

Sunrise Credit Union Limited
Consolidated Financial Statements
For the year ended December 31, 2016

Management's Responsibility

To the Members of Sunrise Credit Union Limited:

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

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

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

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

March 21, 2017

Signed "Tim Klassen"

President and Chief Executive Officer

Signed "Tony Keown"

V.P. of Finance

Independent Auditors' Report

To the Members of Sunrise Credit Union Limited:

We have audited the accompanying consolidated financial statements of Sunrise Credit Union Limited and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, consolidated changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sunrise Credit Union Limited and its subsidiaries as at December 31, 2016 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Brandon, Manitoba

March 21, 2017

MNP LLP

Chartered Professional Accountants

Sunrise Credit Union Limited

Consolidated Statement of Financial Position

As at December 31, 2016

	2016	2015
Assets		
Cash and cash equivalents	21,312,154	37,784,227
Accounts receivable	66,853	82,459
Investments and accrued interest (Note 4)	96,099,853	64,321,246
Members' loans receivable and accrued interest (Note 5)	760,405,625	734,651,744
Income taxes recoverable	48,572	42,488
Prepaid expenses and deposits	1,654,433	964,571
Property and equipment (Note 8)	10,325,259	13,433,959
Intangible assets (Note 9)	5,887,783	6,409,080
Deferred tax (Note 10)	50,000	113,000
	895,850,532	857,802,774
Liabilities		
Member deposits and accrued interest (Note 11)	814,676,066	790,134,912
Income taxes payable	229,088	-
Accounts payable	7,952,088	8,001,822
Securitized debt (Note 12)	9,213,503	-
	832,070,745	798,136,734
Members' equity		
Retained earnings	48,471,103	44,511,030
Contributed surplus	1,723,350	1,723,350
Member shares (Note 14)	13,585,334	13,431,660
	63,779,787	59,666,040
	895,850,532	857,802,774

Approved on behalf of the Board

Signed "Glenn Young"
Director

Signed "Don Zeghers"
Director

Sunrise Credit Union Limited

Consolidated Income Statement

For the year ended December 31, 2016

	2016	2015
Financial Income		
Member loans	29,290,479	29,053,767
Investments	1,828,536	1,564,066
	31,119,015	30,617,833
Interest expense		
Deposits	10,865,450	10,689,751
Interest on borrowed money	-	10,739
	10,865,450	10,700,490
Gross financial margin	20,253,565	19,917,343
Operating Expenses		
Administration	4,760,929	4,368,669
Amortization	1,534,984	1,264,445
Member security	717,731	684,488
Occupancy	1,974,824	1,719,062
Organizational	565,028	507,274
Personnel	12,362,177	12,348,928
	21,915,673	20,892,866
Net operating expenses	(1,662,108)	(975,523)
Other income	7,464,891	6,283,677
Income before provision for impaired loans, property held for resale and income taxes	5,802,783	5,308,154
Provision for (Note 5)		
Impaired loans	436,459	660,296
Property held for resale	148,866	41,652
	585,325	701,948
Income before income taxes	5,217,458	4,606,206
Income taxes (recovery)		
Current	992,931	861,034
Deferred	63,000	(23,000)
	1,055,931	838,034
Net income	4,161,527	3,768,172

The accompanying notes are an integral part of these financial statements

Sunrise Credit Union Limited
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2016

	<i>Member shares</i>	<i>Retained earnings</i>	<i>Contributed surplus</i>	<i>Total equity</i>
Balance December 31, 2014	12,729,029	40,969,816	1,723,350	55,422,195
Net income	-	3,768,172	-	3,768,172
Issuance of member shares	1,063,863	-	-	1,063,863
Redemption of member shares	(361,232)	-	-	(361,232)
Dividend on preference shares, net of tax recovery	-	(226,958)	-	(226,958)
Balance December 31, 2015	13,431,660	44,511,030	1,723,350	59,666,040
Net income	-	4,161,527	-	4,161,527
Issuance of member shares	552,412	-	-	552,412
Redemption of member shares	(398,738)	-	-	(398,738)
Dividend on preference shares, net of tax recovery	-	(201,454)	-	(201,454)
Balance December 31, 2016	13,585,334	48,471,103	1,723,350	63,779,787

The accompanying notes are an integral part of these financial statements

Sunrise Credit Union Limited
Consolidated Statement of Cash Flows
For the year ended December 31, 2016

