

**Sunrise Credit Union Limited**  
**Consolidated Financial Statements**  
*For the year ended December 31, 2014*

## **Management's Responsibility**

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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 is 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 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 19, 2015

Signed by "Harry Bowler"

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President and Chief Executive Officer

Signed by "Tony Keown"

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V.P. of Finance

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## Independent Auditors' Report

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To the Members of Sunrise Credit Union Limited:

We have audited the accompanying consolidated financial statements of Sunrise Credit Union Limited and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated income statement, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sunrise Credit Union Limited and its subsidiaries as at December 31, 2014 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Brandon, Manitoba

March 19, 2015

**MNP LLP**  
Chartered Accountants

# Sunrise Credit Union Limited

## Consolidated Statement of Financial Position

*As at December 31, 2014*

	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Cash and cash equivalents	32,751,929	33,109,072
Accounts receivable	55,483	198,208
Investments and accrued interest (Note 5)	63,249,757	55,488,757
Members' loans receivable and accrued interest (Note 6)	706,090,642	668,470,362
Income taxes recoverable	198,614	5,592
Prepaid expenses	1,411,003	952,157
Property and equipment (Note 8)	11,303,845	11,396,541
Intangible assets (Note 10)	6,695,725	6,132,211
Deferred tax (Note 11)	90,000	27,000
	<b>821,846,998</b>	<b>775,779,900</b>
<b>Liabilities</b>		
Member deposits and accrued interest (Note 12)	742,585,234	720,969,943
Current tax payable	-	106,295
Accounts payable	6,839,569	5,558,949
Term loan payable (Note 13)	17,000,000	-
	<b>766,424,803</b>	<b>726,635,187</b>
<b>Members' equity</b>		
Retained earnings	40,969,816	38,186,169
Contributed surplus (Note 19)	1,723,350	-
Member shares (Note 14)	12,729,029	10,958,544
	<b>55,422,195</b>	<b>49,144,713</b>
	<b>821,846,998</b>	<b>775,779,900</b>

Approved on behalf of the Board

Signed "Evan Casselman"  
Director

Signed "Fred Greig"  
Director

# Sunrise Credit Union Limited

## Consolidated Income Statement

*For the year ended December 31, 2014*

	<b>2014</b>	<b>2013</b>
<b>Financial income</b>		
Member loans	28,616,074	28,092,171
Investments	1,565,968	1,689,858
	<b>30,182,042</b>	29,782,029
<b>Interest expense</b>		
Deposits	10,649,523	11,028,645
Interest on borrowed money	1,225	139,905
	<b>10,650,748</b>	11,168,550
<b>Gross financial margin</b>	<b>19,531,294</b>	18,613,479
<b>Operating Expenses</b>		
Administration	4,441,620	7,751,693
Amortization	1,232,352	2,370,020
Member security	730,690	787,815
Occupancy	1,412,106	1,394,763
Organizational	543,662	646,997
Personnel	12,013,663	12,127,651
	<b>20,374,093</b>	25,078,939
<b>Net operating expenses</b>	<b>(842,799)</b>	(6,465,460)
<b>Other income</b>	<b>5,455,009</b>	10,878,029
<b>Income before provision for (recovery of) impaired loans, property held for resale, interest rate swaps and income taxes</b>	<b>4,612,210</b>	4,412,569
<b>Provision for (recovery of) (Note 6)</b>		
Impaired loans	536,316	(295,601)
Property held for resale	(9,127)	258,235
	<b>527,189</b>	(37,366)
<b>Income before interest rate swaps and income taxes</b>	<b>4,085,021</b>	4,449,935
<b>Fair value adjustment on interest rate swap</b>	<b>(384,195)</b>	524,943
<b>Income before income taxes</b>	<b>3,700,826</b>	4,974,878
<b>Income taxes</b>		
Current	770,634	918,997
Deferred	(63,000)	(80,000)
	<b>707,634</b>	838,997
<b>Net income</b>	<b>2,993,192</b>	4,135,881

*The accompanying notes are an integral part of these financial statements*

**Sunrise Credit Union Limited**  
**Consolidated Statement of Changes in Members' Equity**  
*For the year ended December 31, 2014*

