

**NIVERVILLE CREDIT UNION
LIMITED**

**Consolidated Financial Statements
For the year ended September 30, 2013**

NIVERVILLE CREDIT UNION LIMITED

Consolidated Financial Statements For the year ended September 30, 2013

Contents

| | |
|--|-----------|
| Independent Auditor's Report | 2 |
| Consolidated Financial Statements | |
| Consolidated Balance Sheet | 3 |
| Consolidated Statement of Comprehensive Income | 4 |
| Consolidated Statement of Changes in Members' Equity | 5 |
| Consolidated Statement of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | |
| 1. Nature of Operations and Summary of Significant Accounting Policies | 7 |
| 2. Critical Accounting Estimates and Judgments | 15 |
| 3. Funds on Hand and on Deposit | 17 |
| 4. Investments | 17 |
| 5. Loans to Members | 18 |
| 6. Allowance for Impaired Loans | 20 |
| 7. Property, Plant and Equipment | 23 |
| 8. Intangible Assets | 24 |
| 9. Investment Property | 24 |
| 10. Members' Deposits | 25 |
| 11. Insurance Reserve | 26 |
| 12. Pension Plan | 26 |
| 13. Income Taxes | 27 |
| 14. Members' Shares | 28 |
| 15. Personnel Expenses | 29 |
| 16. Related Party Transactions | 29 |
| 17. Financial Instrument Classification and Fair Value | 30 |
| 18. Financial Instrument Risk Management | 32 |
| 19. Capital Management | 37 |
| 20. Commitments | 38 |



Tel: 204 956 7200
Fax: 204 926 7201
Toll-free: 800 268 3337
www.bdo.ca

BDO Canada LLP/s.r.l.
700 - 200 Graham Avenue
Winnipeg MB R3C 4L5 Canada

Independent Auditor's Report

To the Members of NIVERVILLE CREDIT UNION LIMITED

We have audited the accompanying consolidated financial statements of **NIVERVILLE CREDIT UNION LIMITED**, 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 Financial Statements

The Credit Union's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation and fair presentation of the 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 Credit Union's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 **NIVERVILLE CREDIT UNION LIMITED** 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

Chartered Accountants

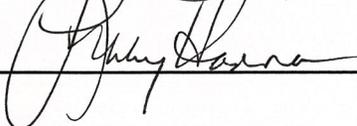
Winnipeg, Manitoba
November 20, 2013

NIVERVILLE CREDIT UNION LIMITED Consolidated Balance Sheet

| September 30 | 2013 | 2012 |
|--|-----------------------|-----------------------|
| Funds on hand and on deposit (Note 3) | \$ 14,064,242 | \$ 3,774,936 |
| Other assets | 259,409 | 495,086 |
| Investments (Note 4) | 22,865,454 | 42,127,727 |
| Loans to members (Notes 5 and 6) | 211,922,074 | 199,992,324 |
| Property, plant and equipment (Note 7) | 2,678,858 | 2,599,319 |
| Intangible assets (Note 8) | 318,309 | 369,927 |
| Investment property (Note 9) | 242,763 | 254,226 |
| | \$ 252,351,109 | \$ 249,613,545 |
| Liabilities and Members' Equity | | |
| Income taxes payable | \$ 9,902 | \$ 84,640 |
| Other liabilities | 2,387,162 | 1,495,752 |
| Members' deposits (Note 10) | 233,421,893 | 232,263,787 |
| Insurance reserve (Note 11) | 239,572 | 257,572 |
| Deferred income tax liability (Note 13) | 59,200 | 28,300 |
| Members' shares (Note 14) | 1,114,278 | 1,233,922 |
| | 237,232,007 | 235,363,973 |
| Commitments (Note 20) | | |
| Members' Equity (Note 19) | | |
| Members' shares (Note 14) | 5,047,022 | 4,992,271 |
| Provision for issue of shares | 183,500 | 172,780 |
| Retained earnings | 9,888,580 | 9,084,521 |
| | 15,119,102 | 14,249,572 |
| | \$ 252,351,109 | \$ 249,613,545 |

Approved on behalf of the Board of Directors:


