Credit Union Central of Manitoba Limited

Consolidated Financial Statements
December 31, 2016

(in thousands of Canadian dollars)

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February 23, 2017

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 and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of operations and comprehensive income (loss), 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 audits 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 and its subsidiary as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

(in thousands of Canadian dollars)

	2016	2015
Assets		
Liquidity pool (note 4)	3,894,073	3,762,315
Derivative financial instruments	8,580	9,002
Income taxes recoverable (note 5)	-	782
Intermediation pool (note 6)	24,233	27,686
Property and equipment (note 7)	15,240	16,087
Other assets	2,383	4,766
Deferred income taxes (note 5)	-	4,257
	3,944,509	3,824,895
Liabilities		
Accounts payable	8,122	20,298
Income taxes payable (note 5)	1,747	-
Members' deposits	3,634,411	3,487,335
Derivative financial instruments	39,691	66,942
Deferred income taxes (note 5)	231	-
	3,684,202	3,574,575
Members' equity		
Share capital (note 8)	234,184	241,434
Accumulated other comprehensive income	1,225	1,225
Retained earnings	24,898	7,661
	260,307	250,320
	3,944,509	3,824,895

Approved by the Board of Directors

____________________ Director ____________________ Director

Credit Union Central of Manitoba Limited

Consolidated Statement of Operations and Comprehensive Income (Loss)

For the year ended December 31

(in thousands of Canadian dollars)

		2016		2015
Financial revenue				
Liquidity pool		88,021		78,830
Intermediation pool		660		892
		88,681		79,722
Cost of funds		28,705		27,135
		59,976		52,587
Unrealized losses on non-derivative financial instruments (note 9)		(11,756)		(448)
Unrealized gains (losses) on derivative financial instruments (note 9)	32,811		(24,389)	
Net cost of derivative financial instruments (note 9)	(21,437)	11,374	(21,861)	(46,250)
		(382)		(46,698)
Financial margin		59,594		5,889
Other income				
Share of Celero's income (note 3 f) iii)		1,437		1,251
Share of NEI's income (note 3 f) iii)		506		262
Rental income – net		297		176
Net operating recovery (note 10)		48		473
		2,288		2,162
Income before credit union patronage distributions		61,882		8,051
Credit union distributions				
Financial margin distribution		(32,683)		(25,455)
Distribution of Celero's income (note 3 f) iii)		(1,437)		(1,251)
Distribution of NEI's income (note 3 f) iii)		(506)		(262)
		(34,626)		(26,968)
Income (loss) before income taxes		27,256		(18,917)
Income tax expense (recovery) (note 5)		4,039		(4,501)
Net income (loss) for the year		23,217		(14,416)
Other comprehensive income				
Change in unrealized gains on available-for-sale assets		-		-
Comprehensive income (loss)		23,217		(14,416)

Credit Union Central of Manitoba Limited

Consolidated Statement of Members' Equity

For the year ended December 31

(in thousands of Canadian dollars)

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at December 31, 2014	151,943	1,225	27,159	180,327
Net loss for the year	-	-	(14,416)	(14,416)
Dividends to members	-	-	(5,082)	(5,082)
Members' shares issued (note 8)	89,491	-	-	89,491
Balance at December 31, 2015	241,434	1,225	7,661	250,320
Balance at December 31, 2015	241,434	1,225	7,661	250,320
Net income for the year	-	-	23,217	23,217
Dividends to members	-	-	(5,980)	(5,980)
Members' shares redeemed (note 8)	(7,250)	-	-	(7,250)
Balance at December 31, 2016	234,184	1,225	24,898	260,307

Credit Union Central of Manitoba Limited

Consolidated Statement of Cash Flows

For the year ended December 31

(in thousands of Canadian dollars)