	<i>Member shares</i>	<i>Retained earnings</i>	<i>Contributed surplus</i>	<i>Total equity</i>
<b>Balance December 31, 2012</b>	<b>10,968,033</b>	<b>34,209,039</b>	-	<b>45,177,072</b>
Net income	-	4,135,881	-	4,135,881
Issuance of member shares	2,394,705	-	-	2,394,705
Redemption of member shares	(2,404,194)	-	-	(2,404,194)
Dividend on preference shares, net of tax recovery	-	(158,751)	-	(158,751)
<b>Balance December 31, 2013</b>	<b>10,958,544</b>	<b>38,186,169</b>	-	<b>49,144,713</b>
Net income	-	2,993,192	-	2,993,192
Acquired through business combinations <i>(Note 19)</i>	36,589	-	1,723,350	1,759,939
Issuance of member shares	2,196,729	-	-	2,196,729
Redemption of member shares	(462,833)	-	-	(462,833)
Dividend on preference shares, net of tax recovery	-	(209,545)	-	(209,545)
<b>Balance December 31, 2014</b>	<b>12,729,029</b>	<b>40,969,816</b>	<b>1,723,350</b>	<b>55,422,195</b>

*The accompanying notes are an integral part of these financial statements*

**Sunrise Credit Union Limited**  
**Consolidated Statement of Cash Flows**  
*For the year ended December 31, 2014*

	<b>2014</b>	<b>2013</b>
<b>Cash provided by (used for) the following activities</b>		
<b>Operating activities</b>		
Interest received from member loans	28,472,653	28,277,980
Interest and dividends received from investments	1,660,893	1,689,858
Other income received	5,348,628	10,617,810
Cash paid to suppliers and employees	(18,795,973)	(24,618,170)
Interest paid on deposits	(11,153,805)	(11,213,863)
Interest paid on borrowed money	(1,225)	(139,905)
Income taxes paid	(963,656)	(848,411)
	<b>4,567,515</b>	<b>3,765,299</b>
<b>Financing activities</b>		
Net change in member deposits	7,432,159	25,163,573
Proceeds from issuance of member shares	2,233,308	2,394,705
Payments for redemption of member shares	(462,833)	(2,404,194)
Advances of term loan payable	17,000,000	-
	<b>26,202,634</b>	<b>25,154,084</b>
<b>Investing activities</b>		
Net change in members' loans receivable	(26,826,221)	(22,463,267)
Purchases of investments	(5,028,956)	-
Proceeds on disposal investments	-	15,576,234
Purchases of property and equipment	(778,878)	(806,939)
Proceeds from disposal of property and equipment	-	395,000
Proceeds from business disposal (acquisitions)	(1,000,000)	6,600,000
Cash received from business combination	2,506,763	-
	<b>(31,127,292)</b>	<b>(698,972)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(357,143)</b>	<b>28,220,411</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>33,109,072</b>	<b>4,888,661</b>
<b>Cash and cash equivalents, end of year</b>	<b>32,751,929</b>	<b>33,109,072</b>

*The accompanying notes are an integral part of these financial statements*

**Sunrise Credit Union Limited**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014*

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**1. Reporting entity information**

Sunrise Credit Union Limited (the "Credit Union") was formed pursuant to the Credit Unions and Caisses Populaires Act of Manitoba, Canada and operates thirteen 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, 2014 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 197 Broadway Street, Treherne, Manitoba, Canada.

These consolidated financial statements for the year ended December 31, 2014 were approved and authorized for issue by the Board of Directors on March 19, 2015.

***Basis of measurement***

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

***Functional and presentation currency***

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

**Statement of compliance**

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

**2. Significant accounting policies**

The principle 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 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 acquisition or disposal of subsidiaries during the year are included in the consolidated income statement 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.

**Sunrise Credit Union Limited**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014*

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2. **Significant accounting policies** *(Continued from previous page)*

**Investments**

*Central Term deposits and shares*

Credit Union Central of Manitoba term deposits are accounted for as loans and receivables at amortized cost, adjusted to recognize impairment in the underlying value. Credit Union Central of Manitoba Shares and Concentra Financial shares are classified as available for sale and initially recorded at fair value. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market in which case fair value has been estimated to equal cost.

*Portfolio investments*

Concentra Financial debentures and Municipal debentures, are valued initially at fair value, adjusted to recognize impairment in the underlying value. Investments are purchased with the intention to hold them to maturity, or until market conditions cause alternative investments to become more attractive. Investments in equity investments that do not have a quoted market price in an active market in which case fair value has been estimated at cost.

*Investment in mortgage pool*

Investments in the mortgage pool are accounted for as loan receivables and carried at amortized cost, adjusted to recognize impairment in the underlying value. Premiums on the mortgage pool are amortized on a straight line basis over the term of the mortgages.

**Members' loans receivable**

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

**Impairment of financial assets**

For financial assets carried at amortized cost, the Credit Union first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed loan, it then includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in the Income Statement.