	2016	2015
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member loans	29,181,340	28,955,533
Interest and dividends received from investments	1,821,452	1,540,474
Other non-interest income received	6,622,767	6,256,701
Cash paid to suppliers and employees	(21,120,300)	(18,019,736)
Interest paid on deposits	(11,140,998)	(10,239,316)
Interest paid on borrowed money	-	(10,739)
Income taxes paid	(757,759)	(972,109)
	4,606,502	7,510,808
Financing activities		
Net change in member deposits	24,816,702	47,099,243
Proceeds from issuance of member shares	552,412	1,063,863
Redemption of member shares	(398,738)	(361,232)
Payment of term loan payable	-	(17,000,000)
Advances of securitized debt	9,213,503	-
	34,183,879	30,801,874
Investing activities		
Net change in members' loans receivable	(26,441,547)	(29,123,162)
Purchases of investments and accrued interest	(31,773,650)	(1,047,897)
Purchases of property and equipment	(454,806)	(3,114,208)
Proceeds from disposal of property and equipment	3,407,549	4,883
	(55,262,454)	(33,280,384)
Increase (decrease) in cash and cash equivalents	(16,472,073)	5,032,298
Cash and cash equivalents, beginning of year	37,784,227	32,751,929
Cash and cash equivalents, end of year	21,312,154	37,784,227

The accompanying notes are an integral part of these financial statements

Sunrise Credit Union Limited

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

1. Reporting entity information

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

The consolidated financial statements of the Credit Union, as at and for the year ended December 31, 2016 comprises the Credit Union and its wholly owned subsidiary, VCU Financial Group Inc. VCU Financial Group Inc. has five wholly owned subsidiaries, 5847487 Manitoba Ltd., K & L Brugger Investments Inc., 5221170 Manitoba Ltd., Gray Asset Management Ltd. and K & R Investment Management Inc. Together, these entities are referred to as Sunrise Credit Union Limited. The address of the Credit Union's registered office is 2305 Victoria Avenue, Brandon, Manitoba, Canada.

These consolidated financial statements for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on March 21, 2017.

Basis of measurement

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

Functional and presentation currency

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

Statement of compliance

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

2. Significant accounting policies

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

Basis of consolidation

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

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

The results of acquisition or disposal of subsidiaries during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Cash and cash equivalents

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

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

Investments

Central Term deposits and shares

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

Portfolio investments

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

Investment in mortgage pool

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

Members' loans receivable

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

Impairment of financial assets

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

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

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

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

Sunrise Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

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

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

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

Property and equipment

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

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

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

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

Investment property

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

Goodwill and intangible assets

Goodwill

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

Intangible assets

Intangible assets are comprised primarily of customer lists.

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

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

Impairment of non-financial assets

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

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

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

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

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

Accounts payable

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

Member deposits

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

Member shares

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

Revenue recognition

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

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

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

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

Loan fees are amortized over the term of the instrument using the effective interest rate method.

Loan syndication fees are included in other income on completion of the syndication arrangement. Incremental direct costs originating or acquiring a loan are netted against origination fees.

Income taxes

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

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

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

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

Foreign currency translation

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

Financial instruments

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

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

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

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

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

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

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

Derecognition of financial assets

Derecognition of a financial asset occurs when:

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

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

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

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

Comprehensive income (loss)

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

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2016 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

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

IFRS 9 Financial instruments

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Credit Union has not yet determined the impact of the standard on its consolidated financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 15, issued in May 2014, specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers*, and SIC 31 *Revenue – barter transactions involving advertising services*.

Amendments to IFRS 15, issued in April 2016, clarify some requirements and provide additional transition relief for when an entity first applies IFRS 15.

IFRS 15, and the amendments, are effective for annual periods beginning on or after January 1, 2018. The Credit Union is currently assessing the impact of this standard on its consolidated financial statements.

IFRS 16 Leases

IFRS 16, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently assessing the impact of this standard on its consolidated financial statements.

IAS 7 Statement of Cash Flows

Amendments to IAS 7, issued in January 2016, require entities to provide disclosures that enable users of the financial statements to evaluate both cash flow and non-cash changes in liabilities arising from financing activities.

The amendments only affect financial disclosure and are effective for annual periods beginning on or after January 1, 2017. The Credit Union expects to apply the standard for its consolidated financial statements dated December 31, 2017.

IAS 12 Income Taxes

Amendments to IAS 12, issued in January 2016, provide clarification on how to account for deferred tax assets related to debt instruments measured at fair value.