	2016	2015
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	23,217	(14,416)
Items not affecting cash		
Unrealized losses (gains) on FVTPL financial instruments	(21,055)	24,837
Depreciation of property and equipment (note 7)	1,486	1,595
Loss on disposal of property and equipment (note 7)	1	206
Deferred income tax expense (recovery)	4,488	(4,117)
Increase in liquidity pool assets	(205,145)	(1,039,725)
Net change in derivative financial instruments	5,982	10,261
Decrease in intermediation pool assets	3,453	44,453
Increase in members' deposits	149,418	950,496
Decrease in repurchase agreements	-	(80,210)
Net change in other assets and accounts payable	(7,264)	7,077
	(45,419)	(99,543)
Investing activities		
Acquisition of property and equipment (note 7)	(640)	(701)
	(640)	(701)
Financing activities		
Members' shares issued (redeemed) (note 8)	(7,250)	89,491
Dividends to members	(5,980)	(5,082)
	(13,230)	84,409
Decrease in cash	(59,289)	(15,835)
Cash - Beginning of year	68,161	83,996
Cash - End of year	8,872	68,161
Supplementary cash flow information		
Income tax paid	38	65
Income tax received	2,360	1,691

(in thousands of Canadian dollars)

1 General information

Credit Union Central of Manitoba (the "Organization") is incorporated under *The Credit Unions And Caisses Populaires Act* ("CUCP 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* ("CCA Act"), which requires them to be in accordance with Canadian generally accepted accounting principles as defined in Part 1 of the CPA Canada Handbook - Accounting (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 23, 2017.

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 intermediation pool assets, liquidity 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 classified as held for trading, may be classified on a voluntary and irrevocable basis as fair value through profit and loss ("FVTPL") provided that such classification:

- 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 classified as FVTPL.

(in thousands of Canadian dollars)

The Organization has met the above requirements and has elected to classify 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 Organization's derivative financial instruments are the only investments required to be classified as held for trading (note 3 f) ii).

Investments classified 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.

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 classified as FVTPL. Transaction costs for all other financial assets are included in the initial carrying amount.

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.

(in thousands of Canadian dollars)

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 mirroring 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 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 on the consolidated statement of operations and comprehensive income. The Organization determined that no embedded derivatives require separation from the host instrument for the periods presented.

iii. Intermediation pool

Equity instruments are classified 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 with changes in fair value recorded in Other Comprehensive Income, 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.

(in thousands of Canadian dollars)

All other instruments are classified 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 $33^1/_3$% 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 and its member credit unions 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.

Investment in Northwest & Ethical Investments L.P. ("NEI")

NEI is an incorporated mutual fund company domiciled in Canada and is accounted for as an available for sale investment accounted for at cost. The Organization has a 4.96% ownership interest in NEI.

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 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 classified 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 1 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

(in thousands of Canadian dollars)

position. The obligations are classified 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 transactions. Interest incurred on the obligation is reported in cost of funds using the effective interest method.

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.

(in thousands of Canadian dollars)

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 on a straight line basis to the consolidated statement of operations and comprehensive income over the lease term.

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 (typically 5 years). 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. 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. Judgement on classifications

The classification of financial instruments into the various measurement categories requires management judgement. The classification of financial instruments as either loans and receivables, available for sale, or fair value through profit or loss requires management to comply with the requirements of IAS 39, Financial Instruments Recognition and Measurement, specifically the requirements for designating certain assets and liabilities as fair value through profit or loss. Management has determined that it meets the requirement for classification as fair value through profit or loss as such classification eliminates an accounting mismatch and results in more relevant information since the Organizations liquidity pool assets and derivatives are required to be carried at fair value, while its members' deposits default classification would be at amortized cost. Accordingly, the classification of liquidity pool assets and members' deposits at fair value through profit or loss, results in the recognition of gains and losses being recognized in the statement of income along with the Organization's derivatives.

(in thousands of Canadian dollars)

ii. Members' deposits classified as FVTPL

The fair values of members' deposits with a carrying value of $3,634,411 (2015 - $3,487,335) 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 $1,617. A 25 basis point increase in the discount curve would decrease members' deposits and increase financial margin by $1,611.

iii. Fair value of derivative financial instruments

The fair values of derivative financial instruments with a carrying value of ($31,111) (2015 – ($57,940) 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.

