CAISSE POPULAIRE GROUPE FINANCIER LTÉE

Consolidated Financial Statements

For the year ended September 30, 2013

CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Financial Statements

For the year ended September 30, 2013 **Contents**

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Independent Auditor's Report

To the members of **Caisse Populaire Groupe Financier Ltée**

We have audited the accompanying consolidated financial statements of **Caisse Populaire Groupe Financier Ltée** ("Caisse"), which comprise the consolidated balance sheet as at September 30, 2013 and the consolidated statement of comprehensive income, consolidated statement of changes in members' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Caisse's 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 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 **Caisse Populaire Groupe Financier Ltée** as at September 30, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
December 12, 2013

CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Balance Sheet

As at September 30	2013	2012
	$	$
Assets		
Funds on hand and on deposit (Note 3)	**103,542,824**	46,894,642
Income taxes receivable	**-**	720,859
Other assets (Note 4)	**1,272,924**	1,236,647
Investments (Note 5)	**63,876,516**	100,656,541
Deferred income tax asset (Note 13)	**89,381**	-
Loans to members (Notes 7 and 8)	**930,315,926**	845,131,111
Property and equipment (Note 9)	**17,970,678**	18,649,020
Intangible assets (Note 10)	**3,174,958**	1,006,840
	1,120,243,207	1,014,295,660
Liabilities and Members' Equity		
Income taxes payable	**241,557**	-
Other liabilities (Note 11)	**6,128,223**	5,163,879
Borrowings (Note 20)	**16,011,599**	10,000,000
Deferred income tax liability (Note 13)	**-**	99,925
Members' deposits (Note 12)	**1,019,020,487**	925,823,142
Derivative financial instruments (Note 6)	**663,470**	1,314,165
Members' shares (Note 14)	**1,485,408**	1,379,927
	1,043,550,744	943,781,038
Commitments (Note 20)		
Members' Equity (Note 19)		
Members' shares (Note 14)	**10,018,983**	10,404,230
Accumulated other comprehensive income	**(15,707)**	19,236
Retained earnings	**66,689,187**	60,091,156
	76,692,463	70,514,622
	1,120,243,207	1,014,295,660

Approved on behalf of the Board of Directors:

____________________ Director

____________________ Director

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

CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Statement of Comprehensive Income

For the year ended September 30	2013	2012
	$	$
Revenue		
Interest from loans to members	**38,025,541**	35,085,630
Investment income	**3,984,586**	4,698,096
	42,010,127	39,783,726
Cost of Funds		
Interest paid to members	**19,498,954**	19,268,837
Interest from borrowings	**231,612**	11,872
	19,730,566	19,280,709
Financial margin	**22,279,561**	20,503,017
Operating Expenses		
Personnel (Note 15)	**12,952,368**	12,769,051
Administrative	**4,032,306**	3,729,837
Occupancy	**2,986,894**	2,872,088
Members' security	**1,139,401**	944,730
Organizational	**597,628**	881,826
Gross operating expenses	**21,708,597**	21,197,532
Less other income	**(6,820,124)**	(6,904,449)
Net operating expenses	**14,888,473**	14,293,083
Net income before other items and income taxes	**7,391,088**	6,209,934
Other Items		
Gain on sale of property and equipment	**-**	2,286,565
Provision for impaired loans	**-**	-
	-	2,286,565
Net income before income taxes	**7,391,088**	8,496,499
Provision for income taxes (Note 13)	**793,057**	1,012,952
Net income for the year	**6,598,031**	7,483,547
Other Comprehensive Income (Net of Tax)		
Change in unrealized losses on cash flow hedges	**(34,943)**	(165,326)
Total comprehensive income for the year	**6,563,088**	7,318,221

CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Statement of Changes in Members' Equity

For the year ended September 30, 2013

	Accumulated Other Comprehensive income	Members' Shares	Retained Earnings	Total
	$	$	$	$
Balance at September 30, 2011	184,562	11,566,760	52,607,609	64,358,931
Net income (loss) for the year	(165,326)	-	7,483,547	7,318,221
Net redemption of members' shares	-	(1,391,251)	-	(1,391,251)
Transfer from liabilities	-	228,721	-	228,721
Balance at September 30, 2012	19,236	10,404,230	60,091,156	70,514,622
Net income (loss) for the year	(34,943)	-	6,598,031	6,563,088
Net redemption of members' shares	-	(279,766)	-	(279,766)
Transfer to liabilities	-	(105,481)	-	(105,481)
Balance at September 30, 2013	(15,707)	10,018,983	66,689,187	76,692,463

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

CAISSE POPULAIRE GROUPE FINANCIER LTÉE
Consolidated Statement of Cash Flows

For the year ended September 30	**2013**	2012
	$	$
Cash Flows from Operating Activities		
Net income for the year	**6,598,031**	7,483,547
Adjustments for		
Interest and investment revenue	**(42,010,127)**	(39,783,726)
Interest expense	**19,730,566**	19,268,837
Depreciation expense	**1,111,200**	1,120,269
Provision for deferred tax	**(176,382)**	255,236
Ineffective portion of swaps	**(64,886)**	87,203
Net change in other assets	**(36,277)**	94,984
Net change in income taxes payable	**1,708,040**	646,753
Net change in other liabilities	**964,344**	(361,143)
Changes in member activities (net)		
Change in loans to members - net of repayments	**(85,063,529)**	(108,214,552)
Change in members' deposits - net of withdrawals	**92,960,167**	85,794,974
Cash flows related to interest and income taxes		
Interest received on loans to members	**37,270,579**	34,908,642
Interest received on investments	**5,501,091**	5,364,354
Interest paid on members' deposits	**(19,261,776)**	(19,376,299)
Interest paid on borrowings	**(231,612)**	(11,872)
Income taxes paid	**(745,624)**	(2,224,141)
Total cash flows from operating activities	**18,253,805**	(14,946,934)
Cash Flows from Investing Activities		
Net decrease in investments	**35,263,520**	14,477,175
Purchase of property and equipment	**(420,086)**	(2,932,311)
Purchase of systems software and licenses	**(2,180,890)**	-
Proceeds on sale of property and equipment	**-**	3,614,757
Total cash flows from investing activities	**32,662,544**	15,159,621
Cash Flows from Financing Activities		
Net redemption of common and surplus shares	**(279,766)**	(1,391,251)
Net increase (decrease) in cash and cash equivalents	**50,636,583**	(1,178,564)
Cash and cash equivalents, beginning of year	**36,894,642**	38,073,206
Cash and cash equivalents, end of year	**87,531,225**	36,894,642
Comprised of the following:		
Funds on hand and on deposit	**103,542,824**	46,894,642
Borrowings	**(16,011,599)**	(10,000,000)
	87,531,225	36,894,642

