Credit Union Central of Manitoba Limited

Consolidated Financial Statements
December 31, 2013

(in thousands of Canadian dollars)

February 28, 2014

Independent Auditor's Report

To the Members of
Credit Union Central of Manitoba Limited

We have audited the accompanying consolidated financial statements of Credit Union Central of Manitoba Limited and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of operations and comprehensive income, members' equity and cash flows for the year then ended, and the related notes, which comprise 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.

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

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

We believe that the audit evidence we have obtained 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 Credit Union Central of Manitoba Limited and its subsidiary as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

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Credit Union Central of Manitoba Limited
Consolidated Statement of Financial Position
As at December 31

(in thousands of Canadian dollars)

	2013	2012
Assets		
Liquidity pool (note 4)	2,721,850	3,127,640
Derivative financial instruments	5,820	7,352
Income taxes recoverable (note 5)	3,268	-
Intermediation pool (note 6)	95,893	88,654
Property and equipment (note 7)	18,107	19,421
Other assets	2,750	4,843
Deferred income taxes (note 5)	362	915
	2,848,050	3,248,825
Liabilities		
Accounts payable	12,647	29,412
Income taxes payable (note 5)	-	3,096
Members' deposits	2,431,178	2,954,556
Obligations under repurchase agreements (note 3 f) vii)	203,360	-
Derivative financial instruments	12,866	34,575
	2,660,051	3,021,639
Members' equity		
Share capital (note 8)	159,095	199,060
Accumulated other comprehensive income	1,225	1,225
Retained earnings	27,679	26,901
	187,999	227,186
	2,848,050	3,248,825

Approved by the Board of Directors

_______________ Director _______________ Director

Credit Union Central of Manitoba Limited

Consolidated Statement of Operations and Comprehensive Income

For the year ended December 31

(in thousands of Canadian dollars)

		2013		2012
Financial revenue				
Liquidity pool		79,596		93,845
Intermediation pool		1,764		1,188
		81,360		95,033
Cost of funds		39,082		45,012
		42,278		50,021
Unrealized gains (losses) on non-derivative instruments (note 9)		(13,995)		5,853
Unrealized gains on derivative financial instruments (note 9)	13,999		21,173	
Net cost of derivative financial instruments (note 9)	(13,004)	995	(20,002)	1,171
		(13,000)		7,024
Financial margin		29,278		57,045
Other income (expense)				
Share of Celero's income (loss) (note 3 f) iii)		94		(617)
Rental income – net		195		177
Net operating recovery (note 10)		349		312
		638		(128)
Income before credit union patronage distributions		29,916		56,917
Credit union distributions				
Financial margin distribution		(23,268)		(22,582)
Recovery (distribution) of Celero's loss (income) (note 3 f) iii)		(94)		617
		(23,362)		(21,965)
Income before income taxes		6,554		34,952
Income tax expense (recovery) (note 5)		(286)		3,552
Net income for the year		6,840		31,400
Other comprehensive income (loss)				
Change in unrealized gains on available-for-sale assets		-		(92)
Comprehensive income for the year		6,840		31,308

Credit Union Central of Manitoba Limited
Consolidated Statement of Members' Equity
As at December 31

(in thousands of Canadian dollars)

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at December 31, 2011	176,639	1,317	2,910	180,866
Net income for the year	-	-	31,400	31,400
Other comprehensive loss net of tax of $92	-	(92)	-	(92)
Dividends to members	-	-	(7,409)	(7,409)
Issue of shares (note 8)	22,421	-	-	22,421
Balance at December 31, 2012	199,060	1,225	26,901	227,186
Balance at December 31, 2012	199,060	1,225	26,901	227,186
Net income for the year	-	-	6,840	6,840
Dividends to members	-	-	(6,062)	(6,062)
Redemption of shares (note 8)	(39,965)	-	-	(39,965)
Balance at December 31, 2013	159,095	1,225	27,679	187,999

Credit Union Central of Manitoba Limited

Consolidated Statement of Cash Flows

For the year ended December 31

(in thousands of Canadian dollars)

	2013	2012
Cash provided by (used in)		
Operating activities		
Net income for the year	6,840	31,400
Items not affecting cash		
Unrealized gains on financial instruments held for trading and designated as FVTPL	(4)	(27,026)
Depreciation of property and equipment	1,727	1,651
Loss (gain) on disposal of property and equipment	(20)	67
Deferred income tax expense (recovery)	554	(458)
Decrease (increase) in liquidity pool assets	456,081	(352,827)
Decrease (increase) in derivative financial instruments	(6,178)	824
Increase in intermediation pool assets	(7,239)	(22,142)
Increase (decrease) in members' deposits	(518,683)	295,046
Increase in repurchase agreements	203,360	-
Net change in other assets and accounts payable	(21,037)	24,475
	115,401	(48,990)
Investing activities		
Acquisition of property and equipment (note 7)	(460)	(866)
Sale of property and equipment (note 7)	67	-
	(393)	(866)
Financing activities		
Issue (redemption) of members' shares (note 8)	(39,965)	22,421
Dividends to members	(6,062)	(7,409)
	(46,027)	15,012
Increase (decrease) in cash	68,981	(34,844)
Cash (overdraft) - Beginning of year	(20,066)	14,778
Cash (overdraft) - End of year	48,915	(20,066)
Supplementary cash flow information		
Income tax paid	5,530	269

(in thousands of Canadian dollars)

1 General information

Credit Union Central of Manitoba (the "Organization") is incorporated under the *Credit Union Incorporation Act of Manitoba* and is domiciled in Canada. The address of its registered office is 317 Donald St., Winnipeg, Manitoba, Canada. The Organization is the trade association and service provider to Manitoba credit unions. The Organization manages liquidity reserves, monitors credit granting procedures and provides trade services in areas such as corporate governance, government relations, representation and advocacy. The Organization also provides payment and settlement services, banking, treasury, human resources, market research, communications, marketing, planning, lending, product/service research and development, business consulting, and legal services to Manitoba credit unions. Manitoba credit unions jointly own the Organization and the Organization's operations are financed through assessments and fee income.

2 Basis of preparation

The Organization prepares its consolidated financial statements in accordance with the *Cooperative Credit Associations Act*, which requires them to be in accordance with Canadian generally accepted accounting principles as defined in Part 1 of the Handbook of the Chartered Professional Accountants of Canada (International Financial Reporting Standards ("IFRS")), except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The significant accounting policies used in the preparation of the consolidated financial statements are summarized below.

These consolidated financial statements were approved by the Board of Directors for issue on February 28, 2014.

3 Summary of significant accounting policies

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

a) Basis of measurement

The consolidated financial statements have been prepared using amortized cost, except for certain investments in liquidity pool assets and in intermediation pool assets, members' deposits, and derivative financial instruments, which are measured at fair value.

b) Consolidation

The financial statements consolidate the accounts of the Organization and its wholly owned subsidiary, 317 Donald Inc. Subsidiaries are those entities which the Organization controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated.

(in thousands of Canadian dollars)

c) Investments in associates

Associates are entities over which the Organization exercises significant influence, but not control. The Organization accounts for its investment in associates using the equity method. The Organization's share of profits or losses of associates is recognized in the consolidated statement of operations.

Unrealized gains on transactions between the Organization and its associates are eliminated to the extent of the Organization's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests of the Organization in associates are recognized in the consolidated statement of operations.