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 $864 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 issued but not yet adopted

Accounting standards that have been issued but are not yet effective are listed below. The Organization has not yet assessed the impact of these standards and amendments.

(in thousands of Canadian dollars)

i. IFRS 9, Financial Instruments, first issued in November 2009 with final version released in July 2014 by the IASB, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at FVTPL, fair value through OCI or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets not carried at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. The standard is effective for annual periods beginning on or after January 1, 2018. OSFI has stated that early adoption of this standard will not be permitted.

ii. IFRS 15, Revenue from Contracts with Customers, was issued in May 2014, which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five-step model for revenue recognition to be applied to all contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018.

iii. IFRS 16, Leases, was issued in January 2016 and replaces IAS 17 Leases and related interpretations. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15 Revenue from Contracts with Customers.

(in thousands of Canadian dollars)

4 Liquidity pool

			2016
	Loans and Receivables	**FVTPL**	**Total**
Debt instruments			
Governments	-	687,417	687,417
Banks or trust companies	-	2,925,417	2,925,417
Corporate	-	272,367	272,367
	-	3,885,201	3,885,201
Cash	8,872	-	8,872
	8,872	3,885,201	3,894,073

			2015
	Loans and Receivables	**FVTPL**	**Total**
Debt instruments			
Governments	-	507,107	507,107
Banks or trust companies	-	2,930,339	2,930,339
Corporate	-	256,708	256,708
	-	3,694,154	3,694,154
Cash	68,161	-	68,161
	68,161	3,694,154	3,762,315

(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:

	2016	2015
Current income taxes		
Based on current year taxable income	1,786	40
Adjustment for refiling prior year returns and tax loss carryback	(2,235)	(424)
Total current income taxes	(449)	(384)
Deferred income taxes		
Origination and reversal of temporary differences	1,525	(3,595)
Reduction (increase) in tax rates	32	(457)
Adjustment recognized for deferred taxes of prior periods	2,931	(65)
Total deferred income taxes	4,488	(4,117)
Income tax expense (recovery)	4,039	(4,501)

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

shown as %	2016	2015
Federal base rate	38.00	38.00
Federal abatement	(10.00)	(10.00)
Available small business deduction [a]	(13.90)	(14.60)
Blended net federal tax rate	14.10	13.40
Provincial tax rate	1.46	1.38
	15.56	14.78

[a] The maximum small business deduction available federally is calculated as 13.9% (2015 – 14.6%), 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 eliminated the available small business deduction for both cooperatives and credit unions by 20% per year beginning in 2013 effective on the budget date. The general rate reduction available for income which does not qualify for the small business deduction is 13%.

(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 15.56% (2015 - 14.78%) are:

	2016	**2015**
Income before income taxes	27,256	(18,917)
Expected provision for income taxes at statutory rates	4,241	(2,796)
Non-deductible portion of expenses/non-taxable income	17	(12)
Impact of change in tax rates	32	(457)
Higher tax rate applicable to subsidiary	(4)	33
Adjustment recognized for tax of prior periods	696	(489)
Tax savings on dividend	(930)	(689)
Other	(13)	(91)
Income tax expense (recovery)	4,039	(4,501)

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.

(in thousands of Canadian dollars)

Components of the deferred tax assets and liabilities are:

	2016	2015
Deferred tax assets		
Provisions for expenditures currently not deductible for income tax purposes	215	306
Members' deposits	185	539
Non-capital losses	-	4,112
Other	-	13
	400	4,970
Deferred tax liabilities		
Intermediation pool assets	(231)	(229)
Capital cost allowance in excess of depreciation	(400)	(484)
	(631)	(713)
Net deferred tax asset (liability)	(231)	4,257

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

(in thousands of Canadian dollars)

	2016	**2015**
Income taxes recoverable (payable)		
Current income taxes recoverable (payable)	(1,747)	782
Deferred income tax		
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	215	306
Deferred tax assets to be recovered after more than 12 months	185	4,664
	400	4,970
Deferred tax liabilities		
Deferred tax liabilities to be recovered within 12 months	-	-
Deferred tax liabilities to be recovered after more than 12 months	(631)	(713)
	(631)	(713)
Net deferred tax asset (liability)	(231)	4,257