 _____ Director


 _____ Director

NIVERVILLE CREDIT UNION LIMITED

Consolidated Statement of Comprehensive Income

| For the year ended September 30 | 2013 | 2012 |
|--|-------------------|-------------------|
| Revenue | | |
| Interest on loans to members | \$ 8,755,736 | \$ 8,990,927 |
| Investment income | | |
| Liquidity deposits | 865,779 | 1,132,066 |
| CUCM shares | 91,831 | 186,313 |
| Debentures | 25,166 | - |
| | <u>9,738,512</u> | <u>10,309,306</u> |
| Cost of funds | <u>5,181,975</u> | <u>5,928,168</u> |
| Gross financial margin | <u>4,556,537</u> | <u>4,381,138</u> |
| Operating Expenses | | |
| Personnel (Note 15) | 2,047,764 | 2,046,192 |
| Administrative | 1,339,924 | 1,298,927 |
| Occupancy | 510,816 | 487,851 |
| Members' security | 258,921 | 243,617 |
| Organizational | 160,090 | 161,863 |
| | <u>4,317,515</u> | <u>4,238,450</u> |
| Gross operating expenses | <u>4,317,515</u> | <u>4,238,450</u> |
| Less other income | <u>1,119,137</u> | <u>1,100,818</u> |
| | <u>3,198,378</u> | <u>3,137,632</u> |
| Gross operating income | <u>1,358,159</u> | <u>1,243,506</u> |
| Provision for impaired loans (Note 6) | <u>206,360</u> | <u>351,170</u> |
| | <u>1,151,799</u> | <u>892,336</u> |
| Other Items | | |
| Donations | 16,885 | 20,925 |
| Distributions to members | 32,520 | 40,147 |
| | <u>1,102,394</u> | <u>831,264</u> |
| Income before income taxes | <u>1,102,394</u> | <u>831,264</u> |
| Provision for Income Taxes (Note 13) | | |
| Current | 142,234 | 127,201 |
| Deferred | 30,900 | (34,200) |
| | <u>173,134</u> | <u>93,001</u> |
| Net and total comprehensive income for the year | <u>\$ 929,260</u> | <u>\$ 738,263</u> |

NIVERVILLE CREDIT UNION LIMITED

Consolidated Statement of Changes in Members' Equity

For the year ended September 30

| | Provision for Issue of Shares | Members' Shares | Retained Earnings | Total |
|---|----------------------------------|---------------------|----------------------|----------------------|
| Balance at September 30, 2011 | \$ 154,620 | \$ 4,876,336 | \$ 8,462,050 | \$ 13,493,006 |
| Net income for the year | - | - | 738,263 | 738,263 |
| Distributions to members (Note 14) | 170,250 | - | (115,792) | 54,458 |
| Issue of members' shares | (152,090) | 164,249 | - | 12,159 |
| Redemption of members' shares | - | (319,135) | - | (319,135) |
| Transfer (to) from liabilities | - | 270,821 | - | 270,821 |
| Balance at September 30, 2012 | \$ 172,780 | \$ 4,992,271 | \$ 9,084,521 | \$ 14,249,572 |
| Net income for the year | - | - | 929,260 | 929,260 |
| Distributions to members (Note 14) | 179,814 | - | (125,201) | 54,613 |
| Issue of members' shares | (169,094) | 179,471 | - | 10,377 |
| Redemption of members' shares | - | (244,363) | - | (244,363) |
| Transfer (to) from liabilities | - | 119,643 | - | 119,643 |
| Balance at September 30, 2013 | \$ 183,500 | \$ 5,047,022 | \$ 9,888,580 | \$ 15,119,102 |

NIVERVILLE CREDIT UNION LIMITED

Consolidated Statement of Cash Flows

For the year ended September 30

2013

2012

Cash Flows from Operating Activities

| | | | | |
|---|----|-------------|----|--------------|
| Net income for the year | \$ | 929,260 | \$ | 738,263 |
| Adjustments for | | | | |
| Interest and investment revenue | | (9,738,512) | | (10,309,306) |
| Interest expense | | 5,181,975 | | 5,928,168 |
| Depreciation expense | | 221,000 | | 209,367 |
| Provision for impaired loans | | 206,360 | | 351,170 |
| Loss on disposal of property, plant and equipment | | - | | 15,027 |
| Deferred income taxes | | 30,900 | | (34,200) |
| Insurance reserve | | (18,000) | | (6,574) |