For investments in associates, a significant or prolonged decline in fair value of the investment below its carrying value is evidence that the investment is impaired. The impairment loss is the difference between the carrying value and its recoverable amount at the measurement date. The recoverable amount is the higher of an investment's fair value less costs of disposal and its value in use.

d) Recoveries from member credit unions

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

e) Rental income

Third-party rental income related to the operations of 317 Donald Inc. are disclosed separately in the consolidated statement of operations and comprehensive income. Rental income is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

f) Financial instruments

Financial instruments, other than those required to be designated as held for trading, may be designated on a voluntary and irrevocable basis as fair value through profit and loss ("FVTPL") provided that such designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the related gains and losses on different bases; and
- allows for reliable measurement of the fair value of the financial instruments designated as FVTPL.

(in thousands of Canadian dollars)

The Organization has met the above requirements and has elected to designate certain of its financial instruments as FVTPL as detailed below.

i. Liquidity pool

Investments held for trading

Financial instruments are classified as held for trading if they are a derivative or acquired principally for selling or repurchasing in the near term or managed together for which there is evidence of a recent pattern of short term profit taking. The Corporation's derivatives are the only instruments required to be classified as held for trading (note 3 f) ii).

Investments designated as FVTPL

These investments are recorded at their fair value initially using the trade date for recognizing transactions and thereafter based on inputs other than quoted prices that are observable either directly or indirectly. Interest income earned, amortization of premiums and discounts, dividends received as well as realized gains and losses are included in financial revenue - liquidity pool using the accrual basis of accounting. Gains and losses arising from subsequent market valuations are recognized in the consolidated statement of operations and comprehensive income in unrealized gains (losses) on non-derivative instruments.

Investments designated as held to maturity

Certain investments are recorded at their amortized cost using the trade date for recognizing transactions. Interest income earned, as well as dividends received, are included in financial revenue - liquidity pool using the accrual basis of accounting. Accrued interest receivable is included with the corresponding principal balance.

Cash and cash equivalents

Cash and cash equivalents consists of cash, deposits and overdrafts with financial institutions. Bank overdrafts are included as a component of cash as they represent an integral part of the Organization's cash management. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

Transaction costs

All transaction costs are expensed as incurred for assets and liabilities classified as held for trading and designated as FVTPL. Transaction costs for all other financial assets are included in the initial carrying amount.

(in thousands of Canadian dollars)

ii. Derivative financial instruments

Interest rate swap agreements

The Organization enters into interest rate swap agreements in order to manage its exposure to changes in interest rates.

Additionally, the Organization, in its role as a financial intermediary, enters into interest rate swap agreements with and at the direction of member credit unions. Concurrently, the Organization enters into a mirroring counter agreement with a third party financial institution.

These agreements are recorded at their fair value based on a discounted cash flow methodology using observable market inputs. Cash flows on both the receiving and paying leg of the interest rate swap agreements are included in net cost of derivative financial instruments used to manage interest rate risk (note 16 c). The fair value of interest rate swap agreements is recorded in derivative financial instruments assets or liabilities, as appropriate, on the consolidated statement of financial position with the corresponding gain or loss included in unrealized gains (losses) on derivative financial instruments.

Foreign exchange forward rate agreements

The Organization enters into foreign exchange forward rate agreements in order to manage its exposure to changes in foreign exchange rates.

Additionally, the Organization, in its role as a financial intermediary, also enters into foreign exchange forward rate agreements with and at the direction of member credit unions. Concurrently, the Organization may enter into a counter agreement with a third party financial institution.

Foreign exchange forward rate agreements are recorded at their fair value based on a discounted cash flow methodology using observable market inputs. The fair value of foreign exchange forward rate agreements is recorded in derivative financial instruments assets or liabilities, as appropriate, on the consolidated statement of financial position with the corresponding gain or loss included in financial revenue – liquidity pool.

Embedded derivatives

A derivative instrument may be embedded in another financial instrument (“the host instrument”). Embedded derivatives are treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivatives are the same as those of a stand-alone derivative financial instrument, and the combined contract is not classified as held for trading or designated as FVTPL. Embedded derivatives would be accounted for at fair value on the consolidated statement of financial position and changes in fair value would be recorded in the statement of operations and comprehensive income. The Organization determined that no embedded derivatives require separation from the host instrument for the periods presented.

(in thousands of Canadian dollars)

iii. Intermediation pool

Equity instruments are designated as available for sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition using the trade date for recognizing transactions. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

All other instruments are designated as loans and receivables and are recorded at amortized cost using the effective interest method. Interest and dividend income earned is included in financial revenue - intermediation pool using the accrual basis of accounting. Accrued interest or dividends receivable are included with the corresponding principal balance.

Investment in Celero Solutions ("Celero")

Celero is an unincorporated operation domiciled in Canada that provides information technology services to the Organization, credit unions and other organizations. Pursuant to its agreement with the other investees, the Organization has a 31.4% ownership interest in Celero which in turn has a 49% ownership interest in Everlink Payment Services Inc. ("Everlink"), an incorporated entity that provides electronic switching services.

The Organization accounts for its investment in Celero using the equity method. The Organization's share of Celero's net income (loss) is based upon the net income (loss) of the business lines that the Organization contributed to and its ownership interest in the net income (loss) of Celero's remaining activities.

Member credit unions that receive services through Celero are the beneficial owners of the Organization's interest therein. Accordingly, the Organization records an offsetting expense and an amount distributable to member credit unions equal to its share of Celero's net income. Conversely, should Celero incur a net loss from operations, the Organization records an offsetting contribution and an amount recoverable from its member credit unions.

iv. Impairment of financial assets

At each reporting date, the Organization assesses whether there is objective evidence that a financial asset, other than a financial asset classified as held for trading or designated as FVTPL, is impaired.

The criteria used to determine if there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the obligor;

(ii) delinquencies in interest or principal payments; or

(iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For an equity security, a significant or prolonged decline in the fair value of the security below its carrying value is also evidence that the asset is impaired. If such evidence exists, the

(in thousands of Canadian dollars)

Organization recognizes an impairment loss. The impairment loss is the difference between the carrying value of the asset and its fair value at the measurement date.

For financial assets carried at amortized cost, the impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

v. Members' deposits

Members' deposits are designated as FVTPL and recorded at their fair value initially using the trade date for recognizing transactions. Members' deposits are redeemable at the option of credit unions and are recorded at the amount payable on demand. The amount payable on demand is computed by discounting contractual cash flows as follows:

- for terms less than 13 months, using prevailing banker's acceptance rates offered by the Organization; and
- for terms greater than 13 months, using the corresponding market yield on Schedule I bank senior debt.

Interest expense is included in cost of funds using the accrual basis of accounting. Gains and losses arising from subsequent market valuations are recognized as unrealized gains (losses) on non-derivative instruments.

vi. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Organization currently has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the Organization enters into various master netting agreements or other similar agreements that do not meet the criteria for offsetting in the consolidated statement of financial position but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or the termination of the contracts (note 18).

vii. Obligations under repurchase agreements

The Organization enters into short-term sales of securities under agreements to repurchase at predetermined prices and dates. The corresponding securities under these agreements continue to be recorded in liquidity pool assets on the consolidated statement of financial position. The obligations are designated as FVTPL and are recorded at fair value initially and thereafter using the trade date for recognizing transactions. These agreements are treated as collateralized borrowing

(in thousands of Canadian dollars)

transactions. Interest incurred on the obligation is reported in cost of funds using the accrual basis of accounting.

g) Income taxes

The asset and liability method is used to account for deferred income taxes. Under this method, deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in the consolidated statement of operations and comprehensive income in the period that includes the substantive enactment date. Deferred income tax assets are recognized to the extent that realization is considered probable. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

h) Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses with the exception of land which is not depreciated. Depreciation is recognized by the Organization at rates and on bases determined to charge the cost of property and equipment over its estimated useful life using the straight-line method as follows:

Technology	3 to 10 years
Furniture and equipment	5 to 10 years
Leasehold improvements	remaining term of the lease
Building	50 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Costs for property and equipment under development include direct development costs. Direct development costs include overhead and interest, as applicable. Capitalization of costs ceases and depreciation commences when the property and equipment is available for use.

i) Foreign currency translation

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in financial margin.

j) Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Organization (an “operating lease”), the total rentals payable under the lease are charged to the consolidated statement of operations and comprehensive income over the lease term.