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

(in thousands of Canadian dollars)

6 Intermediation pool

	2016	2015
Loans and receivables		
Member loans		
Credit unions	2,500	6,600
Co-operatives	8,740	7,740
Mortgages	769	805
	12,009	15,145
Available for sale financial assets		
Shares in co-operatives	5,173	5,307
Equity accounted investments		
Investment in Celero (note 20)		
Loans receivable	3,169	3,620
Capital contribution	3,220	3,220
Accumulated share of income	662	394
	7,051	7,234
	24,233	27,686

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, 2015						
Opening net book value	1,379	11,619	3,213	152	824	17,187
Additions	-	-	700	1	-	701
Disposals	-	-	(206)	-	-	(206)
Depreciation	-	(276)	(910)	(105)	(304)	(1,595)
Closing net book value	1,379	11,343	2,797	48	520	16,087
At December 31, 2015						
Cost	1,379	13,817	11,371	2,499	3,545	32,611
Accumulated depreciation	-	(2,474)	(8,574)	(2,451)	(3,025)	(16,524)
Net book value	1,379	11,343	2,797	48	520	16,087
Year ended December 31, 2016						
Opening net book value	1,379	11,343	2,797	48	520	16,087
Additions	-	-	630	10	-	640
Disposals	-	-	(1)	-	-	(1)
Depreciation	-	(278)	(1,045)	(19)	(144)	(1,486)
Closing net book value	1,379	11,065	2,381	39	376	15,240
At December 31, 2016						
Cost	1,379	13,817	11,983	2,509	3,545	33,233
Accumulated depreciation	-	(2,752)	(9,602)	(2,470)	(3,169)	(17,993)
Net book value	1,379	11,065	2,381	39	376	15,240

In 2016, technology with an initial cost of $18 (2015 - $896) and accumulated depreciation of $17 (2015 - $690) were disposed of for $nil consideration (2015 - $nil).

(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	**2016**	**2015**
Class 1		
Member credit unions	124,198	128,926
24,839,584 shares (2015 –25,785,141)		
Co-operatives	1,228	1,228
245,624 shares (2015 – 245,624)		
Class 2		
Member credit unions	95,539	99,264
19,107,793 shares (2015 – 19,852,887)		
Co-operatives	13,219	12,016
2,643,800 shares (2015 – 2,403,200)		
	234,184	241,434

During the year, a net total of $7,250 of shares were redeemed (2015 - a net total of $89,491 of shares were issued).

(in thousands of Canadian dollars)

9 Gains (losses) on financial instruments

	2016	2015
Liquidity pool investments	(14,098)	(1,558)
Members' deposits	2,342	1,110
Unrealized losses on non-derivative financial instruments classified as FVTPL	(11,756)	(448)
Unrealized gains (losses) on derivative financial instruments used to manage interest rate risk (note 16 c))	32,811	(24,389)
Net cost of derivative financial instruments used to manage interest rate risk (note 16 c))	(21,437)	(21,861)
Net cost and unrealized gains (losses) on derivative financial instruments	11,374	(46,250)

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, however hedge accounting is not applied.

(in thousands of Canadian dollars)

10 Net operating recovery

	2016	2015
Recoveries		
Clearing fees and other financial charges	8,123	7,973
Basic assessment	7,390	6,500
Fees for service	2,514	2,295
Liquidity management assessment	2,475	2,373
Other recoveries	299	291
	20,801	19,432
Operating expenses		
Personnel	9,565	9,604
National shared costs	2,660	2,267
Settlement costs	1,549	1,488
Hardware and software maintenance	1,544	1,447
Depreciation and leasing	1,466	1,602
Professional services	1,219	1,018
General	856	362
Co-operative democracy	631	672
Occupancy costs	473	969
Dues, grants and memberships	379	367
Printing and supplies	238	191
Travel	220	228
Insurance and bonding	203	167
Telephone and computer telecommunications	195	195
Capitalized costs	(293)	(284)
Net recovery from Celero (note 11)	(152)	(1,334)
	20,753	18,959
Net operating recovery	48	473

(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 $1,561 (2015 - $2,319) and Celero's charges to the Organization aggregated to $833 (2015 - $842). The net recovery from Celero of $728 (2015 - $1,477) is classified in two areas: Rental income-net $576 (2015 - $143) and as an offset to net operating expenses $152 (2015 - $1,334) (note 10).