(3,187,017) (3,108,085)

| | | |
|--|-----------|-----------|
| Change in other assets and liabilities | 1,127,087 | (343,734) |
| Change in income taxes payable | (74,738) | 67,887 |

1,052,349 (275,847)

| | | | | |
|------------------------------------|--------------|-------------|--|--|
| Changes in member activities (net) | | | | |
| Change in loans to members | (12,122,581) | (3,007,797) | | |
| Change in members' deposits | 1,750,796 | 5,466,984 | | |

(10,371,785) 2,459,187

| | | | | |
|---|-------------|-------------|--|--|
| Cash flows related to interest, dividends, and income taxes | | | | |
| Interest received on loans to members | 8,742,207 | 9,174,016 | | |
| Interest received on investments | 1,131,504 | 1,318,613 | | |
| Interest paid on members' deposits | (5,774,665) | (6,178,273) | | |

4,099,046 4,314,356

Total cash flows from operating activities

(8,407,407) 3,389,611

Cash Flows from Investing Activities

| | | |
|---|-----------|-----------|
| Purchase of investments | (750,000) | - |
| Redemption of investments | 991,620 | 1,623,230 |
| Purchase of property, plant and equipment | (237,458) | (40,095) |
| Purchase of intangibles | - | (30,366) |

Total cash flows from investing activities

4,162 1,552,769

Cash Flows from Financing Activities

| | | |
|---|-----------|-----------|
| Issue of common and surplus shares | 64,989 | 66,617 |
| Redemption of common and surplus shares | (244,363) | (319,135) |

Total cash flows from financing activities

(179,374) (252,518)

Net increase (decrease) in cash and cash equivalents

(8,582,619) 4,689,862

Cash and cash equivalents, beginning of year

42,793,261 38,103,399

Cash and cash equivalents, end of year

\$ 34,210,642 \$ 42,793,261

Comprised of the following

| | | |
|--|---------------|--------------|
| Funds on hand and on deposit | \$ 14,064,242 | \$ 3,774,936 |
| Credit Union Central of Manitoba term deposits | 20,146,400 | 39,018,325 |

\$ 34,210,642 \$ 42,793,261

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting Entity

Niverville Credit Union Limited (the "Credit Union") is incorporated under the Credit Unions and Caisses Populaires Act of the Province of Manitoba ("the Act") and is a member of Credit Union Central of Manitoba ("CUCM"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Manitoba. The Credit Union operates two branches in Southeastern Manitoba and provides consumer, commercial and agricultural lending, deposit taking and related services to its members. The Credit Union's head office is located at 62 Main Street, Niverville, Manitoba.

These consolidated financial statements have been authorized for issue by the Board of Directors on November 20, 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 Credit Union's functional and presentation currency is the Canadian dollar.

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

Basis of Consolidation

These consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiary, Niverville Place Inc.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

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 CUCM and term deposits held with CUCM for liquidity purposes 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

CUCM - Liquidity deposits

Credit Union Central of Manitoba liquidity deposits are deposit instruments 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.

CUCM - Shares

Credit Union Central of Manitoba shares 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 (which 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.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

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

Significant Accounting Policies (continued)

Debentures

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 Credit Union management has the positive intention or 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.

Loans to Members

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).

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 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 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 Credit Union first assesses whether objective evidence of impairment exists individually 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.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

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

Significant Accounting Policies (continued)

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 provisions 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.

Property Held for Resale

Property held for resale is valued at the lower of cost and fair market value.