(in thousands of Canadian dollars)

k) Intangible assets

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Organization. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Intangible assets are classified within technology assets (note 7) based on materiality.

l) Provisions

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

m) Critical accounting estimates and judgements

The Organization makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i. Members' deposits classified as FVTPL

The fair values of members' deposits with a carrying value of $2,431,178 (2012 - $2,954,556) are not quoted in an active market and are therefore determined by using a discounted cash flow model. The fair value of members' deposits with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. The discounted cash flow model used to determine fair values is validated and periodically reviewed by experienced personnel. The inputs in the discounted cash flow model are based on observable data, such as market based discount rates that approximate the redemption features. Changes in assumptions about these factors could affect the reported fair value of members' deposits. A 25 basis point reduction in the discount curve would increase members' deposits and decrease financial margin by $2,628. A 25 basis point increase in the discount curve would decrease members' deposits and increase financial margin by $2,610.

ii. Fair value of derivative financial instruments

The fair values of derivative financial instruments with a carrying value of ($7,046) (2012 - ($27,223)) are not quoted in an active market and are therefore determined by using a discounted cash flow model. The discounted cash flow model used to determine fair values is validated and periodically reviewed by experienced personnel. The inputs in the discounted cash flow model are based on observable data, such as yield curves associated with interest rates and foreign exchange rates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(in thousands of Canadian dollars)

iii. Held-to-maturity investments

The Organization classifies certain financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Organization evaluates its intention and ability to hold such investments to maturity. If the Organization were to fail to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount close to maturity – the Organization is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortized cost. If all held-to-maturity investments were to be so reclassified, the carrying value would increase by $127, with a corresponding entry in other comprehensive income and accumulated other comprehensive income.

iv. Available for sale financial assets

The Organization holds certain available for sale financial assets within its intermediation pool. The available for sale financial assets do not have quoted market prices in an active market. Fair values for certain available for sale financial assets are considered to be reliably measurable and are considered to approximate their par value based on the terms of those shares. Fair values for the remaining shares in co-operatives aggregating to $842 are not considered to be reliably measurable due to the wide range of potential events and related cash flows that can be attributed to the shares; accordingly these shares have been recorded at their last known transaction value, which in most cases is par value. The Organization continues to monitor these shares for any indication that a new reliable measure of fair value is available and any change in the resulting fair value would be recognized in other comprehensive income, unless the shares were determined to be impaired at which time the impairment would be recorded in net income. Furthermore, any disposal of the shares would result in their de-recognition and subsequent recycling of a resultant gain or loss from accumulated other comprehensive income into net income.

n) Accounting standards and amendments adopted

The Organization has adopted the following new and revised standards, along with any consequential amendments, on January 1, 2012 unless otherwise noted. The changes were made in accordance with the applicable transition provisions.

i. IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under prior IFRS, consolidation was required when an entity had the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

(in thousands of Canadian dollars)

The Organization adopted IFRS 10 and reassessed its consolidation conclusions and determined that the adoption of IFRS 10 did not result in any changes in the consolidation status of any of its subsidiaries and investees and accordingly had no impact on the Organization's consolidated statement of financial position or the consolidated statement of operations and comprehensive income.

ii. IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures are accounted for using the equity method of accounting whereas for a joint operation the venturer recognizes its share of the assets, liabilities, revenue and expenses of the joint operation. Under prior IFRS, entities had the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities— Non-Monetary Contributions by Venturers.

The standards did not affect the Organization as it did not have any joint arrangements and accordingly had no impact on the Organization's consolidated statement of financial position or the consolidated statement of operations and comprehensive income.

iii. IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

The standards were adopted by the Organization and the related disclosure amendments are included in the consolidated financial statements.

iv. IFRS 13, *Fair Value Measurement*. Under prior IFRS, guidance on measuring and disclosing fair value was dispersed among the specific standards requiring fair value measurements. IFRS 13 is a more comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement.

The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Organization to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

v. Amendments to IAS 1, Financial Statement Presentation, require entities to separate items presented in other comprehensive income (OCI) into two groups, based on whether or not they may be recycled to profit or loss in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

Adoption of the standard did not result in any adjustments to other comprehensive income or comprehensive income.

(in thousands of Canadian dollars)

vi. Amendments to IFRS 7, *Financial Instruments: Disclosures*, improve the disclosure requirements with respect to offsetting of financial assets and liabilities. The objective of these amendments is to help users of financial statements better evaluate the impact of netting agreements on the financial position of an entity and understand how an entity manages the credit risk associated with such agreements.

The adoption of the IFRS 7 amendments impacted the Organization's financial instrument note disclosures (note 18).

vii. The annual improvements project resulted in several amendments to standards which were minor and did not have an effect on the Organization's results and financial position, with the exception of an amendment to IAS 32, *Financial Instruments: Presentation*. The amendment to IAS 32 specifies that the income tax consequences of dividends should be recognized in accordance with IAS 12*, Income Taxes*. Therefore, when certain conditions are met, the income tax consequences of dividends will have to be presented in the consolidated statement of operations and comprehensive income rather than in the consolidated statement of members' equity.

There is no impact on the Organization's consolidated statement of financial position as at January 1, 2012 and December 31, 2012. However, certain comparative figures were reclassified from the consolidated statement of members' equity to the consolidated statement of operations and comprehensive income for the year ended December 31, 2012 such that the income tax recoveries on dividends to members of $973 recognized in the consolidated statement of members' equity is reclassified to reduce income tax expense in the consolidated statement of operations and comprehensive income by the same amount.

o) Accounting standards and amendments issued but not yet adopted

Accounting standards that have been issued but are not yet effective are listed below. OSFI has stated that early adoption of these standards will not be permitted. The Organization has not yet assessed the impact of these standards and amendments.

i. IFRS 9, Financial Instruments, was issued in November 2009 and addresses the classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and FVTPL depending on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at FVTPL or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in net income to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments - Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at FVTPL are generally recorded in other comprehensive income. In November 2013, three new amendments offsetting IFRS 9, IAS 7, and IAS 39 were introduced. The first amendment sets out new hedge accounting

(in thousands of Canadian dollars)

requirements. The second amendment allows entities to apply the accounting charges from own credit risk in isolation without applying the other requirements of IFRS 9. The third amendment removes the mandatory effective date of IFRS 9 from January 1, 2015 to a date that will be determined when IFRS 9 is closer to completion.

ii. IAS 36, Impairment of Assets, was amended to limit the requirement to disclose the recoverable amount to non-financial assets for which an impairment loss has been recognized or reversed during the year. The amendments also enhance and clarify the disclosures required when the recoverable amount is determined based on the fair value less costs of disposal. The amendment is effective for annual periods beginning on or after January 1, 2014 with early application permitted.