Financial assets, together with the associated provision for impairment are reported as a credit loss when there is no realistic prospect of future recovery and when the Credit Union is in possession of the loan. Interest income is accrued until the financial asset becomes a credit loss. Impaired financial assets become a credit loss when in arrears in excess of 90 days.

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows including provisions for impaired financial assets, prepayment losses, and costs to securitize and service financial assets.

**Sunrise Credit Union Limited**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014*

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**2. Significant accounting policies** *(Continued from previous page)*

For the purpose of the collective evaluation of loan impairment, financial assets are grouped on the basis of the Credit Union's internal system that considers credit risk, characteristics such as asset type, industry, geographical location, collateral, delinquency status and other relevant economic factors.

Future cash flows on the group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical credit loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical credit loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year such as changes in unemployment rates, inflation, borrowing rates, consumer fuel prices, vehicle auction values or other factors that are indicative of incurred losses in the group and their magnitude.

**Property and equipment**

Property and equipment are stated at cost less accumulated amortization 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:

	<b>Method</b>	<b>Rate</b>
Buildings	straight-line	20-40 years
Computer software	straight-line	5-10 years
Computer equipment	straight-line	3-5 years
Furniture and equipment	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 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 profit or loss in the period.

**Goodwill and intangible assets**

**Goodwill**

Goodwill is recorded as the excess of consideration transferred over the fair value of the identifiable net assets acquired in a business combination, less accumulated impairment charges, and is allocated to the cash-generating units expected to benefit from the acquisition for the purpose of impairment testing. These cash-generating units represent the lowest level at which goodwill is monitored for internal management purposes.

**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.

**2. 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.

Goodwill is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Credit Union's CGU's expected to benefit from the synergies of the combination. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

***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 other issuance and are subsequently measured at amortized cost using the effective interest 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 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 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.

**2. Significant accounting policies** *(Continued from previous page)*

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

Loan fees 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 originating or acquiring a loan are netted against origination fees.

***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 profit or loss for the current period.

***Financial instruments***

All financial instruments are initially recognized on the statement of financial position at fair value. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. During the year, there has been no reclassification of financial instruments.

The financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in net income. The Credit Union's financial instruments classified as fair value through profit or loss include cash and cash equivalents and derivatives, including interest rate swaps.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Credit Union's shares in Credit Union Central of Manitoba and Concentra Financial have been classified as available for sale.

The financial assets classified as held-to-maturity are measured at amortized cost using the effective interest rate method. This instrument is initially recognized at its fair value. The Credit Union's financial instruments classified as held-to-maturity include Concentra Financial debentures, Municipal debentures and mortgage pool investments.

The financial assets classified as loans and receivables are initially measured at fair value, then subsequently carried at amortized cost. The Credit Union's financial instruments classified as loans and receivables include all member loans receivable, Credit Union Central of Manitoba term deposits and accrued interest, and accounts receivable.

**2. Significant accounting policies** *(Continued from previous page)*

Financial instruments classified as other financial liabilities include member deposits and accrued interest and accounts payable. Other financial liabilities are initially measured at fair value, then subsequently carried at amortized cost.

***Derecognition of financial assets***

Derecognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
  - The Credit Union has transferred substantially all the risks and rewards of the asset, or
  - The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred or retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Credit Union's continuing involvement in the asset, in that case, the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in the income statement.

The Credit Union designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). Financial instruments in this category are the embedded derivatives and derivatives related to index linked term deposits and interest rate swaps not designated as hedging instruments. The Credit Union has entered into interest rate swap contracts with Credit Union Central of Manitoba to hedge the Credit Union's exposure to interest rate risks. These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in profit or loss.

***Comprehensive income (loss)***

Comprehensive income (loss) includes all changes in equity of the Credit Union, except those resulting from investments by members and distributions to members. Comprehensive income (loss) is the total net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that, in accordance with International Financial Reporting Standards, require recognition, but are excluded from net income (loss). The Credit Union does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in net income for the period.

***Accounting standards and amendments adopted***

The following new or amended standards, and their resulting consequential amendments, were applied for the first time in the current year:

***IFRIC 21 Levies***

In May 2013, the International Accounting Standards Board (IASB) issued IFRIC 21, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in September 2013, which provides guidance on the accounting for levies within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The main features of IFRIC 21 are as follows:

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation; and the liability to pay a levy is recognized progressively if the obligating event occurs over a period of time. The standard had no impact on the Credit Union's financial results.