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting Entity

Caisse Populaire Groupe Financier Ltée (the "Caisse") is incorporated under the Credit Unions and Caisses Populaires Act of the Province of Manitoba ("The Act"). The Caisse serves members primarily in Manitoba and provides retail and commercial banking, and wealth management services. The Caisse has twenty six branches located throughout Winnipeg and southern Manitoba, with its registered office located at 205 Provencher Boulevard, Winnipeg, Manitoba, Canada.

These consolidated financial statements have been approved for issue by the Board of Directors on December 12, 2013.

Basis of Presentation

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

These consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments measured at fair value.

The consolidated financial statements' values are presented in Canadian dollars which is the Caisse's functional and presentation currency.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Caisse's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

Basis of Consolidation

These consolidated financial statements include the accounts of the Caisse and its wholly-owned subsidiaries: Télé-Pop Inc., C Finance Inc., Immobilières CSB Inc., and C.C. Prêts et Placements Ltée. The Caisse's wholly-owned subsidiaries have December 31 fiscal year ends.

All intercompany balances, transactions and profits and losses have been eliminated.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and current accounts with Credit Union Central of Manitoba ("CUCM") and Caisse Centrale Desjardins ("CCD") less borrowings that are repayable on demand.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

Investments

Liquidity Deposits

These deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost, which approximates fair value.

Shares

These instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. 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.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

Where there is a significant or prolonged decline in the fair value of an equity instrument that constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Investments (continued)

Other

These investments are classified as held to maturity as they are considered non derivative financial assets with fixed or determinable payments and fixed maturities that the Caisse management has the positive intention and ability to hold to maturity. These are initially recorded at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest rate method. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognized as impairment loss.

Derivative Financial Instruments and Hedges

Hedges

The Caisse, in accordance with its risk management strategies, enters into various derivative financial instruments to preserve the value of its loans to members and to protect itself against the risk of fluctuations in interest rates.

The Caisse preserves the value of its loans to members and manages interest rate risk through interest rate swaps. These derivatives are carried at fair value. Derivatives used to preserve the value of its loans to members have been designated as fair value hedges and are presented with loans to members. Derivatives used to manage interest rate risk have been designated as cash flow hedges and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, on the consolidated balance sheet.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Caisse's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Caisse has chosen to test the effectiveness of its hedges on a monthly basis.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Derivative Financial Instruments and Hedges (continued)

Hedges (continued)

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Caisse's cash flow hedges are primarily hedges of floating rate deposits.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income.

For fair value hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the derivative financial instrument and the risk associated with the financial instrument hedged are recognized immediately in income as other income.

If the Caisse closes out its hedge position early, the cumulative gains and losses recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method.

Other Comprehensive Income

Other comprehensive income ("OCI") includes unrealized gains and losses on financial assets classified as available-for-sale as well as the change in the fair value of the effective portion of cash flow hedges.

Other Non-Hedge Derivatives

The Caisse designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). Financial instruments included in this category are interest rate swaps not designated as hedging instruments. These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

Embedded Derivatives

The prepayment option included in the Caisse's loan agreements have been identified as embedded derivatives. Given that interest differential penalties meet the criteria of being closely related to the host contract, they are not required to be reported separately.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Loans to Members

All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

Loans to members are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred, and are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

If there is objective evidence that an impairment loss on loans to members carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate. Short-term balances are not discounted.

The Caisse first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

Bad Debts Written Off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provision for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	2.5%
Parking lot	8%
Furniture and equipment	10%
Computer equipment	10% to 33%
Telecommunication equipment	6.7% to 10%
Leasehold improvements	10% to 20%

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Intangible Assets

Systems Software and Licenses

Acquired and internally developed systems software and licenses are carried at cost, less accumulated depreciation and accumulated impairment losses, if any. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Caisse and the cost can be measured reliably.

Intangible assets available for use are depreciated over their useful lives on a straight line basis at a rate of 10% to 33%. The method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Goodwill

Goodwill represents the excess of purchase price of certain subsidiaries acquired by the Caisse over the net amount attributable to assets acquired and liabilities assumed. It is carried at original cost less any impairment subsequently incurred. Goodwill is assessed for impairment annually or more frequently if events or circumstances occur that may result in the recoverable amount of the cash generating unit ("CGU") falling below its carrying value. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other groups of assets. The goodwill balances are allocated to either individual or groups of CGU that are expected to benefit from the synergies of the business combination. Goodwill impairment is quantified by comparing a CGU's carrying value to its recoverable amount, which is the higher of its fair value less cost to sell and its value in use. Impairment losses are recognized immediately and may not be reversed in future periods.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Impairment of Non-Financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's CGU. The Caisse has one CGU for which impairment testing is performed.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

Income Taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base except for taxable temporary differences arising on the initial recognition of goodwill.

Recognition of deferred income tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred income tax asset to be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred income tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date and are expected to apply when the liabilities / assets are settled / recovered.

Financial Liabilities

The Caisse designates financial liabilities that include other liabilities, members' deposits and members' shares classified as liabilities as other financial liabilities. Other financial liabilities are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument, and are subsequently measured at amortized cost, using the effective interest rate method.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

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.

Members' Shares

Members' shares issued by the Caisse are classified as members' equity only to the extent that they do not meet the definition of a financial liability.

Members' shares are classified as a liability or members' equity in accordance with IAS 32 - Financial Instrument Presentation and IFRIC 2 - Members' Shares in Co-operative Entities and Similar Instruments. If members' shares are classified as members' equity, they are recognized at cost. If members' shares are classified as liabilities, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in members' equity, net of income tax benefits. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends, interest or otherwise.