(in thousands of Canadian dollars)

4 Liquidity pool

				2013
	Loans and Receivables	**FVTPL**	**Held to maturity**	**Total**
Debt instruments				
Governments	-	149,207	-	149,207
Banks or trust companies	-	2,183,198	5,338	2,188,536
Corporate	-	335,192	-	335,192
	-	2,667,597	5,338	2,672,935
Cash	48,915	-	-	48,915
	48,915	2,667,597	5,338	2,721,850

				2012
	Loans and Receivables	**FVTPL**	**Held to maturity**	**Total**
Debt instruments				
Governments	-	13,924	-	13,924
Banks or trust companies	-	2,596,647	49,977	2,646,624
Corporate	-	487,158	-	487,158
	-	3,097,729	49,977	3,147,706
Overdraft	(20,066)	-	-	(20,066)
	(20,066)	3,097,729	49,977	3,127,640

The fair value of held to maturity investments was $5,503 (2012 - $51,187).

(in thousands of Canadian dollars)

5 Income taxes

Significant components of the provision for income taxes included in the consolidated statement of operations and comprehensive income are:

	2013	2012
Current income taxes		
Based on current year taxable income	(359)	3,063
Reduction (increase) in tax rates	-	-
Adjustment recognized for current tax of prior periods	(481)	947
Total current income taxes	(840)	4,010
Deferred income taxes		
Origination and reversal of temporary differences	544	573
Reduction (increase) in tax rates	24	(46)
Adjustment recognized for deferred taxes of prior periods	(14)	(985)
Total deferred income taxes	554	(458)
Total provision for (recovery of) income tax	(286)	3,552

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

	2013	2012
shown as %		
Federal base rate	38.00	38.00
Federal abatement	(10.00)	(10.00)
Available small business deduction [a]	(16.40)	(17.00)
Blended net federal tax rate	11.60	11.00
Provincial tax rate	1.37	2.13
	12.97	13.13

[a] The maximum available is calculated as 16.4% (2012 – 17%), however, the full deduction may not be available to the Organization and will fluctuate year over year due to the level of taxable income in the year. The 2013 federal budget eliminates the available small business deduction for both cooperatives and credit unions by 20% per year beginning in 2013 effective on the budget date.

(in thousands of Canadian dollars)

Differences between the income tax expense for the year and the expected income taxes based on the statutory rate of 12.97% (2012 – 13.13%) are:

	2013	**2012**
Income before income taxes	6,554	34,952
Expected provision for income taxes at statutory rates	850	4,589
Non-deductible portion of expenses/non-taxable income	13	(17)
Impact of change in tax rates	24	(46)
Higher tax rate applicable to subsidiary	47	44
Adjustment recognized for tax of prior periods	(495)	(38)
Tax savings on dividend recorded through income	(794)	(973)
Other	69	(7)
Total provision for (recovery of) income taxes	(286)	3,552

Based on the Income Tax Act, credit unions are entitled to a deduction from taxable income related to payments in respect of share capital and therefore any dividends paid or payable by the Organization would result in tax savings. Distributions to members are charged against retained earnings however the tax savings are recognized in the consolidated statement of operations and comprehensive income.

Components of the deferred tax assets and liabilities are:

	2013	**2012**
Deferred tax assets		
Provisions for expenditures currently not deductible for income tax purposes	250	226
Members' deposits	888	1,449
	1,138	1,675
Deferred tax liabilities		
Intermediation pool assets	(230)	(176)
Capital cost allowance in excess of depreciation	(546)	(584)
	(776)	(760)
Net deferred tax asset	362	915

The Organization has no material unrecognized temporary differences related to its wholly-owned subsidiary or its investment in associates.

(in thousands of Canadian dollars)

	2013	2012
Income taxes recoverable (payable)		
Current income taxes recoverable (payable)	3,268	(3,096)
Deferred income tax		
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	250	226
Deferred tax assets to be recovered after more than 12 months	888	1,449
	1,138	1,675
Deferred tax liabilities		
Deferred tax liabilities to be recovered within 12 months	-	-
Deferred tax liabilities to be recovered after more than 12 months	(776)	(760)
	(776)	(760)
Net deferred tax asset	362	915

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

(in thousands of Canadian dollars)

6 Intermediation pool

	2013	2012
Loans and receivables		
Member loans		
Credit unions	75,684	67,939
Co-operatives	7,309	7,295
Mortgages	494	473
	83,487	75,707
Available for sale financial assets		
Shares in co-operatives	5,301	5,279
Equity accounted investments		
Investment in Celero (note 20)		
Loans receivable	4,409	5,725
Capital contribution	3,773	3,773
Accumulated share of deficiency	(1,077)	(1,830)
	7,105	7,668
	95,893	88,654

The available for sale financial assets do not have quoted market prices in an active market. For certain shares, fair value is considered to be reliably measurable and is considered to approximate par value based on the terms of those shares. For shares where fair value is not considered to be reliably measurable due to the wide range of potential events and related cash flows that can be attributed to the shares, the shares have been recorded at their last known transaction value, which in most cases is par value. The Organization continues to monitor these shares for any indication that a new reliable measure of fair value is available.

(in thousands of Canadian dollars)

7 Property and equipment

	Land	Building	Technology	Furniture and equipment	Leasehold improvements	Total
Year ended December 31, 2012						
Opening net book value	1,379	12,448	4,033	601	1,812	20,273
Additions	-	-	827	39	-	866
Disposals	-	-	(67)	-	-	(67)
Depreciation	-	(276)	(869)	(163)	(343)	(1,651)
Closing net book value	1,379	12,172	3,924	477	1,469	19,421
At December 31, 2012						
Cost	1,379	13,817	11,425	2,706	3,491	32,818
Accumulated depreciation	-	(1,645)	(7,501)	(2,229)	(2,022)	(13,397)
Net book value	1,379	12,172	3,924	477	1,469	19,421
Year ended December 31, 2013						
Opening net book value	1,379	12,172	3,924	477	1,469	19,421
Additions	-	-	438	4	18	460
Disposals	-	-	-	(47)	-	(47)
Depreciation	-	(276)	(962)	(148)	(341)	(1,727)
Closing net book value	1,379	11,896	3,400	286	1,146	18,107
At December 31, 2013						
Cost	1,379	13,817	11,207	2,562	3,509	32,474
Accumulated depreciation	-	(1,921)	(7,807)	(2,276)	(2,363)	(14,367)
Net book value	1,379	11,896	3,400	286	1,146	18,107

In 2013, furniture and equipment with an initial cost of $148 and accumulated depreciation of $101 were disposed of for $67 cash consideration.

In 2013, technology with an initial cost of $656 (2012 - $83) and accumulated depreciation of $656 (2012 - $16) were disposed of for $nil consideration.

(in thousands of Canadian dollars)

8 Share capital

Authorized

Share capital consists of an unlimited number of Class I and II shares, to be issued and redeemed at $5 each.

Membership

Pursuant to the Organization's by-laws, member credit unions maintain investments in both classes of shares proportionate to their statutory (Class I) and excess (Class II) liquidity deposits held by the Organization.

Every member of the Organization is required to own a minimum of two Class I shares.

Rights and privileges

At the discretion of the Organization's directors, dividends may be declared and paid to either or both classes of shares. On any return of capital, the holders of Class II shares have a preferential claim on the Organization's assets.

Issued and outstanding	**2013**	**2012**
Class 1		
Manitoba credit unions	87,584	99,534
17,516,850 shares (2012 – 19,906,665)		
Co-operatives	1,228	1,228
245,624 shares (2012 – 245,624)		
Class 2		
Manitoba credit unions	63,194	93,565
12,638,686 shares (2012 – 18,712,942)		
Co-operatives	7,089	4,733
1,417,800 shares (2012 – 946,669)		
	159,095	199,060

During the year, $5,401 of Class 1 shares were exchanged for an equivalent amount of Class 2 shares (2012 - $nil) and $nil of Class 2 shares were exchanged for an equivalent amount of Class 1 shares (2012 - $4,967).

Class 1 shares of $nil (2012 - $20,759) and Class 2 shares of $nil (2012 - $1,662) were issued for cash consideration.