**2. Significant accounting policies** *(Continued from previous page)*

**IAS 36 Impairment of Assets**

In May 2013, the International Accounting Standards Board (IASB) issued an amendment, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in September 2013, to IAS 36. These narrow-scope amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The standard had no impact on the Credit Union's financial results.

**Standards issues 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, 2014 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.

**IFRS 9 Financial instruments**

IFRS 9 was issued in November 2009 and subsequently amended as part of an ongoing project to replace IAS 39 Financial instruments: Recognition and measurement. The standard requires classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primary unchanged from IAS 39, other than the fair value measurement option which now addresses an entity's own credit risk. Additional amendments are expected with respect to derecognition of financial instruments, impairment and hedge accounting. This new standard will also impact disclosures provided under IFRS 7 Financial instruments: disclosures.

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 (2014) as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. This Standard will replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted (subject to local endorsement requirements). IFRS 9 (2014) supersedes all previous versions including IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013). However, an entity may elect to apply those earlier versions of IFRS 9 instead of applying IFRS 9 (2014) if, and only if, the entity's relevant date of initial application is before February 1, 2015. The Credit Union is currently assessing the impact of this amendment on its financial statements.

**IFRS 13 Fair value measurement**

In May 2011, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard (IFRS) on fair value measurements, incorporated into Part I of the CPA Canada Handbook – Accounting (the Handbook) by the Accounting Standards Board (AcSB) in November 2011. This Standard applies when other IFRSs require or permit fair value measurements.

As part of the Annual Improvements to 2010 – 2012 cycle, the amendments to the basis of conclusions of IFRS 13, issued by the IASB in December 2013, clarify that amendments to IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement do not remove the ability to measure certain short-term receivables and payables on an undiscounted basis.

When an entity applies the "portfolio exception", it measures the fair value of financial assets and liabilities, with offsetting positions in market or counterparty credit risk, consistently with how market participants would price the net risk exposure. As part of the Annual Improvements to 2011 – 2013 cycle, the amendments to IFRS 13, issued by the IASB in December 2013, incorporated into the Handbook by the AcSB in March 2014, clarify that the portfolio exception applies to all contracts within the scope of IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32 Financial Instruments: Presentation. The amendments are effective for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The Credit Union is currently assessing the impact of this amendment on its financial statements.

**2. Significant accounting policies** *(Continued from previous page)*

***IAS 24 Related party disclosures***

As part of the Annual Improvements to 2010 – 2012 cycle, the amendments to IAS 24, issued by the International Accounting Standards Board (IASB) in December 2013, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in March 2014, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The Credit Union is currently assessing the impact of this amendment on its financial statements.

**3. Significant accounting judgements, estimates and assumptions**

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future.

***Allowance for impaired loans***

The Credit Union reviews its individually significant loans at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Credit Union makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Member loans receivable that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook. The impairment loss on members' loans receivable is disclosed in more detail in Note 6.

***Financial instrument not traded on active markets***

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

***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.

**Sunrise Credit Union Limited**  
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**4. 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, 2014 were \$608,415 (2013 - \$533,945). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.

**5. Investments and accrued interest**

	<b>2014</b>	<b>2013</b>
Credit Union Central of Manitoba Shares		
Term deposits	<b>54,718,200</b>	47,283,500
Shares	<b>3,350,340</b>	3,075,400
Other Investments		
Municipal debentures	<b>683,545</b>	111,987
Mortgage pool investments	<b>413,972</b>	840,674
Concentra Financial debenture	<b>4,000,000</b>	4,000,000
Concentra Financial shares	<b>18,952</b>	17,523
	<b>63,185,009</b>	55,329,084
Accrued interest	<b>64,748</b>	159,673
	<b>63,249,757</b>	55,488,757

Term deposits consist of eleven term deposits earning interest at rates between 0.13% and 2.72% (2013 - 1.11% to 3.75%). The term deposit maturities range from January 2015 and October 2018.

Municipal debenture matures in 2016 earning interest at 8.13% (2013 - 8.13%).

Mortgage pools consists of two investments. The mortgage pools earning interest between 3.98% - 3.99% (2013 - 2.99% - 4.00%).

Concentra Financial debentures consist of one debenture earning interest of 4.03% (2013 - 4.03%). The debenture matures in November 2022.

Pursuant to Regulation, the Credit Union is required to maintain 8% of its member deposits in specified liquidity deposits. As of December 31, 2014 the Credit Union met the required with liquidity of 11.93%.