Revenue Recognition

Interest on loans to members is recorded using the effective interest method except for loans which are considered impaired. The amount of initial impairment and any subsequent changes are recorded through the provision for impaired loans as an adjustment to the specific allowance.

Investment income is recorded using the effective interest method, except as it relates to adjustments in the rates received from CUCM or CCD, these are recorded when payment is received.

Commissions, service charges and other income are recognized as income when the related service is provided or entitlement to receive the income is earned.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

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 net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Caisse's accounting periods beginning on or after January 1, 2013 or later periods that the Caisse has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Caisse are:

i. IFRS 9 - Financial Instruments is part of the IASB's wider project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for accounting periods beginning on or after January 1, 2015. The Caisse is in the process of evaluating the full impact of IFRS 9 and will adopt the standard for the accounting period beginning on October 1, 2015.

ii. IFRS 10 - Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Caisse is in the process of evaluating the full impact of IFRS 10 and will adopt the standard for the accounting period beginning on October 1, 2013.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Standards, Amendments and Interpretations Not Yet Effective (continued)

iii. IFRS 13 - Fair Value Measurement aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Caisse is in the process of evaluating the full impact of IFRS 13 and will adopt the standard for the accounting period beginning on October 1, 2013.

iv. IAS 1 - Presentation of Financial Statements was amended to change the grouping of items presented in OCI. Items that would be reclassified to profit or loss at a future point in time will be presented separately from items that will never be reclassified. The amendments do not change the nature of the items that are currently recognized in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit or loss in future periods. The Caisse is in the process of evaluating the full impact of this amendment to IAS 1 and will adopt the standard for the accounting period beginning on October 1, 2013.

v. IAS 32 - Financial Instruments: Presentation was amended to clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems such as central clearing house systems which apply gross settlement mechanisms that are not simultaneous. The Caisse is in the process of evaluating the full impact of this amendment to IAS 32 and will adopt the standard for the accounting period beginning on October 1, 2014.

None of the other new standards, interpretations and amendments, which are effective for the Caisse's accounting periods beginning after January 1, 2013 and which have not been adopted early, are expected to have a material effect on the Caisse's future financial statements.

2. Critical Accounting Estimates and Judgments

The Caisse makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

2. Critical Accounting Estimates and Judgments (continued)

Fair Value of Financial Instruments

The Caisse determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, are disclosed in Note 17.

Provision for Impaired Loans

In determining whether an impairment loss should be recorded in the statement of comprehensive income the Caisse makes judgment on whether objective evidence of impairment exists for financial assets that are individually significant. Where this does not exist the Caisse uses its judgment to group loans to members with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision, management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 8.

Income Taxes

The Caisse periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Caisse records its best estimate of the income tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Property and Equipment

The estimated useful life, residual value and depreciation method chosen are the Caisse's best estimate of such and are based on industry norms, historical experience of management and other estimates. These estimates also consider the period and distribution of future cash inflows.

Goodwill

The Caisse used cash flow projections to assess goodwill impairment. The five year cash flow projections used in its impairment analysis was approved by the Board of Directors. Key assumptions used therein reflect past experience and are consistent with external sources of information. A discount rate of 4% was applied to its cash flow projections.

Readers are cautioned that this list is not exhaustive and other items may also be affected by estimates and judgments.

3. Funds on Hand and on Deposit

The Caisse's current account is held with CUCM. Included in the balance of funds on hand and on deposit is $21,182,467 ($11,503,724 at September 30, 2012) denominated in US dollars.

4. Other Assets

	2013	2012
	$	$
Accounts receivable	**467,737**	466,308
Prepaid expenses	**805,187**	770,339
	1,272,924	1,236,647

5. Investments

	2013	2012
	$	$
Liquidity Deposits		
Term deposits	**23,000,000**	37,063,800
Shares		
CCD shares	**15,266,000**	15,266,000
CUCM shares	**7,089,000**	4,733,345
Other shares	**589,748**	443,549
	22,944,748	20,442,894
Other		
Securities	**15,232,926**	38,811,959
Municipal debentures	**1,605,373**	1,727,914
	16,838,299	40,539,873
Accrued interest and dividends	**1,093,469**	2,609,974
	63,876,516	100,656,541

Liquidity Deposits

The term deposits bear interest at rates ranging from 1.93% to 3.42% (0.23% to 4.83% in 2012) and have original maturity dates of 4 years or less.

5. **Investments** (continued)

Shares

CCD and CUCM shares are issued and redeemable at par value. There is no separately quoted market value for these shares however fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

The Caisse is not intending to dispose of any CCD and CUCM shares as the services supplied by CCD and CUCM are relevant to the day to day activities of the Caisse. Dividends on these shares are at the discretion of the Board of Directors of CCD and CUCM.

Other

The securities and municipal debentures bear interest at rates ranging from 0% to 6.5% (0% to 6.5% in 2012) and mature between June 2014 and July 2056.

6. Derivative Financial Instruments

The Caisse has entered into interest rate swap contracts with CCD to hedge the Caisse's exposure to interest rate risks. As at September 30, 2013, the Caisse had entered into interest rate swap contracts for a total of $18,500,000 of notional principal whereby it has agreed to pay at variable and fixed interest rates and receive at fixed and variable interest rates. These swap contracts have fixed interest rates ranging from 2.02% to 4.33% and will mature from November 2013 to August 2021.

