018, Sunrise Credit Union Limited ("Sunrise") acquired Prairie Mountain Credit Union Limited ("Prairie Mountain") as part of an amalgamation and commenced operations under the name "Sunrise Credit Union". Each issued and outstanding share of Prairie Mountain was converted to an equivalent share of Sunrise Credit Union Limited.

In each amalgamation under the requirements of IFRS 3 "Business Combinations", Sunrise was identified as the purchaser for accounting purposes in applying the acquisition method the net assets of the acquired enterprises are recorded at fair value. The consolidated statement of operations includes the operations of the former Sunrise, Prairie Mountain, and Strathclair since the date of amalgamation. The fair values of the assets and liabilities acquired were determined with reference to current market interest rates for similar financial instruments, and valuation techniques that follow IFRS. The excess of fair value of the net assets acquired over the shares issued in connection with the business combination is recorded as Retained Earnings in the Consolidated Statement of Financial Position. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed as of April 1, 2018 and January 1, 2019:

	2019 ***Strathclair*** ***January 1, 2019***	*2018* *Prairie Mountain* *April 1, 2018*
Cash	**18,050,701**	23,770,654
Investments	**12,277,724**	5,801,886
Members' loan receivable	**63,634,463**	45,911,942
Income taxes recoverable	**48,000**	2,879
Prepaid expenses and other assets	**599,307**	73,634
Property and equipment	**380,927**	2,062,983
Deferred tax	**40,000**	-
	95,031,122	77,623,978
Member deposits and accrued interest	**88,478,585**	72,866,629
Accounts payable	**436,977**	592,679
Deferred tax liabilities	**-**	34,000
	88,915,562	73,493,308
Net Assets	**6,115,560**	4,130,670
Purchase price - issued to members	**(13,390)**	(818,295)
	6,102,170	3,312,375