Class 1 shares of $6,548 (2012 - $nil) and Class 2 shares of $33,417 (2012 - $nil) were redeemed for cash consideration.

(in thousands of Canadian dollars)

9 Gains (losses) on financial instruments

	2013	2012
Liquidity pool investments	(18,690)	1,143
Members' deposits	4,695	4,710
Unrealized gains (losses) on non-derivative financial instruments designated as FVTPL	(13,995)	5,853
Unrealized gains on derivative financial instruments used to manage interest rate risk (note 16 c))	13,999	21,173
Net cost of derivative financial instruments used to manage interest rate risk (note 16 c))	(13,004)	(20,002)
Net cost and unrealized gains on derivative financial instruments	995	1,171

Derivative financial instruments are economic hedges used to manage interest rate risk associated with the Organization's investment in long term debt instruments matched to short term members' deposits. Such derivative financial instruments have the economic effect of converting a long term fixed interest rate debt instrument to a synthetic floating rate instrument with a higher yield than would otherwise be available.

(in thousands of Canadian dollars)

10 Net operating recovery

	2013	2012
Recoveries from member credit unions		
Clearing fees and other financial charges	7,761	7,456
Basic assessment	5,606	5,203
Fees for service	2,555	2,580
Liquidity management assessment	2,103	2,069
The Deposit Guarantee Corporation of Manitoba fees	246	238
Printing and supplies - net of cost of $950 (2012 - $1,117)	167	189
	18,438	17,735
Operating expenses		
Personnel	9,072	8,773
National shared costs	2,185	2,116
Depreciation and leasing	1,757	1,690
Settlement costs	1,302	1,282
Hardware and software maintenance	1,239	1,248
Professional services	1,130	751
Occupancy costs	1,012	945
Co-operative democracy	639	627
General	317	436
Dues, grants and memberships	300	337
Travel	219	241
Telephone and computer telecommunications	167	169
Insurance and bonding	166	202
Printing and supplies	104	106
Capitalized costs	(15)	(75)
Net recovery from Celero (note 11)	(1,505)	(1,425)
	18,089	17,423
Net operating recovery	349	312

(in thousands of Canadian dollars)

11 Related party transactions

The Organization and Celero provide various services to each other in the normal course of operations. During the year, the Organization's charges to Celero aggregated to $2,392 (2012 - $2,308) and Celero's charges to the Organization aggregated to $887 (2012 - $883). The net recovery from Celero of $1,505 (2012 - $1,425) is included as an offset to net operating expenses (note 10).

Interest charges to Celero on loans receivable were $154 (2012 - $180).

Other assets include $66 due from Celero (2012 - $40).

Compensation of key management personnel

Key management personnel is comprised of the Organization's senior management and Directors. The summary of compensation for key management personnel is as follows:

	2013	2012
Salaries and other short-term employee benefits	2,605	2,454
Other long-term benefits	35	27
Defined contribution pension plan (note 12)	91	86
Post-employment benefits	1	2
	2,732	2,569

Included in the compensation of key management personnel is Directors' remuneration of $321 (2012 - $296).

Outstanding mortgages and computer loans to key management personnel amount to $212 (2012 - $145). Mortgages bear interest at the average of the one year closed rate of the five chartered banks as published in the Organization's Interest Rate Survey less 2%, while computer loans are non-interest bearing. The mortgages are secured by property of the respective borrowers. No impairment losses have been recorded against balances during the period and no specific allowance has been made for impairment losses.

12 Pension plan

The Organization has a defined contribution pension plan for qualifying employees. The contributions are held in trust by the Cooperative Superannuation Society Limited. The Organization matches employee contributions at the rate of 6% of the employee salary. The expense and payments for the year ended December 31, 2013 were $375 (2012 - $366). As a defined contribution pension plan, the Organization has no further liability or obligation for future contributions to fund benefits to plan members.

13 Commitments

During 2008, the Organization entered into a *Managed Services Agreement* with Misys International Banking Systems Inc. with respect to the hosted Treasury Management System (Opics) under which the Organization committed to pay $5,443 USD in hosting service fees over the ten year contract.

(in thousands of Canadian dollars)

During 2010, the Organization entered into an agreement with Celero for the provision of eroWORKS banking services. The annual operating fee will vary yearly based on the Organization's proportionate share of the eroWORKS banking cost for all Celero eroWORKS banking system clients. For 2013, the annual operating fee was $230 based on the Organization's share of total banking costs.

Commitments in each of the next five years and are as follows:

2014	804
2015	819
2016	833
2017	849
2018	386

14 Assets pledged as collateral

The Organization pledges assets primarily for margining purposes for over-the-counter derivative liabilities, the Bank of Canada's large value transfer system, and obligations under repurchase agreements. The carrying value of the Organization's assets pledged as collateral for liabilities and contingent liabilities totaled $466,962 (2012 - $238,959). The assets pledged are included in the liquidity pool (note 4) under FVTPL.

15 Indemnifications

The Organization has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Organization from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Organization maintains liability insurance coverage for directors and officers.

The Organization has indemnified certain parties from loss related to previous ownership interests in intermediation pool assets. The Organization has determined that no provision is required.

16 Risk management

The Organization's primary financial objective is to manage the liquidity of Manitoba's credit unions. A certain amount of financial risk is inherent in the Organization's operations. The Organization manages and mitigates risk through the diversification of its financial instruments and development of risk management policies. The purpose of sound risk management is to provide reasonable assurance that incurred risks do not exceed acceptable thresholds and that risk-taking contributes to the creation of member value. For the Organization this means striking a balance between risk and return.

In the normal course of business, the Organization is primarily exposed to the financial risks described below:

Credit risk - Risk of a financial loss if an obligor does not fully honour its contractual commitments to the Organization. Obligors may include issuers of securities, counterparties or borrowers;

(in thousands of Canadian dollars)

Liquidity risk - Risk that the Organization will be unable to honour cash commitments without resorting to costly measures; and

Market risk:

Interest rate risk - Risk of a change in income resulting from changes in interest rates;

Foreign exchange risk - Risk of a change in income resulting from changes in foreign exchange rates; and

Other price risk – Risk that the fair value of a financial instrument will fluctuate due to changes in market prices.

The Organization's risk management framework includes policies designed to identify and analyze risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Organization's risk management framework involves identifying particular events or circumstances relevant to objectives, assessing them in terms of probability and magnitude, determining a response strategy, and monitoring progress. The Organization regularly reviews its risk management policies and systems to account for changes in its objectives, markets, products, and emerging best practice.

Risk management is carried out by a number of delegated committees reporting to the Board of Directors. Risk tolerance and overall risk management are documented within the Organization's Enterprise Risk Management Framework and its risk management policies which are approved by the Board. Management regularly reports to the Board on compliance with those policies. In addition, the Organization maintains an Internal Audit function which is partly responsible for review of risk management and the Organization's control environment.

Financial instruments comprise the vast majority of the Organization's assets and liabilities. The Organization accepts demand deposits and term deposits from members at floating and fixed rates respectively and invests those funds in floating and fixed rate securities and derivatives to earn interest rate margin.

(in thousands of Canadian dollars)

The following describes the significant financial instrument activities undertaken by the Organization, the exposure to risks associated with such activities and the objectives, policies and processes used in managing those risks.