Interest charges to Celero on loans receivable were $94 (2015 - $107).

Other assets include $nil due from Celero (2015 - $36) and accounts payables include $45 due to Celero (2015 - $nil).

Compensation of key management personnel

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

	2016	2015
Salaries and other short-term employee benefits	2,463	2,141
Other long-term benefits	37	36
Defined contribution pension plan (note 12)	69	59
Post-employment benefits	1	1
	2,570	2,237

Included in the compensation of key management personnel is Directors' remuneration of $443 (2015 - $404).

Outstanding mortgages and computer loans to key management personnel amount to $131 (2015 - $137). 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, 2016 were $373 (2015 - $380). As a defined contribution pension plan, the

(in thousands of Canadian dollars)

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.

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 2016, the annual operating fee was $222 based on the Organization’s share of total banking costs.

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

2017	1,007
2018	423
2019	226
2020	47
2021	-

14 Assets pledged as collateral

The Organization pledges assets primarily for collateral purposes for accessing the Bank of Canada’s large value transfer system. The Organization participates in an arrangement with SaskCentral, Alberta Central, and Central 1 (the “Group Clearing Agreement”) whereby Central 1, on behalf of the participants, acts as the Group Clearer with the Canadian Payments Association.

The Organization also pledges assets for margining purposes for over-the-counter derivative liabilities, for collateral purposes for issuing Letters of Credit on behalf of its members, and for collateral purposes for obligations under repurchase agreements.

The carrying value of the Organization’s assets pledged totaled $311,917 (2015 - $340,902). The assets pledged are included in the liquidity pool (note 4).

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.

(in thousands of Canadian dollars)

Under the Group Clearing Agreement, the Organization guarantees and indemnifies the Group Clearer and each member of the Group Clearing Agreement against any losses arising from the payment obligation for settlement drawn on or payable by the Organization and its member credit unions.

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 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. The Organization manages and mitigates risk through the diversification of its financial instruments and development of risk management policies. 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;

Liquidity risk - Risk that the Organization will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset; 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.

(in thousands of Canadian dollars)

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.

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
Intermediation pool investments	Liquidity risk, 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 its own Internal Credit Rating (*"ICR"*) based on external rating agencies which is monitored daily to ensure compliance with policy. The Organization may only enter into financial instruments as follows:

(in thousands of Canadian dollars)

Derivative financial instruments:

- Counterparties to derivative financial instruments are restricted to Schedule I banks with a minimum rating of A (low) , or Central 1 provided it has a minimum bond rating of A (high)

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 (high)
- 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 (low)

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 Commercial Paper**	**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)	AAA	25%	75%
	R1 (Mid)	AA (low) to AA (high)	20%	
	R1 (Low)	A (low) to A (high)	10%	
	R2 (High)	BBB (low) to BBB (high)	2%	
Municipal governments	R1 (High)	AAA	9%	20%
	R1 (Mid)	AA (low) to AA (high)	6%	
	R1 (Low)	A (low) to A (high)	3%	
Schedule 1 banks	R1 (High)	AAA	25%	80%
	R1 (Mid)	AA (low) to AA (high)	20%	
	R1 (Low)	A (low) to A (high)	15%	
Schedule 2 banks & insurance companies	R1 (High)	AAA	4%	10%
	R1 (Mid)	AA (low) to AA (high)	3%	
Asset-Backed securities	R1 (High)	AAA	5%	50%

(in thousands of Canadian dollars)

All other corporates	R1 (High)	AAA	5%	50%
	R1 (Mid)	AA (low) to AA (high)	3%	
	R1 (Low)	A (low) to A (high)	2%	

The Organization can only invest in Asset Backed securities that are bank-sponsored trusts and meet the Global Liquidity Standard, as set by DBRS. This standard requires that the trust have a contractual agreement in place with a liquidity provider to guarantee repayment of principal and interest on the security's maturity date, regardless of the conditions that gave rise to the liquidity event. The only condition to be met under this agreement is that the underlying assets remain of sufficient credit quality.