IAS 12 is effective for annual periods beginning on or after January 1, 2017. The Credit Union is currently assessing the impact of this standard on its consolidated financial statements

3. Significant accounting judgements, estimates and assumptions

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

Allowance for impaired loans

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

Sunrise Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

3. Significant accounting judgements, estimates and assumptions *(Continued from previous page)*

In estimating these cash flows, the Credit Union makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Member loans receivable that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook. The impairment loss on members' loans receivable is disclosed in more detail in Note 5.

Financial instrument not traded on active markets

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

Impairment of non-financial assets

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

Income taxes

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

4. Investments and accrued interest

	2016	2015
Credit Union Central of Manitoba		
Term deposits	84,535,000	52,500,000
Shares	5,488,405	5,680,805
Other Investments		
Municipal debentures and bonds	603,598	646,005
Mortgage pool investments	358,186	386,856
Concentra Financial debenture	5,000,000	5,000,000
Concentra Financial shares	18,953	18,953
	96,004,142	64,232,619
Accrued interest	95,711	88,627
	96,099,853	64,321,246

Term deposits consist of seven term deposits earning interest at rates between 0.60% to 2.72% (2015 - 0.74% to 2.72%), maturing from January 2017 to October 2018.

Municipal debenture and bonds consist of one debenture and three builder bonds, earning interest at 8.13% (2015 - 8.13%) and 1.75% (2015 - 1.75%), maturing in 2017.

Mortgage pools consists of two investments earning interest between 3.98% to 5.00% (2015 - 3.98% to 3.99%).

Concentra Financial debentures consist of one debenture earning interest of 3.59% (2015 - 3.59%), maturing in 2021.

Pursuant to Regulation, the Credit Union is required to maintain 8% of its member deposits in specified liquidity deposits. As of December 31, 2016 the Credit Union met the required with liquidity of 13.47% (2015 - 11.94%).

Sunrise Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

5. Members' loans receivable and accrued interest

Principal and allowance by loan type:

	2016				
	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Personal and other	53,347,571	232,410	127,063	72,086	53,380,832
Real estate secured	236,540,303	1,976,705	367,682	36,717	238,112,609
Commercial	233,956,685	6,130,188	582,376	21,146	239,483,351
Agricultural	228,985,393	577,204	132,906	858	229,428,833
	752,829,952	8,916,507	1,210,027	130,807	760,405,625
Total allowance				1,340,834	

	2015				
	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Personal and other	53,226,130	222,722	112,142	56,711	53,279,999
Real estate secured	226,174,529	859,746	527,322	69,949	226,437,004
Commercial	220,759,847	791,879	192,403	27,276	221,332,047
Agricultural	233,702,763	403,085	500,072	3,082	233,602,694
	733,863,269	2,277,432	1,331,939	157,018	734,651,744
Total allowance				1,488,957	

Loan allowance details

	2016	2015
Balance, beginning of year	1,488,957	979,316
Provision for impaired loans	436,459	660,296
	1,925,416	1,639,612
Less: accounts written off	584,582	150,655
Balance, end of year	1,340,834	1,488,957

Loans past due but not impaired

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

Sunrise Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

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

2016	1-30 days	31-60 days	61-90 days	91 days and greater	Total
Personal and other	5,252,607	445,406	670,985	146,857	6,515,855
Commercial	2,392,231	508,481	-	5,809	2,906,521
Agricultural	2,567,017	848,058	377,923	-	3,792,998
	10,211,855	1,801,945	1,048,908	152,666	13,215,374
<hr/>					
2015	1-30 days	31-60 days	61-90 days	91 days and greater	Total
Personal and other	3,082,215	116,655	90,034	6,280	3,295,184
Commercial	3,645,443	769,574	1,381,487	-	5,796,504
Agricultural	1,572,943	543,512	91,135	-	2,207,590
	8,300,601	1,429,741	1,562,656	6,280	11,299,278

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

6. Pension plan

The Credit Union has a defined contribution pension plan for full-time employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these financial statements. The Credit Union matches employee contributions at rates ranging from 8% of the employee salary. The expense and payments for the year ended December 31, 2016 were \$600,329 (2015 - \$631,429). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.