7. Loans to Members

	2013	2012
	$	$
Consumer		
Term loans	**36,561,414**	41,419,639
Mortgages	**357,252,546**	309,671,534
Lines of credit	**24,708,139**	24,904,072
Commercial		
Term loans	**49,344,591**	50,132,892
Mortgages	**301,671,695**	255,411,585
Lines of credit	**34,077,378**	33,473,450
Agricultural		
Term loans	**16,228,602**	17,727,360
Mortgages	**95,523,673**	99,145,693
Lines of credit	**15,495,474**	14,668,125
	930,863,512	846,554,350
Accrued interest receivable	**3,674,398**	2,919,436
Total loans	**934,537,910**	849,473,786
Allowance for impaired loans (Note 8)	**(4,221,984)**	(4,342,675)
Net loans to members	**930,315,926**	845,131,111

7. Loans to Members (continued)

Credit Quality of Loans

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

	2013	2012
	$	$
Unsecured loans	**30,760,989**	33,765,997
Loans secured by cash or members' deposits	**11,105,689**	9,934,131
Loans secured by real property	**775,615,327**	617,515,050
Loans secured by chattels	**101,907,182**	107,289,678
Loans insured by government	**15,148,723**	80,968,930
	934,537,910	849,473,786

Concentration of Risk

The Caisse has an exposure to groupings of individual loans which concentrate risk and create exposure to particular industry segments as follows:

	2013	2012
	$	$
Agriculture		
Crop production	**82,976,268**	77,372,973
Livestock farming	**42,121,518**	46,343,570
Commercial		
Accommodations and food services	**34,277,142**	28,743,979
Construction	**40,298,516**	31,867,599
Real estate, rental and leasing	**181,462,856**	160,148,051
Manufacturing	**8,787,067**	6,740,328
Public administration	**12,621,876**	11,393,787

The majority of loans to members are with members located throughout southern Manitoba. A sizeable portion of the Caisse's loan portfolio is secured by residential property in southern Manitoba. Therefore, the Caisse is exposed to the risks in reduction of the loan to valuation ratio coverage should the residential property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

No individual or related groups of loans to members exceed the Caisse’s established thresholds as at September 30, 2013 and 2012.

8. Allowance for Impaired Loans

The allowance for impaired loans is comprised of the following:

	2013	2012
	$	$
Collective allowance	**358,773**	468,750
Specific allowance	**3,863,211**	3,873,925
Total allowance	**4,221,984**	4,342,675

During the years ended September 30, 2013 and 2012, the Caisse did not acquire any assets in respect of problem loans.

Movement in total allowance for impaired loans is as follows:

				2013
	Consumer	**Agricultural**	**Commercial**	**Total**
	$	**$**	**$**	**$**
Balance at September 30, 2012	**351,966**	**1,070,274**	**2,920,435**	**4,342,675**
Movement in provision	**13,471**	**(434,360)**	**420,889**	**-**
	365,437	**635,914**	**3,341,324**	**4,342,675**
Loans recovered (written off)	**(125,899)**	**-**	**5,208**	**(120,691)**
Balance at September 30, 2013	**239,538**	**635,914**	**3,346,532**	**4,221,984**
Gross principal balance of individually impaired loans at September 30, 2013	**1,024,320**	**6,494,549**	**11,191,245**	**18,710,114**

				2012
	Consumer	Agricultural	Commercial	Total
	$	$	$	$
Balance at September 30, 2011	409,931	1,097,472	3,289,252	4,796,655
Provision for impaired loans for the year	-	-	-	-
	409,931	1,097,472	3,289,252	4,796,655
Loans written off	(57,965)	(27,198)	(368,817)	(453,980)
Balance at September 30, 2012	351,966	1,070,274	2,920,435	4,342,675
Gross principal balance of individually impaired loans at September 30, 2012	807,925	3,752,790	7,068,381	11,629,096

8. Allowance for Impaired Loans (continued)

An analysis of individual loans that are impaired or potentially impaired and included in the specific allowance based on period of delinquency is as follows:

	2013		2012	
	Carrying Value	**Specific Allowance**	Carrying Value	Specific Allowance
	$	**$**	$	$
Period of delinquency				
Less than 30 days	**764,229**	**158,037**	9,385	9,369
31 to 90 days	**662,489**	**86,586**	80,062	54,049
Greater than 90 days	**14,922,663**	**2,980,299**	7,497,099	2,137,534
Total impaired loans in arrears	**16,349,381**	**3,224,922**	7,586,546	2,200,952
Total impaired loans not in arrears	**2,360,733**	**638,289**	4,042,550	1,672,973
Total impaired loans	**18,710,114**	**3,863,211**	11,629,096	3,873,925

Key Assumptions in Determining the Allowance for Impaired Loans Collective Allowance

The Caisse has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events, the Caisse estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Caisse to reduce any differences between loss estimates and actual loss experience.

An estimate of the collective allowance is based on the period of repayments that are past due and historical write offs.

For purposes of the collective provision, loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

8. Allowance for Impaired Loans (continued)

Loans with repayments past due but not regarded as individually impaired and considered in determining the collective allowance are as follows:

				2013
	Consumer	**Agricultural**	**Commercial**	**Total**
	$	**$**	**$**	**$**
1 to 30 days	**2,839,905**	**175,416**	**687,530**	**3,702,851**
31 to 90 days	**1,176,710**	**138,377**	**84,492**	**1,399,579**
Greater than 90 days	**34,074**	**235,628**	**398,674**	**668,376**
Balance at September 30, 2013	**4,050,689**	**549,421**	**1,170,696**	**5,770,806**

				2012
	Consumer	Agricultural	Commercial	Total
	$	$	$	$
1 to 30 days	4,037,608	164,492	900,334	5,102,434
31 to 90 days	965,008	21,460	357,941	1,344,409
Greater than 90 days	-	-	-	-
Balance at September 30, 2012	5,002,616	185,952	1,258,275	6,446,843

9. Property and Equipment

	Land	Buildings and Parking Lots	Furniture and Equipment	Computer and Telecommunication Equipment	Leasehold Improvements	Total
Cost	$	$	$	$	$	$
Balance at September 30, 2011	2,276,640	18,654,355	5,410,132	4,934,411	896,680	32,172,218
Additions	350	2,536,350	342,888	136,438	-	3,016,026
Disposals	(364,329)	(3,365,671)	(8,530)	(87,481)	-	(3,826,011)
Transfers	-	-	48,071	(48,071)	-	-
	1,912,661	17,825,034	5,792,561	4,935,297	896,680	31,362,233
Balance at September 30, 2012	1,912,661	17,825,034	5,792,561	4,935,297	896,680	31,362,233
Additions	-	84,460	178,926	154,488	2,212	420,086
Disposals	-	-	-	(28,213)	-	(28,213)
Transfers	-	-	68,682	(68,682)	-	-
Balance at September 30, 2013	**1,912,661**	**17,909,494**	**6,040,169**	**4,992,890**	**898,892**	**31,754,106**
Accumulated Depreciation						
Balance at September 30, 2011	-	3,425,567	3,952,252	3,720,632	635,267	11,733,718
Depreciation expense	-	443,896	237,687	355,262	70,189	1,107,034
Disposals	-	(34,027)	(6,031)	(87,481)	-	(127,539)
	-	3,835,436	4,183,908	3,988,413	705,456	12,713,213
Balance at September 30, 2012	-	3,835,436	4,183,908	3,988,413	705,456	12,713,213
Depreciation expense	-	423,057	254,134	360,252	60,985	1,098,428
Disposals	-	-	-	(28,213)		(28,213)
Transfers	-	-	61,681	(61,681)		-
Balance at September 30, 2013	**-**	**4,258,493**	**4,499,723**	**4,258,771**	**766,441**	**13,783,428**
Net Book Value						
As at September 30, 2012	1,912,661	13,989,598	1,608,653	946,884	191,224	18,649,020
As at September 30, 2013	**1,912,661**	**13,651,001**	**1,540,446**	**734,119**	**132,451**	**17,970,678**