(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, has an ICR of "A (low)" or higher and pays a fixed rate for a remaining term not exceeding 5 years; or has an ICR of "A(mid)" or higher and pays a fixed rate for a remaining term not exceeding 7 years;
- guaranteed by the federal or a qualifying provincial government and is matched to a derivative financial instrument, resulting in the net receipt of a floating interest rate;
- is not guaranteed by the federal or a qualifying provincial government and is matched to a derivative financial instrument, resulting in the net receipt of a floating interest rate. Total such investments maturing beyond 5 years are limited to no more than 10% of the Total Liquidity Pool; or
- identified as funded by the Organization's share capital.

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

(in thousands of Canadian dollars)

					2016
	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)	242,359	5,306	3,008	-	250,673
AA / R1 (Middle)	8,337	210,141	1,061,359	1,016,507	2,296,344
A / R1 (Low)	315,410	424,977	597,797	-	1,338,184
	566,106	640,424	1,662,164	1,016,507	3,885,201

					2015
	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)	204,510	22,332	-	32,143	258,985
AA / R1 (Middle)	121,291	50,948	1,000,597	715,355	1,888,191
A / R1 (Low)	184,081	253,831	1,109,066	-	1,546,978
	509,882	327,111	2,109,663	747,498	3,694,154

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

Intermediation pool investments:

- The Organization is committed to investing in Credit Union Central of Canada 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.

(in thousands of Canadian dollars)

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.

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

						2016
	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	633,508	2,826,448	79,712	96,403	-	3,636,071
Derivative financial instruments	-	14,543	8,065	21,750	(4,471)	39,887
Undiscounted contractual amount of liabilities	633,508	2,840,991	87,777	118,153	(4,471)	3,675,958
Carrying value of liabilities	633,508	2,842,374	87,480	114,640	(3,900)	3,674,102

						2015
	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	747,908	2,553,866	75,348	116,022	-	3,493,144
Derivative financial instruments	-	16,266	10,136	44,656	(3,416)	67,642
Undiscounted contractual amount of liabilities	747,908	2,570,132	85,484	160,678	(3,416)	3,560,786
Carrying value of liabilities	747,908	2,567,608	85,052	156,672	(2,963)	3,554,277

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 interest rate re-pricing risk 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:

Interest-sensitive liabilities with term over 13 months

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

Interest-sensitive liabilities with 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.

Interest-sensitive liabilities with 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 schedules shows the Organization's sensitivity to interest rate changes based on the notional value of assets and liabilities:

(in thousands of Canadian dollars)

2016

Interest re-pricing period	Interest sensitive	Non-interest sensitive	Notional Derivative receiving	Notional Derivative paying	Net asset/liability mis-match
0 to 6 months	(2,907,756)	(130,171)	2,591,770	279,076	(167,081)
6 to 13 months	641,485	(16,349)	-	(481,568)	143,568
13 months to 2 years	408,162	(28,500)	-	(371,043)	8,619
2 to 3 years	681,519	(12,600)	-	(663,303)	5,616
3 to 4 years	149,523	(10,235)	-	(151,914)	(12,626)
4 to 5 years	283,424	(11,250)	-	(255,364)	16,810
Over 5 years	962,748	(10,000)	-	(947,654)	5,094
	219,105	(219,105)	2,591,770	(2,591,770)	-

2015

Interest re-pricing period	Interest sensitive	Non-interest sensitive	Notional Derivative receiving	Notional Derivative paying	Net asset/liability mis-match
0 to 6 months	(2,710,053)	(141,029)	2,851,099	(199,718)	(199,701)
6 to 13 months	305,707	(8,250)	-	(124,848)	172,609
13 months to 2 years	770,955	(36,109)	-	(726,869)	7,977
2 to 3 years	378,006	(26,500)	-	(340,474)	11,032
3 to 4 years	660,498	(9,600)	-	(646,555)	4,343
4 to 5 years	115,487	(10,236)	-	(119,115)	(13,864)
Over 5 years	711,124	-	-	(693,520)	17,604
	231,724	(231,724)	2,851,099	(2,851,099)	-

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.