7. Director and officer indemnification

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

Sunrise Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

8. Property and equipment

	<i>Land</i>	<i>Building</i>	<i>Computer software</i>	<i>Computer equipment</i>	<i>Furniture & equipment</i>	<i>Leasehold improvement</i>	<i>Parking lot</i>	<i>Roof</i>	<i>Trade marks</i>	<i>Total</i>
Cost										
At December 31, 2014	3,010,242	9,329,733	1,681,975	814,056	2,403,792	62,272	10,577	631,456	6,771	17,950,874
Additions	10,842	240,008	33,352	47,529	1,080,540	2,343,742	-	-	-	3,756,013
Disposals	-	(641,804)	-	(2,761)	(46,828)	-	-	-	-	(691,393)
At December 31, 2015	3,021,084	8,927,937	1,715,327	858,824	3,437,504	2,406,014	10,577	631,456	6,771	21,015,494
Additions	10,034	67,873	-	68,974	44,822	152,053	-	111,050	-	454,806
Disposals	(2,037,718)	(535,205)	-	-	(46,595)	(64,955)	-	(631,456)	-	(3,315,929)
At December 31, 2016	993,400	8,460,605	1,715,327	927,798	3,435,731	2,493,112	10,577	111,050	6,771	18,154,371
Amortization										
At December 31, 2014	-	3,064,773	827,514	742,924	1,758,613	51,496	10,577	189,438	1,694	6,647,029
Additions	-	286,014	185,470	46,226	330,008	66,485	-	63,146	451	977,800
Disposals	-	-	-	(2,090)	(41,204)	-	-	-	-	(43,294)
At December 31, 2015	-	3,350,787	1,012,984	787,060	2,047,417	117,981	10,577	252,584	2,145	7,581,535
Additions	-	276,865	178,963	48,609	343,471	115,828	-	49,500	451	1,013,687
Disposals	-	(364,958)	-	-	(43,902)	(62,571)	-	(294,679)	-	(766,110)
At December 31, 2016	-	3,262,694	1,191,947	835,669	2,346,986	171,238	10,577	7,405	2,596	7,829,112
Net book value										
At December 31, 2015	3,021,084	5,577,150	702,343	71,764	1,390,087	2,288,033	-	378,872	4,626	13,433,959
At December 31, 2016	993,400	5,197,911	523,380	92,129	1,088,745	2,321,874	-	103,645	4,175	10,325,259

9. Intangible assets

The Credit Union performed an impairment test as at December 31, 2016 and it was determined that the fair value exceeded the carrying value and no provision for impairment was required.

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

	2016	2015
Opening balance	6,409,080	6,695,725
Amortization	(521,297)	(286,645)
	5,887,783	6,409,080

Sunrise Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

10. Income tax

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

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

	2016	2015
Deferred tax asset		
Intangibles	24,000	27,000
Allowance for impaired loans	40,000	44,000
Property and equipment	(14,000)	42,000
Net balance	50,000	113,000

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

	2016	2015
Combined federal and provincial statutory income tax rates	27.00 %	27.00 %
Small business deduction	(17.00)%	(17.00)%
Non-deductible and other items	10.24 %	8.19 %
Income tax as reported	20.24 %	18.19 %

11. Member deposits and accrued interest

	2016	2015
Registered plans	102,725,394	96,550,104
Chequing	283,381,310	276,682,193
Savings	69,676,419	62,492,528
Plan 24	53,888,371	55,366,125
Term deposits	300,686,695	294,450,537
Accrued interest	4,317,877	4,593,425
	814,676,066	790,134,912

Member deposits are subject to the following terms:

Chequing, Plan 24 and savings products are due on demand and bear interest at rates up to 0.50% (2015 - 0.50%).

Term deposits are subject to fixed and variable rates of interest ranging from 1.00% to 3.30%, (2015 - 0.75% to 2.30%) with interest payments due monthly, annually or on maturity.

Registered plans are subject to fixed and variable rates of interest ranging from 1.65% to 2.30%, (2015 - 1.25% to 2.30%) with interest payments due monthly, annually, or on maturity.

Sunrise Credit Union Limited
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For the year ended December 31, 2016

12. Securitization debt

	2016	2015
CMHC mortgage pools	9,213,503	-

CMHC mortgage pools consist of two mortgage pools bearing interest rates of 2.63% and 2.67% (2015 - NIL). Mortgage pool maturities range from November 2020 to November 2021.

13. Term loan payable

The Credit Union has an approved borrowing limit of 10% of member deposits held with Credit Union Central of Manitoba. Line of credit borrowings are secured by an assignment, hypothecation, charge and pledge of all book debts and accounts to Credit Union Central and bear an annual interest rate based on the Chartered Banks overnight funds rate, with no fixed repayment dates. The line of credit was not utilized at December 31, 2016.