10. Intangible Assets

Cost	Goodwill	Systems Software and Licenses	Total
	$	$	$
Balance at September 30, 2011	1,091,515	1,617,772	2,709,287
Additions	-	-	-
Disposals	-	-	-
	1,091,515	1,617,772	2,709,287
Balance at September 30, 2012	1,091,515	1,617,772	2,709,287
Additions	-	2,180,890	2,180,890
Disposals	-	-	-
Balance at September 30, 2013	**1,091,515**	**3,798,662**	**4,890,177**
Accumulated Depreciation			
Balance at September 30, 2011	106,519	1,582,693	1,689,212
Depreciation expense	-	13,235	13,235
Disposals	-	-	-
	106,519	1,595,928	1,702,447
Balance at September 30, 2012	106,519	1,595,928	1,702,447
Depreciation expense	-	12,772	12,772
Disposals	-	-	-
Balance at September 30, 2013	**106,519**	**1,608,700**	**1,715,219**
Net Book Value			
As at September 30, 2012	984,996	21,844	1,006,840
As at September 30, 2013	**984,996**	**2,189,962**	**3,174,958**

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11. Other Liabilities

	2013	2012
	$	$
Accrued expenses and payables	**5,616,868**	4,631,155
Items in transit	**511,355**	532,724
	6,128,223	5,163,879

12. Members' Deposits

	2013	2012
	$	$
Chequing accounts	**233,838,489**	232,630,154
Savings accounts	**150,908,909**	158,360,704
Term deposits	**384,439,453**	304,957,003
Registered plans	**241,622,640**	221,902,785
	1,010,809,491	917,850,646
Accrued interest payable	**8,210,996**	7,972,496
	1,019,020,487	925,823,142

Concentration of Risk

The Caisse does not have individual or related groups of members’ deposits which would cause a significant risk to the Caisse at September 30, 2013 and 2012.

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

13. Income Taxes

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

	2013	2012
	$	$
Current Tax Expense		
Based on current year taxable income	**969,438**	757,716
Deferred Tax Expense		
Origination and reversal of temporary differences	**(44,658)**	255,236
Change in tax rate applied to deferred tax components	**(131,723)**	-
	(176,381)	255,236
Total income tax expense	**793,057**	1,012,952

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

	2013	2012
	$	$
Deferred Tax		
Change in unrealized losses on derivative financial instruments	**12,924**	22,544
Total tax effect of amounts recorded in other comprehensive income	**12,924**	22,544

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

	2013	2012
	%	%
Combined federal and provincial statutory income tax rates	**27.0**	27.0
Credit Union rate reduction	**(13.5)**	(14.7)
Change in tax rate applied to deferred tax components	**(1.8)**	-
Non-deductible and other items	**(1.0)**	(0.4)
	10.7	11.9

The tax effects of temporary differences which give rise to the net future income tax asset or liability is related to the amortization of property and equipment, and systems software and licenses, the allowance for impaired loans, goodwill and other provisions in the consolidated financial statements.

13. Income Taxes (continued)

The movement in deferred income tax liabilities and assets are as follows:

	2013				
	Balance at September 30 2012	**Recognized in Net Income**	**Recognized Directly in Equity**	**Reclassified from Equity to Net Income**	**Balance at September 30 2013**
	$	**$**	**$**	**$**	**$**
Deferred Tax Liabilities					
Property, equipment and systems software and licenses	**83,842**	**63,430**	**-**	**-**	**147,272**
Goodwill	**23,523**	**34,644**	**-**	**-**	**58,167**
Derivative financial instruments	**26,924**	**17,519**	**(12,924)**	**-**	**31,519**
Other	**205,098**	**(61,100)**	**-**	**-**	**143,998**
	339,387	**54,493**	**(12,924)**	**-**	**380,956**
Deferred Tax Assets					
Allowance for impaired loans	**52,112**	**61,881**	**-**	**-**	**113,993**
Provision for writedown of investments	**182,928**	**166,938**	**-**	**-**	**349,866**
Accrued amounts	**4,422**	**2,056**	**-**	**-**	**6,478**
	239,462	**230,875**	**-**	**-**	**470,337**
Net deferred tax asset (liability)	**(99,925)**	**176,382**	**12,924**	**-**	**89,381**

	2012				
	Balance at September 30 2011	Recognized in Net Income	Recognized Directly in Equity	Reclassified from Equity to Net Income	Balance at September 30 2012
	$	$	$	$	$
Deferred Tax Liabilities					
Property, equipment and systems software and licenses	102,646	(18,804)	-	-	83,842
Goodwill	21,018	2,505	-	-	23,523
Derivative financial instruments	59,933	(10,465)	(22,544)	-	26,924
Other	-	205,098	-	-	205,098
	183,597	178,334	(22,544)	-	339,387
Deferred Tax Assets					
Allowance for impaired loans	28,631	23,481	-	-	52,112
Provision for writedown of investments	231,072	(48,144)	-	-	182,928
Other	42,039	(42,039)	-	-	-
Accrued amounts	14,622	(10,200)	-	-	4,422
	316,364	(76,902)	-	-	239,462
Net deferred tax asset (liability)	132,767	(255,236)	22,544	-	(99,925)

13. Income Taxes (continued)

	2013	2012
	$	$
Deferred Tax Liabilities		
Deferred tax liabilities to be settled within 12 months	**175,484**	232,023
Deferred tax liabilities to be settled beyond 12 months	**205,472**	107,364
	380,956	339,387
Deferred Tax Assets		
Deferred tax assets to be recovered within 12 months	**120,506**	56,532
Deferred tax assets to be recovered beyond 12 months	**349,831**	182,930
	470,337	239,462
Net deferred tax asset (liability)	**89,381**	(99,925)

14. Members' Shares

	2013	2012
	$	$
Liabilities		
Common	**143,895**	144,225
Surplus	**1,341,513**	1,235,702
	1,485,408	1,379,927
Members' Equity		
Surplus	**10,018,983**	10,404,230
	11,504,391	11,784,157

As a condition of membership, each member must purchase one common share. No member may hold more than 10% of the total number of shares. Each member of the Caisse has one vote regardless of the number of shares the member holds.