**6. Members' loans receivable and accrued interest**

Principal and allowance by loan type:

	<b>2014</b>				
	<b>Principal performing</b>	<b>Principal impaired</b>	<b>Allowance specific</b>	<b>Allowance collective</b>	<b>Net carrying value</b>
Personal and other	56,858,984	153,423	69,783	73,544	<b>56,869,080</b>
Real estate secured	202,441,082	276,498	49,916	69,285	<b>202,598,379</b>
Commercial	230,593,404	757,038	61,364	81,137	<b>231,207,941</b>
Agricultural	210,004,821	5,984,708	558,193	16,094	<b>215,415,242</b>
	<b>699,898,291</b>	<b>7,171,667</b>	<b>739,256</b>	<b>240,060</b>	<b>706,090,642</b>
Total allowance				979,316	

**Sunrise Credit Union Limited**  
**Notes to the Consolidated Financial Statements**  
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6. **Members' loans receivable and accrued interest** (Continued from previous page)

**2013**

	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Personal and other	57,425,957	76,544	38,141	23,836	57,440,524
Real estate secured	182,359,919	381,294	141,720	110,380	182,489,113
Commercial	221,463,958	882,825	144,136	84,453	222,118,194
Agricultural	206,381,738	69,471	12,862	15,816	206,422,531
	667,631,572	1,410,134	336,859	234,485	668,470,362
<b>Total allowance</b>				<b>571,344</b>	

Loan allowance details

	<b>2014</b>	<b>2013</b>
Balance, beginning of year	<b>571,344</b>	909,282
Provision for (recovery of) impaired loans	<b>536,316</b>	(295,601)
	<b>1,107,660</b>	613,681
Less: accounts written off	<b>182,647</b>	42,337
Balance transferred on business combination	<b>(54,303)</b>	-
<b>Balance, end of year</b>	<b>979,316</b>	571,344

Loans past due but not impaired

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

<b>2014</b>	<b>1-30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>91 days and greater</b>	<b>Total</b>
Personal and other	3,548,529	589,271	165,733	634	<b>4,304,167</b>
Commercial	3,494,380	-	558,669	-	<b>4,053,049</b>
Agricultural	1,430,911	538,301	54,096	57,310	<b>2,080,618</b>
	8,473,820	1,127,572	778,498	57,944	<b>10,437,834</b>

2013	1-30 days	31-60 days	61-90 days	91 days and greater	Total
Personal and other	1,063,544	123,931	17,906	-	1,205,381
Real estate secured	1,872,813	57,454	-	-	1,930,267
Commercial	2,885,942	342,425	124,615	8,124	3,361,106
	5,822,299	523,810	142,521	8,124	6,496,754

**Sunrise Credit Union Limited**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014*

**6. Members' loans receivable and accrued interest** *(Continued from previous page)*

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

**7. 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.

**8. Property and equipment**

	<i>Land</i>	<i>Building</i>	<i>Computer software</i>	<i>Computer equipment</i>	<i>Furniture &amp; equipment</i>	<i>Leasehold improvement</i>	<i>Parking lot</i>	<i>Roof</i>	<i>Trade marks</i>	<i>Total</i>
<b>Cost</b>										
At December 31, 2012	3,060,596	8,419,656	1,618,018	966,991	2,016,181	158,596	10,577	631,456	6,771	16,888,842
Additions	9,069	396,273	12,600	22,068	366,929	-	-	-	-	806,939
Disposals	(86,671)	(329,710)	(1,580)	(230,826)	(145,805)	(96,324)	-	-	-	(890,916)
At December 31, 2013	2,982,994	8,486,219	1,629,038	758,233	2,237,305	62,272	10,577	631,456	6,771	16,804,865
Additions	10,225	643,993	-	71,333	53,327	-	-	-	-	778,878
Acquisitions through business combinations	17,023	199,521	53,497	174,665	143,305	-	-	-	-	588,011
Disposals	-	-	(560)	(190,175)	(30,145)	-	-	-	-	(220,880)
At December 31, 2014	<b>3,010,242</b>	<b>9,329,733</b>	<b>1,681,975</b>	<b>814,056</b>	<b>2,403,792</b>	<b>62,272</b>	<b>10,577</b>	<b>631,456</b>	<b>6,771</b>	<b>17,950,874</b>
<b>Amortization</b>										
At December 31, 2012	-	2,420,486	393,759	786,861	1,119,098	46,795	10,028	63,146	828	4,841,001
Additions	-	261,314	190,818	99,329	321,408	24,209	549	63,146	415	961,188
Disposals	-	(32,817)	(1,580)	(211,127)	(112,688)	(35,653)	-	-	-	(393,865)
At December 31, 2013	-	2,648,983	582,997	675,063	1,327,818	35,351	10,577	126,292	1,243	5,408,324
Additions	-	274,813	193,998	74,505	344,673	16,145	-	63,146	451	967,731
Acquisitions through business combinations	-	140,977	52,017	170,729	115,775	-	-	-	-	479,498
Disposals	-	-	(1,498)	(177,373)	(29,653)	-	-	-	-	(208,524)
At December 31, 2014	-	<b>3,064,773</b>	<b>827,514</b>	<b>742,924</b>	<b>1,758,613</b>	<b>51,496</b>	<b>10,577</b>	<b>189,438</b>	<b>1,694</b>	<b>6,647,029</b>
<b>Net book value</b>										
At December 31, 2013	2,982,994	5,837,236	1,046,041	83,170	909,487	26,921	-	505,164	5,528	11,396,541
At December 31, 2014	<b>3,010,242</b>	<b>6,264,960</b>	<b>854,461</b>	<b>71,132</b>	<b>645,179</b>	<b>10,776</b>	<b>-</b>	<b>442,018</b>	<b>5,077</b>	<b>11,303,845</b>