Financial instrument activity	Risks	Risk management
Derivative instruments – held for trading	Liquidity risk, interest rate risk, credit risk, foreign exchange risk and other price risk	Asset-liability matching and credit risk monitoring
Debt instruments – FVTPL	Liquidity risk, interest rate risk, credit risk, foreign exchange risk and other price risk	Asset-liability matching, credit risk monitoring and use of derivative financial instruments
Debt instruments matched to equity - held to maturity	Liquidity risk, interest rate risk, credit risk and foreign exchange risk	Asset-liability matching and credit risk monitoring
Intermediation pool investments	Interest rate risk and credit risk	Asset-liability matching and credit risk monitoring
Members' deposits	Liquidity risk, interest rate risk, foreign exchange risk and other price risk	Asset-liability matching and use of derivative financial instruments

a) Credit risk

The Organization is exposed to credit risk primarily through its liquidity pool and intermediation pool investments and derivative financial instruments. The financial assets recognized in the consolidated statement of financial position represent the Organization's maximum exposure to credit risk as at the consolidated statement of financial position date. The Organization does not hold any credit derivatives or similar instruments that mitigate the credit risk.

In managing credit risk, the Organization primarily relies on external rating agencies for liquidity pool investments and derivative financial instruments. All liquidity pool investments must be rated by at least two recognized rating agencies. The Organization defines investment parameters which are monitored daily to ensure compliance with policy. The Organization does not invest in non-bank third party asset backed commercial paper and may only enter into financial instruments as follows:

Derivative financial instruments:

- Counterparties to derivative financial instruments are restricted to Schedule I banks with a minimum rating of AA(low)

(in thousands of Canadian dollars)

Liquidity pool investments:

- Generally, for investments maturing within 13 months, the minimum short term credit rating is R1 (Low), or an equivalent minimum bond credit rating of A(low), with the exception of provincial government bonds with a minimum short-term credit rating of R2 (High), or an equivalent minimum bond credit rating of BBB(mid)
- Generally, for investments maturing beyond 13 months and within 5 years, the minimum credit rating is A (Low), with the exception of some provincial government bonds with a minimum credit rating of BBB(mid)

To further reduce credit risk, the Organization requires a minimum level of economic diversification by sector and issuer. Limits, as a percent of total liquidity pool, are shown below:

Sector/Guarantor	ICR--CP	ICR--Bonds	Individual Issuer Exposure Limit	Total Sector Limit
Government of Canada	Regardless of rating	Regardless of rating	No limit	No limit
Provincial governments	R1 (High) R1 (Mid) R1 (Low) R2 (High)	AAA AA(low) to AA(high) A(low) to A(high) BBB(mid) to BBB(high)	25% 20% 10% 2%	75%
Municipal governments	R1 (High) R1 (Mid) R1 (Low)	AAA AA(low) to AA(high) A(low) to A(high)	9% 6% 3%	20%
Schedule 1 banks	R1 (High) R1 (Mid) R1 (Low)	AAA AA(low) to AA(high) A(low) to A(high)	25% 20% 15%	80%
Schedule 2 banks & insurance companies	R1 (High) R1 (Mid)	AAA AA(low) to AA(high)	4% 3%	10%
ABS	R1 (High)	AAA	5%	50%
All other corporates	R1 (High) R1 (Mid) R1 (Low)	AAA AA(low) to AA(high) A(low) to A(high)	5% 3% 2%	50%

(in thousands of Canadian dollars)

The maximum investment term for each instrument must not exceed five years unless the investment is:

- specifically matched against a member deposit maturing beyond five years;
- retractable at the Organization's option within 5 years;
- a callable bond issued by a Schedule I bank which pays a fixed rate for a term not exceeding seven years and converts to a floating rate instrument if not called at the end of that period;
- matched to a derivative financial instrument, resulting in the net receipt of a floating interest rate; or
- identified as funded by the Organization's share capital.

Liquidity pool investments by credit rating and term to maturity are:

					2013
	Less than 6 months	**6 months to 1 year**	**Greater than 1 year and up to 5 years**	**Greater than 5 years**	**Total**
AAA / R1 (High)	189,547	1,088	29,401	-	220,036
AA / R1 (Middle)	79,388	96,769	930,246	142,276	1,248,679
A / R1 (Low)	71,507	62,380	966,220	104,113	1,204,220
	340,442	160,237	1,925,867	246,389	2,672,935

					2012
	Less than 6 months	**6 months to 1 year**	**Greater than 1 year and up to 5 years**	**Greater than 5 years**	**Total**
AAA / R1 (High)	452,237	7,126	34,734	10,857	504,954
AA / R1 (Middle)	252,892	265,324	1,785,721	209,353	2,513,290
A / R1 (Low)	59,420	22,822	47,220	-	129,462
	764,549	295,272	1,867,675	220,210	3,147,706

The change in fair value of investments classified as FVTPL is primarily due to changes in market risk.

(in thousands of Canadian dollars)

Intermediation pool investments:

- The Organization is committed to investing in CUCC and Central 1 as required.
- Investments in other co-operatives, Celero, and mortgages and loans require a credit risk assessment and approval of the Board of Directors.
- Loans and overdrafts to member credit unions are secured by a *Global Loan Agreement* which specifies that the Organization holds a security interest in all book debts and accounts. In the event of default, the Organization is authorized to realize on all security and apply the proceeds therefrom to its amount receivable.

b) Liquidity risk

The Organization's liquidity risk management framework is designed to ensure that reliable and cost-effective sources of liquidity are available to satisfy current and prospective liquidity requirements of its member credit unions, as well as the Organization's obligations under the Inter-Central Liquidity Agreement ("ICLA"). The ICLA is a legal agreement with other provincial centrals whereby participating centrals have agreed to provide liquidity to one another in the event of a liquidity crisis. The primary components of the liquidity risk management framework are the maintenance of a large dedicated pool of marketable securities that can readily be converted to cash, the use of obligations under repurchase agreements, and participation in the ICLA. This risk is managed through Board approved policies which require the Organization to ensure an adequate supply of maturing investments is maintained to fund potential liquidity needs.

(in thousands of Canadian dollars)

The contractual undiscounted cash flows of financial liabilities (excluding accounts payable) are as follows:

						2013
	Current accounts	**Less than 6 months**	**6 months to 1 year**	**Greater than 1 year and up to 5 years**	**Greater than 5 years**	**Total**
Members' deposits	529,202	1,478,596	92,277	361,213	-	2,461,288
Obligations under repurchase agreements	-	203,366	-	-	-	203,366
Derivative financial instruments	-	10,060	5,719	(214)	(3,466)	12,099
Undiscounted contractual amount of liabilities	529,202	1,692,022	97,996	360,999	(3,466)	2,676,753
Carrying value of liabilities	529,202	1,682,436	96,842	341,940	(3,016)	2,647,404

						2012
	Current accounts	**Less than 6 months**	**6 months to 1 year**	**Greater than 1 year and up to 5 years**	**Greater than 5 years**	**Total**
Members' deposits	614,436	1,830,892	119,654	418,253	-	2,983,235
Derivative financial instruments	-	13,275	4,854	18,876	(1,369)	35,636
Undiscounted contractual amount of liabilities	614,436	1,844,167	124,508	437,129	(1,369)	3,018,871
Carrying value of liabilities	614,436	1,836,528	123,264	416,134	(1,231)	2,989,131

The change in fair value of members' deposits is associated with changes in market conditions and does not relate to changes in the Organization's credit risk.

(in thousands of Canadian dollars)

c) Interest rate risk

Interest rate risk is the risk that a change in market interest rates will impact the Organization's financial margin as reported in the consolidated statement of operations and comprehensive income. Accordingly, the Organization establishes policy limits approved by the Board of Directors on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Organization's management.

Interest-sensitive assets and interest-sensitive liabilities are matched by amount and interest rate re-pricing terms so as to minimize income fluctuations should market interest rates change. The Organization sets policy limits on the maximum amount of mismatch as follows:

Term over 13 months

- All financial assets and liabilities (liquidity pool investments and members' deposits, respectively) maturing beyond 13 months must be matched.