Authorized Shares

Common Shares

Authorized common share capital consists of an unlimited number of common shares with an issue price per share of not less than $5, redeemable at par only when a membership is withdrawn.

14. Members' Shares (continued)

Common shares that are available for redemption are classified as a liability. The difference between the total members' shares and the liability amount are classified as members' equity.

Funds invested by members in members' shares are not insured by Deposit Guarantee Corporation of Manitoba. The withdrawal of members' shares is subject to the Caisse maintaining adequate regulatory capital.

Surplus Shares

Surplus shares are issued as part of patronage rebates and/or distributions. They are issued only to members of the Caisse with an issue price of $1 per share and are redeemable at par at the option of the Caisse. The withdrawal of surplus shares is subject to the Caisse maintaining adequate regulatory capital, as is the payment of any distributions on these shares.

Surplus shares that are available for redemption are classified as a liability. The difference between the total surplus shares and the liability amount are classified as members' equity.

Patronage rebates and/or distributions are at the discretion of the Board of Directors.

15. Personnel Expenses

	2013	2012
	$	$
Salaries and wages	**10,161,891**	10,043,316
Employee benefits	**2,148,515**	2,043,133
Other	**641,962**	682,602
	12,952,368	12,769,051

16. Related Party Transactions

Key management personnel is defined under IFRS as those persons having authority and responsibility for planning, directing and controlling the activities of the Caisse, directly or indirectly. Key management personnel of the Caisse includes executive management and Board of Directors.

The aggregate compensation of key management personnel during the year is as follows:

	2013	2012
	$	$
Compensation		
Salaries, and other short-term employee benefits	**1,129,285**	1,167,195

16. Related Party Transactions (continued)

Included in compensation above are the following payments to the directors and officers of the Caisse for expenses associated with the performance of their duties:

	2013	2012
	$	$
Honouraria and per diems	**32,125**	41,152
Training and other costs	**11,188**	15,757
	43,313	56,909

The Caisse's policy for lending to key management personnel and for receiving deposits from key management personnel is that the loans are approved and deposits are accepted on the same terms and conditions which apply to members for each class of loan and type of deposit. Loans to key management personnel and deposits from the latter are as follows:

	2013	2012
	$	$
Loans to key management personnel		
Aggregate value of loans advanced	**1,784,196**	2,829,708
Interest received on loans advanced	**74,872**	99,628
Aggregate value of unadvanced loans	**14,985**	-
Total value of lines of credit advanced	**76,394**	303,180
Interest received on lines of credit advanced	**8,299**	10,127
Unused value of lines of credit	**679,107**	576,320
Deposits from key management personnel		
Aggregate value of term and savings accounts	**2,218,941**	2,357,207
Total interest paid on term and savings accounts	**47,007**	15,402

17. Financial Instrument Classification and Fair Value

The carrying amount of the Caisse's financial instruments by classification is as follows:

	Available-for-Sale	Held to Maturity	Loans and Receivables	Other Financial Liabilities	Total
	$	$	$	$	$
September 30, 2013					
Funds on hand and on deposit	**-**	**-**	**103,542,824**	**-**	**103,542,824**
Accounts receivable	**-**	**-**	**467,737**	**-**	**467,737**
Investments (Note 5)					
Term deposits	**-**	**-**	**23,070,443**	**-**	**23,070,443**
Shares	**23,760,404**	**-**	**-**	**-**	**23,760,404**
Securities and municipal debentures	**-**	**17,045,669**	**-**	**-**	**17,045,669**
Loans to members	**-**	**-**	**930,315,926**	**-**	**930,315,926**
Accounts payable	**-**	**-**	**-**	**(6,128,223)**	**(6,128,223)**
Borrowings	**-**	**-**	**-**	**(16,011,599)**	**(16,011,599)**
Members' deposits	**-**	**-**	**-**	**(1,019,020,487)**	**(1,019,020,487)**
Derivative financial instruments	**-**	**-**	**-**	**(663,470)**	**(663,470)**
Members' shares	**-**	**-**	**-**	**(1,485,408)**	**(1,485,408)**
	23,760,404	**17,045,669**	**1,057,396,930**	**(1,043,309,187)**	**54,893,816**
September 30, 2012					
Funds on hand and on deposit	-	-	46,894,642	-	46,894,642
Accounts receivable	-	-	466,308	-	466,308
Investments (Note 5)					
Term deposits	-	-	37,305,051	-	37,305,051
Shares	22,339,050	-	-	-	22,339,050
Securities and municipal debentures	-	41,012,440	-	-	41,012,440
Loans to members	-	-	845,131,111	-	845,131,111
Accounts payable	-	-	-	(5,163,879)	(5,163,879)
Borrowings	-	-	-	(10,000,000)	(10,000,000)
Members' deposits	-	-	-	(925,823,142)	(925,823,142)
Derivative financial instruments	-	-	-	(1,314,165)	(1,314,165)
Members' shares	-	-	-	(1,379,927)	(1,379,927)
	22,339,050	41,012,440	929,797,112	(943,681,113)	49,467,489

17. Financial Instrument Classification and Fair Value (continued)

The following represents the fair values of on and off balance sheet financial instruments of the Caisse. The fair values disclosed exclude the value of assets and liabilities that are not considered financial instruments. In addition, the value of intangibles such as long-term member relationships are not included in the fair value amounts. The Caisse considers the value of intangibles to be significant.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of the Caisse's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