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

(in thousands of Canadian dollars)

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 and security is held by the Organization through Assignments of Book Debts.

Including the effect of the derivative financial instruments, the weighted average effective return for interest-sensitive assets is 3.06% (2015 – 3.06%) and the weighted average effective cost for interest-sensitive liabilities is 2.28% (2015 - 2.41%).

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, 2016, the Organization estimates that an immediate and sustained 25 basis point decrease in interest rates would generate unrealized gains of $27,478 on non-derivative financial instruments and unrealized losses of $27,073 on derivative financial instruments while an immediate and sustained 25 basis point increase in interest rates would generate unrealized losses of $27,065 on non-derivative financial instruments and unrealized gains of $26,648 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 US 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.

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

(in thousands of Canadian dollars)

agreement (note 16 c)) involving the exchange of US 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, 2016 was USD $21 (2015 - USD ($2)).

As at December 31, 2016, the Organization has entered into foreign exchange forward rate agreements to buy US dollars aggregating USD $3,480 and to sell US dollars aggregating USD $3,085, inclusive of transactions with member credit unions (2015 - buy US dollars aggregating USD $4,028 and to sell US dollars aggregating USD $2,743, 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, 2016, 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 (2015 - 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 and are classified pursuant to 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 Banker's Acceptance (BA) rates, Canadian Dollar Offered Rates (CDOR), London Interbank Offered Rates (LIBOR), swap yield curves or composite yield curves for Schedule 1 bank senior debt 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				**2016**
	Level 1	**Level 2**	**Level 3**	**Total Carrying Amount**
Financial assets - held for trading and FVTPL				
Governments	-	687,417	-	687,417
Banks and trust companies	-	2,925,417	-	2,925,417
Corporate	-	272,367	-	272,367
Derivatives	-	8,580	-	8,580
Total financial assets	-	3,893,781	-	3,893,781
Financial liabilities - held for trading and FVTPL				
Members' deposits	-	3,634,411	-	3,634,411
Derivatives	-	39,691	-	39,691
Total financial liabilities	-	3,674,102	-	3,674,102

The Organization did not have any non-recurring measurements for the year ended December 31, 2016.

(in thousands of Canadian dollars)

Recurring measurements				**2015**
	Level 1	**Level 2**	**Level 3**	**Total Carrying Amount**
Financial assets - held for trading and FVTPL				
Governments	-	507,107	-	507,107
Banks and trust companies	-	2,930,339	-	2,930,339
Corporate	-	256,708	-	256,708
Derivatives	-	9,002	-	9,002
Total financial assets	-	3,703,156	-	3,703,156
Financial liabilities - held for trading and FVTPL				
Members’ deposits	-	3,487,335	-	3,487,335
Derivatives	-	66,942	-	66,942
Total financial liabilities	-	3,554,277	-	3,554,277

The fair values of cash, 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 active 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 debt instruments, 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 composite market yield curves on Schedule 1 bank senior debt.

(in thousands of Canadian dollars)

18 Offsetting of financial instruments

The following tables 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, 2016 and 2015, and the net impact on the Organization's consolidated statement of financial position had all offset rights been exercised.

The Organization is subject to an enforceable master netting arrangement in the form of an International Swap and Derivatives Association ("ISDA") agreement with each 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.