Term of 6 to 13 months

- Unmatched financial instruments maturing within 10 to 13 months and 6 to 10 months are permitted to a maximum of 2% and 4%, respectively, of the total liquidity pool investment portfolio.

Term of less than 6 months

- The weighted average terms of these assets and liabilities is calculated and monitored daily. The difference between the two may not exceed 30 days.

The following summarized schedule shows the Organization's sensitivity to interest rate changes based on the notional value of assets and liabilities:

Interest re-pricing period	Interest sensitive	Non-interest sensitive	Derivative receiving	Derivative paying	Net asset/liability mis-match
0 to 6 months	(1,688,985)	(52,106)	1,859,706	(185,105)	(66,490)
6 to 13 months	143,576	(349)	10,000	(120,905)	32,322
13 months to 2 years	411,586	(20,300)	35,000	(423,589)	2,697
2 to 3 years	265,591	(2,000)	5,000	(265,716)	2,875
3 to 4 years	569,002	(35,959)	16,500	(529,189)	20,354
4 to 5 years	206,735	(26,500)	28,816	(202,216)	6,835
Over 5 years	244,110	(16,203)	20,250	(246,750)	1,407
	151,615	(153,417)	1,975,272	(1,973,470)	-

Investments and deposits may be sold or redeemed before maturity; however no projections or adjustments have been made for potential sales or redemptions. Assets and liabilities that are non-interest sensitive have been categorized in re-pricing periods that correspond to the Organization's asset/liability deployment policies and investment strategies.

(in thousands of Canadian dollars)

A positive asset/liability mismatch for a given interest re-pricing period (period gap) indicates that a rise in interest rates would decrease the Organization's financial margin effective with that period while a fall in interest rates would increase the financial margin. If the period gap for a given re-pricing period is negative, then an increase or decrease would have the opposite effect from a positive gap. The above-noted policy restricts the mismatch in each period to prevent significant financial margin fluctuations.

The Organization enters into interest rate swap agreements and cross-currency interest rate swap agreements ("swaps") for the purpose of managing interest rate risk, the notional amounts of which are reflected in the table above. A swap is a contractual agreement between the Organization and a counterparty involving the exchange of fixed rate and floating rate payments structured in a manner to reduce the extent of the Organization's interest rate risk to a level which management believes is reasonable. The contracted terms of the swaps are specifically matched to specific terms of the Organization's assets. The Organization does not enter into swaps for speculative purposes.

Additionally, the Organization, in its role as a financial intermediary, enters into swaps on behalf of its member credit unions. The credit risk associated with these swaps is the responsibility of the member credit unions.

At December 31, 2013, derivatives included cross-currency interest rate swap agreements outstanding with a total notional value of $30,000 swapped for US dollars with a notional value of $31,802 (USD $29,867) (2012 - $45,000 swapped for USD with a notional value of $44,053 (USD $44,332)).

Including the effect of the derivative financial instruments, the weighted average effective return for interest-sensitive assets is 3.18% (2012 - 3.39%) and the weighted average effective cost for interest-sensitive liabilities is 2.60% (2012 – 2.95%).

Sensitivity analysis is used to assess the change in reported value of the Organization's financial instruments against a range of incremental basis point changes in interest rates. Based on the characteristics of the Organization's financial instruments as at December 31, 2013, the Organization estimates that an immediate and sustained 25 basis point decrease in interest rates would generate unrealized gains of $13,443 on non-derivative financial instruments and unrealized losses of $12,241 on derivative financial instruments while an immediate and sustained 25 basis point increase in interest rates would generate unrealized losses of $13,301 on non-derivative financial instruments and unrealized gains of $12,104 on derivative financial instruments.

d) Foreign exchange risk

The Organization manages foreign exchange risk to minimize the risk of financial loss due to fluctuations in currency exchange rates. This is done primarily by implementing a policy framework approved by the Board of Directors that prohibits exposure to currencies other than the US dollar and restricts the US dollar asset (liability) exposure to no more than USD $250. The Organization enters into foreign exchange forward rate agreements with derivative counterparties to provide a financial intermediary role for member credit unions, to offset future contractual obligations of the Organization, and for cash management purposes. A foreign exchange forward rate agreement is a contractual arrangement between the Organization and a counterparty involving the commitment of a purchase or sale of U.S. dollar funds to settle on a future date at a predetermined exchange rate. The Organization does not enter into foreign exchange forward rate agreements for speculative purposes.

(in thousands of Canadian dollars)

The Organization also enters into cross-currency interest rate swap agreements with derivative counterparties to manage its interest rate risk (note 16 c)) where asset/liability matching involves mixed currencies. A cross-currency interest rate swap agreement is an interest rate swap agreement (note 16 c)) involving the exchange of U.S. dollar funds and Canadian dollar funds between the counterparties at the outset, the exact amount of which are reversed on maturity, and under which the fixed and floating interest payments are of different currencies.

The net US dollar asset (liability) mismatch as of December 31, 2013 was USD ($19) (2012 - USD $31).

As at December 31, 2013, the Organization has entered into foreign exchange forward rate agreements to buy US dollars aggregating USD $13,770 and to sell US dollars aggregating USD $12,795, inclusive of transactions with member credit unions (2012 - buy US dollars aggregating USD $9,353 and to sell US dollars aggregating USD $8,253, inclusive of transactions with member credit unions). The credit risk associated with these agreements is the responsibility of the Organization. On a weighted-average basis, these agreements will settle within six months.

As at December 31, 2013, if the Canadian dollar had strengthened or weakened by 1% relative to the US dollar, with all other variables held constant, income before income taxes for the year would have increased or decreased by a nominal amount, respectively (2012 - impact was nominal).

17 Fair value measurements

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Organization’s market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities on exchanges and exchange traded derivatives like futures.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the Organization’s derivative financial instruments, debt instruments and members’ deposits. The sources of input parameters like BA/CDOR/LIBOR/swap yield curves or counterparty credit risk are from Bloomberg.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Organization considers relevant and observable market prices in its valuations where possible.

The Organization’s policy is to recognize transfers into and transfers out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year the Organization had no transfers between fair value hierarchy levels.

(in thousands of Canadian dollars)

The tables below summarize by class of asset or liability and by level according to the hierarchy of the inputs used in determining the measurements, the fair value measurements recognized in the consolidated statement of financial position and disclosed in the Organization’s notes to the consolidated financial statements.

Recurring measurements				**2013**
	Level 1	**Level 2**	**Level 3**	**Total Carrying Amount**
Financial assets - held for trading and FVTPL				
Governments	-	149,207	-	149,207
Banks and trust companies	-	2,183,198	-	2,183,198
Corporate	-	335,192	-	335,192
Derivatives	-	5,820	-	5,820
Total financial assets	-	2,673,417	-	2,673,417
Financial liabilities - held for trading and FVTPL				
Members’ deposits	-	2,431,178	-	2,431,178
Obligations under repurchase agreements	-	203,360	-	203,360
Derivatives	-	12,866	-	12,866
Total financial liabilities	-	2,647,404	-	2,647,404

The Organization did not have any non-recurring measurements for the year ended December 31, 2013.

As at December 31, 2013, debt instruments held to maturity with a carrying value of $5,338 had a fair value of $5,465. The fair values of cash, overdrafts, other receivables and accounts payable approximate their carrying values due to their short term nature.