**Sunrise Credit Union Limited**  
**Notes to the Consolidated Financial Statements**  
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**9. Goodwill**

	<b>2014</b>	<b>2013</b>
Balance at beginning of year	-	2,512,579
Impairment losses	-	(100,000)
Disposal of subsidiary	-	(2,412,579)
	-	-

**10. Intangible assets**

The Credit Union performed an impairment test as at December 31, 2014 and it was determined that the fair value exceeded the carrying value and no provision for impairment was required.

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.

	<b>2014</b>	<b>2013</b>
Opening balance	<b>6,123,211</b>	10,296,111
Additions through business combinations	<b>853,833</b>	-
Amortization	<b>(281,319)</b>	(1,306,358)
Disposals	-	(2,857,542)
	<b>6,695,725</b>	6,132,211

**11. Income tax**

The tax effects of temporary differences which give rise to the deferred tax liability 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:

	<b>2014</b>	<b>2013</b>
<b>Deferred tax asset</b>		
Intangibles	<b>90,000</b>	27,000
Allowance for impaired loans	<b>30,000</b>	38,000
<b>Deferred tax liability</b>		
Property and equipment	<b>(30,000)</b>	(38,000)
Net balance	<b>90,000</b>	27,000

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:

	<b>2014</b>	<b>2013</b>
Combined federal and provincial statutory income tax rates	<b>27.00 %</b>	27.00 %
Small business deduction	<b>(17.00)%</b>	(17.00)%
Non-deductible and other items	<b>9.12 %</b>	6.86 %
Income tax as reported	<b>19.12 %</b>	16.86 %

**Sunrise Credit Union Limited**  
**Notes to the Consolidated Financial Statements**  
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**12. Member deposits and accrued interest**

	<b>2014</b>	<b>2013</b>
Registered plans	<b>91,287,478</b>	88,460,984
Chequing	<b>272,737,552</b>	246,572,191
Savings	<b>55,053,412</b>	49,393,197
Plan 24	<b>50,814,363</b>	53,543,152
Term deposits	<b>268,549,439</b>	278,353,147
Accrued interest	<b>4,142,990</b>	4,647,272
	<b>742,585,234</b>	720,969,943

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 2.00% (2013 - 2.00%).

Term deposits are subject to fixed and variable rates of interest ranging from 1.50% to 4.00%, (2013 - 1.50% to 4.00%) with interest payments due monthly, annually or on maturity.

Registered plans are subject to fixed and variable rates of interest ranging from 1.75% to 2.75%, (2013 - 1.50% to 2.50%) with interest payments due monthly, annually, or on maturity.

**13. Term loan payable**

At December 31, 2014 the Credit Union has a term loan with an outstanding balance of \$17,000,000 (2013 - nil) bearing an interest rate of 0.00% (2013 - nil) maturing January 2015.

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, 2014.

**14. 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:

	<b>2014</b>	<b>2013</b>
21,549 Common shares (2013 - 21,034)	<b>107,745</b>	105,170
6,807,501 Surplus shares (2013 - 7,060,844)	<b>6,807,501</b>	7,060,844
581,378 Preference shares (2013 - 379,253)	<b>5,813,783</b>	3,792,530
<b>Total</b>	<b>12,729,029</b>	10,958,544

**Sunrise Credit Union Limited**  
**Notes to the Consolidated Financial Statements**  
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**14. Member shares** *(Continued from previous page)*

During the year, the Credit Union issued 2,413 (2013 - 1,435) and redeemed 1,898 (2013 -1,700) common shares, issued nil (2013 - nil) and redeemed 253,343 (2013 - 175,694) surplus shares, and issued 222,125 (2013 - 238,753) and redeemed 20,000 (2013 - 222,000) 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.