2016

	Amounts offset			**Amounts not offset**		**Net**
Financial assets	Gross assets	Gross liabilities offset	Net amounts presented	Financial instruments	Cash collateral pledged	
Derivative assets	8,707	(127)	8,580	(8,515)	-	65
	8,707	(127)	8,580	(8,515)	-	65

	Amounts offset			**Amounts not offset**		**Net**
Financial liabilities	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	Cash collateral pledged	
Derivative liabilities	57,603	(17,912)	39,691	(8,515)	(37,747)	(6,571)
	57,603	(17,912)	39,691	(8,515)	(37,747)	(6,571)

(in thousands of Canadian dollars)

						2015
	Amounts offset			**Amounts not offset**		**Net**
Financial assets	Gross assets	Gross liabilities offset	Net amounts presented	Financial instruments	Cash collateral pledged	
Derivative assets	9,041	(39)	9,002	(8,733)	-	269
	9,041	(39)	9,002	(8,733)	-	269

	Amounts offset			**Amounts not offset**		**Net**
Financial liabilities	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	Cash collateral pledged	
Derivative liabilities	72,489	(5,547)	66,942	(8,733)	(73,289)	(15,080)
	72,489	(5,547)	66,942	(8,733)	(73,289)	(15,080)

19 Capital management

Capital is managed in accordance with the CUCP Act, the CCA Act, and with policies established by the Board of Directors.

Pursuant to OSFI guidelines, the Organization is required to maintain a borrowing multiple, the ratio of debt to regulatory capital, of 20:1 or less. Regulatory capital is defined as the sum of its stated share capital and reserves reduced by assets specifically identified by OSFI guidelines. Specific reductions include net deferred tax assets. The Organization’s internally established target for its borrowing multiple is 15:1.

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. The Organiztion’s internally established target is 6.25% of the book value of its assets.

The Organization has a capital adequacy assessment process through which management regularly forecasts future capital requirements in order to adhere to its internal target. All of the capital requirements are monitored throughout the year. The Organization has a clear and unencumbered process to access required capital from its members 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, 2016, the Organizations' borrowing multiple was 14.34:1 (2015 – 14.63). Effective January 2017, the Organization is no longer subject to OSFI oversight and OSFI's capital guidelines as a result of the repeal of PartXVI of the CCA Act. The Organization continues to be subject to CUCP Act regulations.

The Organization is in compliance with its required level of capital under the CUCP Act. At December 31, 2016, the Organization's level of capital was 6.60% (2015 – 6.54%) of the book value of its assets.

20 Investment in Celero

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

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

	2016	2015
Assets	35,391	39,169
Liabilities	23,742	26,872
Revenues	79,210	82,868
Net Income	3,573	4,404
% interest held by the Organization	$33^1/_3$%	31.4%

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 a *Software License Agreement* with a third party software vendor in respect of a banking platform for Celero's credit union clients under which Celero is committed to $17,840 in software and ancillary maintenance fees over the next six years. Celero has entered into agreements with credit unions to fully recover these costs through operating fees over the term of the agreement.

Celero has an agreement for the management of Celero's mainframe, mid-range and data centre support operations. Under the terms of this agreement, Celero is committed to $21,792 over the next four years.

Celero has entered into an agreement in respect of internet banking. Under the terms of the agreement Celero is committed to a minimum of $1,734 over the next year.

(in thousands of Canadian dollars)

Celero has other obligations under various agreements for equipment, licensing, maintenance and professional fees totaling $393 over the next five years.

The Organization is indirectly liable in proportion to its $33^1/_3$% ownership interest in Celero for all of Celero's covenants and obligations under these agreements. Proportionate commitments in each of the next five years and thereafter are as follows:

	Banking Licenses & Maintenance	Internet Banking	Data Centre Management	Other	Total
2017	1,172	578	1,816	64	3,630
2018	990	-	1,816	27	2,833
2019	966	-	1,816	16	2,798
2020	939	-	1,816	12	2,767
2021	939	-	-	12	951
2022 and thereafter	939	-	-	-	939

Everlink

Celero has a 49% ownership interest in Everlink. The Organization is indirectly liable in proportion to its $33^1/_3$% 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 $6,500. Celero has provided a guarantee on these agreements in proportion to its shareholding in Everlink. At December 31, 2016 there were no draws (2015 - no draws) against the line of credit or the authorized overdraft facility.

21 Comparative figures

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