Due to the judgment used in applying a wide range of acceptable valuation techniques in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

			2013			2012
	Book Value	**Fair Value**	**Excess over Book Value**	Book Value	Fair Value	Excess over Book Value
	$	**$**	**$**	$	$	$
(in thousands)						
Assets						
Funds on hand and on deposit	**103,543**	**103,543**	**-**	46,895	46,895	-
Accounts receivable	**468**	**468**	**-**	466	466	-
Investments	**63,877**	**64,185**	**308**	100,657	101,796	1,139
Loans to members	**930,316**	**938,856**	**8,540**	845,131	856,039	10,908
	1,098,204	**1,107,052**	**8,848**	993,149	1,005,196	12,047
Liabilities						
Accounts payable	**6,128**	**6,128**	**-**	5,164	5,164	-
Borrowings	**16,012**	**16,012**	**-**	10,000	10,000	-
Members' deposits	**1,019,020**	**1,025,281**	**6,261**	925,823	933,547	7,724
Derivative financial instruments	**663**	**663**	**-**	1,314	1,314	-
Members' shares	**1,485**	**1,485**	**-**	1,380	1,380	-
	1,043,308	**1,049,569**	**6,261**	943,681	951,405	7,724

17. Financial Instrument Classification and Fair Value (continued)

Interest rate sensitivity is the main cause of changes in the fair value of the Caisse's financial instruments. The book values are generally not adjusted to reflect the fair value, as it is the Caisse's intention to realize their value over time by holding them to maturity.

Assets and liabilities recorded at fair value in the consolidated balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

  Assets measured at fair value and classified as Level 1 include funds on hand and on deposit.

- Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

  Level 2 inputs include quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include available for sale investments and interest rate swap contracts.

- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.

  Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

  There are no assets measured at fair value and classified as Level 3.

18. Financial Instrument Risk Management

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Caisse's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Caisse's management. The Board of Directors receives quarterly reports from the Caisse's management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk

Credit risk is the risk of financial loss to the Caisse if a counterparty to a financial instrument fails to meet its contractual obligations. The Caisse is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

18. Financial Instrument Risk Management (continued)

Risk Measurement

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

Objectives, Policies and Procedures

The Caisse's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risk and that the overall credit risk policies are complied with at the business and transaction level.

The Caisse's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, loan administration, credit concentration limits, and risk rating;
- Loan lending limits including Board of Directors limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Caisse's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

18. Financial Instrument Risk Management (continued)

Maximum Exposure to Credit Risk

The Caisse's maximum exposure to credit risk without taking account of any collateral or other credit enhancements is as follows:

	2013	2012
	Maximum Exposure	Maximum Exposure
	$	$
Funds on hand and on deposit	**103,542,824**	46,894,642
Investments	**63,876,516**	100,656,541
Loans to members	**930,315,926**	845,131,111
Undisbursed loans	**85,980,423**	100,788,010
Unutilized lines of credit	**157,929,962**	146,989,631
Unexpired letters of credit	**2,080,375**	2,346,795
	1,343,726,026	1,242,806,730

Details regarding concentration of credit risk, collateral and other credit enhancements held and loans past due but not impaired are disclosed in Note 7.

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

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

Liquidity Risk

Liquidity risk is the risk that the Caisse will not be able to meet all cash outflow obligations as they come due. The Caisse mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk Measurement

The assessment of the Caisse's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

Objectives, Policies and Procedures

The Caisse's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

18. Financial Instrument Risk Management (continued)

Provisions of the Credit Unions and Caisses Populaires Act require the Caisse to maintain liquid assets of at least 8% of members' deposits and borrowings in order to meet member withdrawals. The Caisse has met this requirement as at September 30, 2013 with liquidity reserves equal to 13.76% (12.68% in 2012).

The Caisse manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Caisse's liquidity framework. The Caisse was in compliance with the liquidity requirements throughout the fiscal year and at September 30, 2013.

The following are the contractual maturities of financial liabilities:

						2013
	Carrying Amount	**Gross Nominal Cash Outflow**	**Less than 1 Year**	**1 - 2 years**	**3 - 5 years**	**Greater than 5 years**
(in thousands)	**$**	**$**	**$**	**$**	**$**	**$**
Accounts payable	**6,128**	**(6,128)**	**(6,128)**	**-**	**-**	**-**
Borrowings	**16,012**	**(16,012)**	**(16,012)**	**-**	**-**	**-**
Members' deposits	**1,019,020**	**(1,019,020)**	**(734,605)**	**(93,781)**	**(190,634)**	**-**
Members' shares	**1,485**	**(1,485)**	**(1,485)**	**-**	**-**	**-**
Undisbursed loans	**-**	**(85,980)**	**(85,980)**	**-**	**-**	**-**
Unutilized lines of credit	**-**	**(157,930)**	**(157,930)**	**-**	**-**	**-**
	1,042,645	**(1,286,555)**	**(1,002,140)**	**(93,781)**	**(190,634)**	**-**

18. Financial Instrument Risk Management (continued)

2012						
	Carrying Amount	Gross Nominal Cash Outflow	Less than 1 Year	1 - 2 years	3 - 5 years	Greater than 5 years
(in thousands)	$	$	$	$	$	$
Accounts payable	5,164	(5,164)	(5,164)	-	-	-
Borrowings	10,000	(10,000)	(10,000)	-	-	-
Members' deposits	925,823	(925,823)	(649,813)	(87,702)	(188,308)	-
Members' shares	1,380	(1,380)	(1,380)	-	-	-
Undisbursed loans	-	(100,788)	(100,788)	-	-	-
Unutilized lines of credit	-	(146,990)	(146,990)	-	-	-
	942,367	(1,190,145)	(914,135)	(87,702)	(188,308)	-

Timing of unutilized lines of credit and undisbursed loan payments are uncertain. Since these payouts are at the discretion of the members the entire amount of potential payments has been included in less than 1 year.

The Caisse has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, foreign exchange risk, and equity risk. The Caisse is exposed to market risk in its asset/liability management activities. The level of market risk to which the Caisse is exposed varies depending on market conditions and expectations of future price and yield movements.