**15. Dividends on preference shares**

During the year, the Board of Directors declared a dividend on preference shares in the amount of \$235,445 (2013 - \$178,351). The amount net of tax savings of \$25,900 (2013 - \$19,600), has been reflected as a charge to retained earnings.

**16. Related party transactions**

***Key management compensation of the Credit Union***

Key management personnel ("KMP") consists of Executives, Branch 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:

	<b>2014</b>	2013
Salary and short term benefits	<b>2,197,846</b>	2,041,026

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

	<b>2014</b>	2013
Aggregate of loans to KMP	<b>5,668,457</b>	6,421,730
The total value of revolving credit facilities KMP	<b>1,510,500</b>	1,311,000
	<b>7,178,957</b>	7,732,730

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

	<b>2014</b>	2013
Lines of Credit	-	189,500
Mortgages	<b>90,000</b>	1,173,324
Loans	<b>530,891</b>	1,338,502
	<b>620,891</b>	2,701,326

**Sunrise Credit Union Limited**  
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**16. Related party transaction** *(Continued from previous page)*

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

	<b>2014</b>	2013
Interest and other revenue earned on loans to KMP	<b>417,172</b>	240,430
Interest paid on deposits KMP	<b>17,433</b>	19,900

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

	<b>2014</b>	2013
Chequing and demand deposits	<b>2,270,818</b>	2,547,661
Term deposits	<b>1,010,347</b>	1,841,359
Registered plans	<b>1,436,837</b>	1,059,673
	<b>4,718,002</b>	5,448,693

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 \$83,070 (2013- \$68,749) reimbursement of expense amounted to \$71,947 (2013 - \$32,030) and meeting, training and conference costs amounted to \$31,313 (2013 - \$32,943) for the year ended. Total loans to Directors and staff as at year end amounted to 2.67% (2013 - 0.89%) 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 \$1,358,797 (2013 - \$1,320,394).

Interest and charges paid on borrowings during the year ended amounted to \$1,225 (2013 - \$139,905).

Payments made for affiliation dues, liquidity assessment, research and development assessment, cheque clearing and data processing for the year ended amounted to \$1,618,926 (2013 - \$1,538,270).

***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 \$662,472 (2013 - \$715,876).

***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.

**17. 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.

**17. Capital Management** *(Continued from previous page)*

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.

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.

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**17. Capital Management** *(Continued from previous page)*

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 the Act regulatory standards to the Credit Union's board policy for the year:

	<b>Regulatory standards</b>	<b>Board minimum limits</b>
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:

	2014	2013
Eligible capital		
Member shares	12,729,029	10,958,544
Retained earnings	40,969,816	38,186,169
Contributed surplus	1,723,350	-
Total eligible capital	55,422,195	49,144,713

	2014	2013
Equity not less than 5% of assets, as calculated in accordance with the Act	6.74 %	6.33 %
Retained earnings not less than 3% of assets	5.19 %	4.92 %
Capital not less than 8% of risk-weighted value of assets	9.93 %	8.84 %

**18. Financial instrument and 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's risk management policies and procedures include the following:

- 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.

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.

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

***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 5 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; and
- 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 and 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;
- Internal loan approval processes and loan documentation standards;
- Loan re-negotiation, extension and renewal processes and loan syndication 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, assess and manage delinquent and impaired loans;
- Collection processes that include action plans for deteriorating loans;
- Overdraft control and administration 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;
- (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.

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

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

	2014	2013
Unadvanced lines of credit	104,482,689	99,041,686
Guarantees and standby letters of credit	849,600	1,159,000
Commitments to extend credit	38,995,124	44,635,804

**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. Management's expectations of future events or the impact of repayments that may occur prior to maturity are not factored into the interest rate re-pricing information provided.

						2014 <i>Differential</i>	2013 <i>Differential</i>
<b>Interest rate sensitive</b>	<b>Assets</b>	<i>Average yield</i>	<b>Liabilities</b>	<i>Average costs</i>			
		%		%			
Variable (floating) maturing within 1 year	409,254,423	3.16 %	(431,830,189)	2.00 %		(22,575,766)	78,183,327
1 to 2 years	94,911,561	4.08 %	(77,394,752)	2.34 %		17,516,809	(87,966,189)
2 to 3 years	88,517,669	4.10 %	(51,386,691)	2.35 %		37,130,978	55,935,475
3 to 4 years	92,751,262	3.90 %	(31,320,144)	1.86 %		61,431,118	58,556,906
Over 4 years	99,197,221	3.93 %	(37,319,240)	1.82 %		61,877,981	38,995,715
Non-interest sensitive	37,214,862	-	(192,595,982)	-		(155,381,120)	(143,705,234)
	<b>821,846,998</b>		<b>(821,846,998)</b>			-	-

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase the financial margin by \$526,000. A 1.0% decrease in the interest rate would decrease the financial margin by \$549,000.