14. Member shares

Authorized:

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

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

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

Issued:

	2016	2015
22,058 Common shares (2015 - 21,575)	110,290	107,875
6,404,541 Surplus shares (2015 - 6,587,649)	6,404,541	6,587,649
707,050 Preference shares (2015 - 673,613)	7,070,503	6,736,136
Total	13,585,334	13,431,660

During the year, the Credit Union issued 1,609 (2015 - 1,302) and redeemed 1,126 (2015 - 1,276) common shares, issued NIL (2015 - NIL) and redeemed 183,108 (2015 - 219,852) surplus shares, and issued 54,437 (2015 - 105,735) and redeemed 21,000 (2015 - 13,500) preference shares.

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

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

15. Dividends on preference shares

During the year, the Board of Directors declared a dividend on preference shares in the amount of \$245,688 (2015 - \$255,008). The amount net of tax savings of \$34,642 (2015 - \$28,050), has been reflected as a charge to retained earnings.

Sunrise Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

16. Related party transactions

Key management compensation of the Credit Union

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

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

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

Aggregate compensation of KMP during the year consisted of:

	2016	2015
Salary and short term benefits	2,829,284	2,768,447

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

	2016	2015
Aggregate of loans to KMP	5,773,937	5,969,009
The total value of revolving credit facilities KMP	1,432,000	1,402,500
	7,205,937	7,371,509

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

	2016	2015
Mortgages	1,908,962	842,247
Loans	875,646	1,206,996
	2,784,608	2,049,243

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

	2016	2015
Interest and other revenue earned on loans to KMP	220,418	212,556
Interest paid on deposits KMP	23,514	19,333

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

	2016	2015
Chequing and demand deposits	861,435	2,381,730
Term deposits	1,010,499	1,785,628
Registered plans	1,988,770	1,600,039
	3,860,704	5,767,397

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

Payments made for honoraria and per diems paid to Directors amounted to \$81,917 (2015 - 58,523) reimbursement of expense amounted to \$32,358 (2015 - \$45,468) and meeting, training and conference costs amounted to \$39,679 (2015 - \$42,405) for the year ended. Total loans to Directors and staff as at year end amounted to 2.50% (2015 - 2.72%) of total assets of the Credit Union.

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

Credit Union Central of Manitoba

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

Interest earned on investments during the year ended amounted to \$1,573,452 (2015 - \$1,364,782).

Interest and charges paid on borrowings during the year ended amounted to NIL (2015 - \$10,739).

Payments made for affiliation dues, liquidity assessment, research and development assessment, cheque clearing and data processing for the year ended amounted to \$1,814,381 (2015 - \$1,678,652).

Deposit Guarantee Corporation of Manitoba

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

The payments made to DGCM during the year represent the net statutory annual assessment in the amount of \$647,806 (2015 - \$614,747).

Celero Solutions

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

17. Capital management

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

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

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

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

The Credit Union's objectives when managing capital are:

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

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

- Total capital as a percent of total assets;
- Total capital as a percent of risk-weighted assets. Under this method the Credit Union reviews its loan portfolio and other assets and assigns a risk-weighting using definitions and formulas set out in the Act and by the Deposit Guarantee Corporation of Manitoba. The more risk associated with an asset, a higher weighting is assigned. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

Sunrise Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

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

- Establishing policies for capital management, monitoring and reporting;
- Establishing policies for related areas such as asset liability management;
- Reporting to the Board of Directors regarding financial results and capital adequacy;
- Reporting to the Deposit Guarantee Corporation of Manitoba on its capital adequacy; and
- Establishing budgets and reporting variances to those budgets.

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

The primary capital policies and procedures include the following:

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

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

	<i>Regulatory standards</i>	<i>Board minimum limits</i>
Total eligible capital to risk weighted assets	8.00 %	8.00 %
Retained earnings to total assets	3.00 %	3.00 %

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

	2016	2015
Eligible capital		
Member shares	13,585,334	13,431,660
Retained earnings	48,471,103	44,511,030
Contributed surplus	1,723,350	1,723,350
Total eligible capital	63,779,787	59,666,040

	2016	2015
Equity not less than 5% of assets, as calculated in accordance with the Act	7.12 %	6.96 %
Retained earnings not less than 3% of assets	5.60 %	5.39 %
Capital not less than 8% of risk-weighted value of assets	11.85 %	10.70 %

18. Financial instrument and risk management

Risk management policy

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

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

The Credit Union's risk management policies and procedures include the following:

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

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

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from members' loans receivable. Management and the Board of Directors review and update the credit risk policy annually. The Credit Union's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the statement of financial position. See note 5 for further information.