18. Financial Instrument Risk Management (continued)

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Caisse is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Caisse's goal is to manage the balance sheet interest rate risk to a target level. The Caisse continually monitors the effectiveness of its interest rate mitigation activities.

Risk Measurement

The Caisse's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

Objectives, Policies and Procedures

The Caisse's major source of income is financial margin, the difference between interest earned on investments and members loans and interest paid on members' deposits. The objective of asset/liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Caisse management and reported to the Deposit Guarantee Corporation of Manitoba in accordance with the Caisse's matching policy. This policy has been approved by the Board of Directors as required by The Regulations to the Act. For the years ended September 30, 2013 and 2012, the Caisse was in compliance with this policy.

To decrease the exposure of wide fluctuations of income during periods of changing interest rates, the Caisse has policies to maintain the best possible matching of maturity of its loans and deposits. The Caisse also enters into interest rate swap contracts to reduce its exposures to changing interest rates.

As at September 30, 2013, the notional principal amount of swaps totaled $18,500,000. These amounts, however, are not indicative of the underlying credit risk. The credit risk is represented by the cost to replace the swap agreements which are estimated to be $663,470 at September 30, 2013. This cost would be incurred only in the event of failure by the counter party, restricted to major chartered banks, to honor its contractual obligations; it is management's responsibility to assess whether an event of failure is remote and the associated credit risk is minimal.

18. Financial Instrument Risk Management (continued)

The following schedule shows the Caisse's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within twelve months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest rate sensitive have been grouped together, regardless of maturity.

	As at September 30, 2013				
Maturity Dates	**Assets**	**Assets Swaps**	**Liabilities**	**Liabilities Swaps**	**Asset and Liability Gap**
(in thousands)	**$**	**$**	**$**	**$**	**$**
Interest sensitive					
Variable	**473,879**	**17,000**	**261,681**	**1,500**	**227,698**
0 - 12 months	**93,659**	**1,500**	**326,840**	**-**	**(231,681)**
Greater than 1 year	**501,723**	**-**	**284,415**	**17,000**	**200,308**
Interest sensitive	**1,069,261**	**18,500**	**872,936**	**18,500**	**196,325**
Non-interest sensitive	**50,982**	**-**	**247,307**	**-**	**(196,325)**
Total	**1,120,243**	**18,500**	**1,120,243**	**18,500**	**-**

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

The notional amount of swaps reflected in the above schedule is added to the balance sheet as fixed rate assets of $18,500,000 and variable rate liabilities of $18,500,000 at September 30, 2013.

An analysis of the Caisse's risk due to changes in interest rates was calculated using financial modelling software and determined that an increase in interest rates of 1% could result in an increase of $1,135,900 to Caisse’s financial margin while a decrease in interest rates of 1% could result in a decrease to its financial margin of $1,189,200.

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

18. Financial Instrument Risk Management (continued)

Foreign Exchange Risk

Foreign exchange risk relates to the Caisse operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Caisse’s foreign exchange risk is related to US dollar deposits denominated in US dollars. Foreign currency changes are continually monitored by management for effectiveness of its foreign exchange mitigation activities and holdings are adjusted according to policy.

<u>Risk Measurement</u>

The Caisse's position is measured daily. Measurement of risk is based on rates charged to members as well as currency purchase costs.

<u>Objectives, Policies and Procedures</u>

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

For the years ended September 30, 2013 and 2012, the Caisse's exposure to currency risk is within policy.

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

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Caisse is exposed to this risk through its equity holdings.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

19. Capital Management

Capital is managed in accordance with policies established by the Board of Directors. Management regards a strong capital base as an integral part of the Caisse's strategy. The Caisse has a capital plan to provide a long-term forecast of capital requirements. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

The Caisse considers its capital to include members' shares and retained earnings which is unchanged from the previous year. All member's shares are included in the calculation of capital regardless of being classified as a liability or equity on the balance sheet.

19. Capital Management (continued)

Regulations under The Act establish the following with respect to capital requirements:

The Caisse shall maintain a level of capital that meets or exceeds the following requirements:

(a) its members' equity shall not be less than 5% of the book value of its assets;

(b) its retained earnings shall not be less than 3% of the book value of its assets; and

(c) a tiered level of capital shall not be less than 8% of the risk weighted value of its assets as defined in the Regulations.

As at September 30, 2013, the Caisse met all of the legislated capital requirements as follows:

	2013	2012
	%	%
Members' Equity	**6.98**	7.09
Retained Earnings	**5.95**	5.92
Risk weighted capital	**11.16**	11.50

20. Commitments

Credit Facilities

The Caisse has an approved line of credit with CUCM equal to 10% of its members' deposits. The line of credit is secured by an assignment of shares and deposits in CUCM, as well as by an assignment of loans receivable from members. The balance outstanding at September 30, 2013 was $NIL ($NIL at September 30, 2012).

The Caisse also has a borrowing limit of up to a maximum of $16,000,000 at September 30, 2013 with the CCD to fund its current operations. Any advances made when borrowings are greater than $15,000,000 must have a guarantee of term deposits equivalent to the amount in excess of $15,000,000.

As at September 30, 2013, Caisse had $16,000,000 of borrowings with CCD ($10,000,000 at September 30, 2012).

20. **Commitments** (continued)

Loans to Members

The Caisse has the following commitments to its members at September 30, 2013 on account of undisbursed loans, unutilized lines of credit and letters of credit:

	2013	2012
	$	$
Undisbursed loans	**85,980,423**	100,788,010
Unutilized lines of credit	**157,929,962**	146,989,631
Letters of credit	**2,080,375**	2,346,795
	245,990,760	250,124,436

Credit Union Central of Manitoba

Under the terms of a financial services master agreement, CUCM provides banking, trade and other services to the Caisse. By virtue of this agreement, the Caisse is obliged to pay to CUCM the fees and dues specified in the agreement.

Deposit Guarantee Corporation of Manitoba

The Deposit Guarantee Corporation of Manitoba (the "Corporation") is a deposit insurance corporation. By legal obligation under the Act, the Corporation protects the savings and deposits of all Credit Union and Caisse members in every Credit Union and Caisse within Manitoba. By legislation, the Caisse pays a quarterly levy to the Corporation based on a percentage of members' deposits.