**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 5 for further information about the Credit Union's regulatory requirement.

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

The following table details the contractual maturities of financial instruments:

<b>Financial assets</b>	<b>Less than 1 year</b>	<b>1 to 2 years</b>	<b>After 2 years</b>	<b>Total</b>
Cash and cash equivalents	32,751,929	-	-	32,751,929
Investments and accrued interest	42,268,200	12,000,000	8,981,557	63,249,757
Members' loans receivable	232,305,779	167,840,298	305,944,565	706,090,642
Accounts receivable	55,483	-	-	55,483
	<b>307,381,391</b>	<b>179,840,298</b>	<b>314,926,122</b>	<b>802,147,811</b>
	<hr/>			
<b>Financial liabilities</b>	<b>Less than 1 year</b>	<b>1 to 2 years</b>	<b>After 2 years</b>	<b>Total</b>
Member deposits	132,586,966	139,960,657	470,037,611	742,585,234
Accounts payable	6,839,569	-	-	6,839,569
	<b>139,426,535</b>	<b>139,960,657</b>	<b>470,037,611</b>	<b>749,424,803</b>

***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.

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

Estimated fair values of financial instruments are summarized as follows:

	Fair value	Book value	2014 Fair value over (under) book value	Fair value	Book value	2013 Fair value over book value
<b>Financial assets</b>						
Cash and equivalents	32,751,929	32,751,929	-	33,109,072	33,109,072	-
Investments	63,299,925	63,249,757	50,168	56,255,515	55,488,757	766,758
Members' loans receivable and accrued interest	705,741,395	706,909,642	(1,168,247)	669,096,542	668,470,362	626,180
Accounts receivable	55,483	55,483	-	198,208	198,208	-
	<b>801,848,732</b>	<b>802,966,811</b>	<b>(1,118,079)</b>	<b>758,659,337</b>	<b>757,266,399</b>	<b>1,392,938</b>
<b>Financial liabilities</b>						
Member deposits	743,073,754	742,585,234	488,520	725,044,208	720,969,943	4,074,265
Accounts payable	6,839,569	6,839,569	-	5,558,949	5,558,949	-
Interest rate swap	242,217	242,217	-	45,083,333	45,083,333	-
Term loan payable	17,000,000	17,000,000	-	-	-	-
	<b>767,155,540</b>	<b>766,667,020</b>	<b>488,520</b>	<b>775,686,490</b>	<b>771,612,225</b>	<b>4,074,265</b>

**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 prioritizes 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.

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**19. Business combinations**

On July 1, 2014 Sunrise Credit Union Limited ("Sunrise") acquired Sandy Lake Credit Union Limited ("Sandy Lake") as part of an amalgamation and commenced operations under the name "Sunrise Credit Union". Under the requirements of IFRS 3 "Business Combinations", Sunrise was identified as the purchaser for accounting purposes in applying the acquisition method. Each issued and outstanding share of Sandy Lake was converted to an equivalent share of Sunrise Credit Union Limited. The consolidated statement of operations includes the operations of the former Sunrise and Sandy Lake since the date of amalgamation.

Under the acquisition method of accounting, the net assets of the acquired enterprises are recorded at fair value. 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 July 1, 2014:

<b>Assets</b>	<b>Sandy Lake Credit Union Limited</b>
Cash	2,506,763
Investments	2,732,044
Members' loan receivable	11,186,956
Other assets	145,853
	<b>16,571,616</b>
<b>Liabilities</b>	
Member deposits and accrued interest	14,687,414
Accounts payable	123,758
Income taxes payable	505
	<b>14,811,677</b>
Net assets	1,759,939
Purchase price - issued to members	36,589
Bargain purchase price	<b>1,723,350</b>

During the year VCU Financial Group Ltd. purchased the remaining 25% interest of K&R Investment Management Inc. at a purchase price of \$1,000,000. This acquisition has been recorded by the purchase method and the results of operations have been included in these consolidated financial statements from the date of acquisition.

**20. Comparative figures**

Certain prior year figures have been reclassified to conform to the current year's presentation.