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

Credit risk management

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

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

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

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Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

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

Credit commitments

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

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

- (a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
- (b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

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

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

	2016	2015
Unadvanced lines of credit	18,510,806	102,957,806
Guarantees and standby letters of credit	974,600	885,900
Commitments to extend credit	36,806,775	35,698,124

Market risk

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

Fair value risk

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

Interest rate risk

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

Sunrise Credit Union Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

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

Contractual repricing and maturity

All financial instruments are reported in the schedule below based on the earlier of their contractual re-pricing date or maturity date. Management's expectations of future events or the impact of repayments that may occur prior to maturity are not factored into the interest rate re-pricing information provided.

Interest rate sensitive	Assets	Average yield %	Liabilities	Average costs %	2016	2015
					Differential	Differential
Variable (floating) maturing within 1 year	468,149,880	2.51 %	(473,318,928)	1.71 %	(5,169,048)	(69,994,434)
1 to 2 years	186,499,886	4.05 %	(133,653,549)	2.21 %	52,846,337	(1,897,471)
2 to 3 years	82,147,312	3.62 %	(23,523,359)	2.31 %	58,623,953	47,396,466
3 to 4 years	86,863,426	3.51 %	(31,783,996)	2.12 %	55,079,430	58,161,151
Over 4 years	44,179,857	4.28 %	(13,956,545)	1.83 %	30,223,312	80,052,328
Non-interest sensitive	28,010,171		(219,614,155)		(191,603,984)	(113,718,040)
	895,850,532		(895,850,532)		-	-

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase the financial margin by \$129,000. A 1.0% decrease in the interest rate would decrease the financial margin by \$725,000.

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes. Refer to Note 5 for further information about the Credit Union's regulatory requirement.

The following table details the contractual maturities of financial instruments:

Financial assets	Less than 1 year	1 to 2 years	After 2 years	Total
Cash and cash equivalents	21,312,154	-	-	21,312,154
Investments and accrued interest	80,063,856	501,641	15,534,356	96,099,853
Members' loans receivable	388,019,171	185,998,245	186,388,209	760,405,625
Accounts receivable	66,853	-	-	66,853
	489,462,034	186,499,886	201,922,565	877,884,485
Financial liabilities	Less than 1 year	1 to 2 years	After 2 years	Total
Member deposits and accrued interest	456,153,337	133,653,549	224,869,180	814,676,066
Accounts payable	7,952,088	-	-	7,952,088
	464,105,425	133,653,549	224,869,180	822,628,154

Sunrise Credit Union Limited
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18. Financial instruments and risk management (Continued from previous page)

Fair value of financial instruments

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

Methods and assumptions:

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

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

Estimated fair values of financial instruments are summarized as follows:

	Fair value	Book value	2016 Fair value over (under) book value	Fair value	Book value	2015 Fair value over (under) book value
Financial assets						
Cash and equivalents	21,312,154	21,312,154	-	37,784,227	37,784,227	-
Investments	96,044,121	96,099,853	(55,732)	64,357,553	64,321,246	36,307
Members' loans receivable	751,502,950	760,405,625	(8,902,675)	726,308,636	734,651,744	(8,343,108)
Accounts receivable	66,853	66,853	-	82,459	82,459	-
	868,926,078	877,884,485	(8,958,407)	828,532,875	836,839,676	(8,306,801)
Financial liabilities						
Member deposits	814,990,417	814,676,066	314,351	791,367,690	790,134,912	1,232,778
Accounts payable	7,952,088	7,952,088	-	8,001,822	8,001,822	-
	822,942,505	822,628,154	314,351	799,369,512	798,136,734	1,232,778

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

Fair value measurements

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

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities. Assets measured at fair value and classified as level 1 include cash and cash equivalents and interest rate swaps.
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly. Members' loans, investments, interest rate swaps and members deposits are disclosed at fair value based on level 2 classification.
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions. There are no assets measured at fair value classified at level 3.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

19. Subsequent events

During the course of the year, Grandview Credit Union Limited ("Grandview"), and Sunrise Credit Union Limited ("Sunrise") signed an amalgamation agreement and will carry on operations as Sunrise Credit Union as of May 1, 2017. Upon amalgamation each issued and outstanding common and surplus share of Grandview will be converted into an equivalent share of Sunrise. The shares of Sunrise carry substantially the same rights and restrictions as the shares of the former Grandview Credit Union.