(in thousands of Canadian dollars)

Recurring measurements				**2012**
	Level 1	**Level 2**	**Level 3**	**Total Carrying Amount**
Financial assets - held for trading and FVTPL				
Governments	-	13,924	-	13,924
Banks and trust companies	-	2,596,647	-	2,596,647
Corporate	-	487,158	-	487,158
Derivatives	-	7,352	-	7,352
Total financial assets	-	3,105,081	-	3,105,081
Financial liabilities - held for trading and FVTPL				
Members' deposits	-	2,954,556	-	2,954,556
Derivatives	-	34,575	-	34,575
Total financial liabilities	-	2,989,131	-	2,989,131

As at December 31, 2012, debt instruments held to maturity with a carrying value of $49,977 had a fair value of $50,747. The fair values of cash, overdrafts, other receivables and accounts payable approximate their carrying values due to their short term nature.

The Organization uses the following techniques to determine the fair value measurements categorized in Level 2:

- The fair value of debt instruments is determined using quoted market prices, executable dealer quotes for identical or similar instruments in inactive markets, or other inputs that are observable or can be corroborated by observable market data. On the basis of its analysis of the nature, characteristics and risks of equity securities, the Organization has determined that presenting them by sector is appropriate.
- The fair value of derivatives is determined using observable market inputs, including forward exchange rates and interest rates as applicable, at the measurement date with the resulting value discounted back to present values.
- The fair value of members' deposits is determined by discounting future contractual cash flows at the measurement date using observable market inputs such as banker's acceptance rates and corresponding yields on Schedule 1 bank senior debt.

The Organization did not have any instruments categorized in Level 3.

(in thousands of Canadian dollars)

18 Offsetting of financial instruments

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2013 and 2012, and the net impact on the Organization's consolidated statement of financial position had all offset rights been exercised.

Beginning in 2013, the Organization is subject to an enforceable master netting arrangement in the form of an International Swap and Derivatives Association ("ISDA") agreement with most of its derivative counterparties. Under the terms of the agreement, offsetting of derivative contracts is permitted only in the event of a bankruptcy or default of either party to the agreement.

The Organization receives and gives collateral in the form of cash and marketable securities as a part of interest rate swap, cross-currency swap, and repurchase agreement transactions. Such collateral is subject to the standard industry terms of ISDA's Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transaction on the counterparty's failure to post collateral.

						2013
	Amounts offset			**Amounts not offset**		**Net**
Financial assets	Gross assets	Gross liabilities offset	Net amounts presented	Financial instruments	Cash collateral pledged	
Derivative assets	6,043	(223)	5,820	(4,824)	-	996
	6,043	(223)	5,820	(4,824)	-	996

	Amounts offset			**Amounts not offset**		**Net**
Financial liabilities	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	Cash collateral Pledged	
Obligations under repurchase agreements	203,360	-	203,360	-	(203,360)	-
Derivative liabilities	25,772	(12,906)	12,866	(4,824)	(5,192)	2,850
	229,132	(12,906)	216,226	(4,824)	(208,552)	2,850

(in thousands of Canadian dollars)

2012

Financial assets	**Amounts offset** Gross assets	Gross liabilities offset	Net amounts presented	**Amounts not offset** Financial instruments	Cash collateral pledged	**Net**
Derivative assets	7,401	(50)	7,351	(7,326)	-	25
	7,401	(50)	7,351	(7,326)	-	25

Financial liabilities	**Amounts offset** Gross liabilities	Gross assets offset	Net amounts presented	**Amounts not offset** Financial instruments	Cash collateral Pledged	**Net**
Derivative liabilities	38,637	(4,062)	34,575	(7,326)	-	27,249
	38,637	(4,062)	34,575	(7,326)	-	27,249

19 Capital management

Capital is managed in accordance with policies established by the Board of Directors, *The Credit Unions and Caisses Populaires Act* ("CUCP Act"), and OSFI.

Pursuant to OSFI regulations, the Organization is required to maintain a borrowing multiple, the ratio of debt to regulatory capital, of 20:1 or less. The Organization's established policy for its borrowing multiple is 15:1. The Organization has a capital adequacy assessment process through which management regularly forecasts future capital requirements in order to adhere to its policy.

Regulatory capital is defined as the sum of its stated share capital and reserves reduced by assets specifically identified by OSFI's regulations. Specific reductions include net deferred tax assets and unrecognized fair value losses on the Organization's liquidity pool investments designated as held to maturity.

Pursuant to CUCP Act regulations, the Organization is required to maintain a level of capital that is not less than 5% of the book value of its assets.

All of the capital requirements are monitored throughout the year. The Organization has a clear and unencumbered process to access required capital from its member credit unions to attain certain capital ratios through same day notification capital calls and corresponding immediate reduction in members' deposits. The Organization also makes periodic capital and dividend transactions within the context of its overall capital management plan.

(in thousands of Canadian dollars)

The Organization is in compliance with OSFI's required borrowing multiple. At December 31, 2013, the Organizations' borrowing multiple was 14.10:1 (2012 - 13.32:1). The Organization filed its annual OSFI return for the year ended December 31, 2013 on February 28, 2014.

The Organization is in compliance with its required level of capital under the CUCP Act. At December 31, 2013, the Organization's level of capital was 6.59% (2012 – 7.00%) of the book value of its assets.

20 Investment in Celero

Aggregated financial information of Celero, accounted for using the equity method, is as follows:

	2013	**2012**
Assets	34,236	37,748
Liabilities	25,551	31,302
Revenues	78,508	79,971
Income (loss)	257	(1,848)
% interest held by the Organization	31.4%	31.4%

The information above reflects the amounts presented in the financial statements of Celero adjusted for differences in accounting policies between the Organization and Celero, as applicable.

There were no published prices for the investment in Celero. Furthermore, there are no significant restrictions on the ability of Celero to transfer funds to the Organization in the form of either cash dividends or repayments of loans/advances.

Commitments

Celero

Celero has entered into a *Software License Agreement* in respect of a banking platform for Celero's credit union clients under which Celero is committed to $6,034 in software maintenance fees to a third party software vendor over the next two years. Celero has entered into agreements with credit unions to fully recover these costs through operating fees over the term of the agreement. Software maintenance costs are included in equipment costs in Celero's statement of comprehensive income (loss).

Pursuant to various addendums to the *Software License Agreement*, Celero is committed to $2,978 in ancillary product maintenance and support fees over the next two years to the same vendor as above. These costs are included in equipment costs in Celero's statement of comprehensive income (loss).

Celero has entered into an agreement in respect of internet banking. Under the terms of the agreement Celero is committed to a minimum of $5,937 over the next two years.

Celero has other obligations under various agreements for data centre management, equipment, licensing, maintenance and professional fees totaling $1,672 over the next three years.

(in thousands of Canadian dollars)

The Organization is indirectly liable in proportion to its 31.4% ownership interest in Celero for all of Celero's covenants and obligations under these agreements. Proportionate commitments in each of the next three year and thereafter are as follows:

	Banking platform maintenance	Ancillary product maintenance	Internet banking	Other	Total
2014	947	468	1,003	420	2,838
2015	947	468	862	84	2,361
2016 and thereafter	-	-	-	21	21

Everlink

Celero has a 49% ownership interest in Everlink. The Organization is indirectly liable in proportion to its 31.4% ownership interest in Celero for covenants and obligations under the following Everlink agreements:

Financing arrangements

Everlink has entered into financing agreements consisting of a line of credit to a maximum of $2,000 and an authorized overdraft facility to a maximum of $6,275 and USD $100. Celero has provided a guarantee on these agreements in proportion to its interest in Everlink. At December 31, 2013 and 2012, there were no draws against the line of credit or the authorized overdraft facility.

Contingencies

There are no contingent liabilities relating to the Organization's interest in Celero.

21 Comparative figures

Certain comparative amounts may have been reclassified to conform to the current year's presentation.