Property, Plant and Equipment

Property, plant 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 | 40 years |
| Furniture and equipment | 5 - 20 years |
| Computer equipment | 5 years |
| Parking lot | 20 years |
| Signage | 5 years |

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

Intangible Assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment (losses). Software is amortized on a straight-line basis over its estimated useful life of 10 years.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

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

Significant Accounting Policies (continued)

Investment Property

The Credit Union's investment property consists of land and building held to earn rental income. Investment property is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment (losses). 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 | 40 years |
| Furniture and equipment | 5 years |
| Parking lot | 20 years |
| Signage | 5 years |

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 cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

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 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.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

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

Significant Accounting Policies (continued)

Income Taxes (continued)

Deferred income tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base.

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.

Members' Deposits

All members' deposits 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. They have been classified as other liabilities.

Pension Plan

The Credit Union participates in a multi-employer defined contribution pension plan recognizing contributions as an expense in the year to which they relate as disclosed in Note 12.

Other Liabilities

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured 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.

Provisions

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

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

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

Significant Accounting Policies (continued)

Members' Shares

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

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments.

Revenue Recognition

Interest on loans is recorded using the effective interest method except for loans which are considered impaired. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. 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, these are recorded when payment is received.

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

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.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

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

Significant Accounting Policies (continued)

Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2013 or later periods that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union 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 Credit Union is yet to assess the full impact of IFRS 9 and will adopt the standard for the accounting period beginning on or after January 1, 2015.
- ii. IFRS 10 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 Credit Union is yet to assess the full impact of IFRS 10 and will adopt the standard for the accounting period beginning on or after January 1, 2013.
- iii. IFRS 11 describes the accounting for arrangements in which there is joint control. A party to joint arrangement accounts for its rights and obligations that arise from the arrangement. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. The Credit Union is yet to assess the full impact of IFRS 11 and will adopt the standard for the accounting period beginning on or after January 1, 2013.
- iv. IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Credit Union is yet to assess the full impact of IFRS 12 and will adopt the standard for the accounting period beginning on or after January 1, 2013.
- v. IFRS 13 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 Credit Union is yet to assess the full impact of IFRS 13 and will adopt the standard for the accounting period beginning on or after January 1, 2013.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

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

Significant Accounting Policies (continued)

Standards, Amendments and Interpretations Not Yet Effective (continued)

- vi. IAS 1 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 Credit Union is yet to assess the full impact of this amendment to IAS 1 and will adopt the standard for the accounting period beginning on or after January 1, 2013.

- vii. IAS 32 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 Credit Union is yet to assess the full impact of this amendment to IAS 32 and will adopt the standard for the accounting period beginning on or after January 1, 2014.

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

2. Critical Accounting Estimates and Judgments

The Credit Union 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.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

2. Critical Accounting Estimates and Judgments (continued)

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.

Fair Value of Financial Instruments

The Credit Union 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 consolidated statement of comprehensive income the Credit Union makes a judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union 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 6.

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 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, Plant and Equipment

The estimated useful life, residual value and depreciation method chosen are the Credit Union'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.

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

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

3. Funds on Hand and on Deposit

The Credit Union's cash and current accounts are held with CUCM. The average yield on the accounts at September 30, 2013 is 0.90% (2012 - 1.17%).

Included in the balance of funds on hand and on deposit is \$569,915 (2012 - \$938,419) denominated in US dollars.

4. Investments

Liquidity deposits

| | 2013 | 2012 |
|-----------------------------|----------------------|---------------|
| CUCM - term deposits | \$ 20,146,400 | \$ 39,018,325 |
| Accrued interest receivable | 165,902 | 314,630 |
| | \$ 20,312,302 | \$ 39,332,955 |

The term deposits with CUCM bear interest at rates ranging from 0.13% to 3.41% and have original maturity dates from 90 days to 5 years.

Included in the balance of liquidity deposits is \$1,646,400 (2012 - \$1,718,325) denominated in US dollars.

Shares

| | 2013 | 2012 |
|---|---------------------|--------------|
| CUCM - Class 1 shares | \$ 777,065 | \$ 1,484,325 |
| CUCM - Class 2 shares | 995,820 | 1,280,180 |
| Concentra Financial Services Association - shares | 30,267 | 30,267 |
| | \$ 1,803,152 | \$ 2,794,772 |

The shares in CUCM are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of CUCM. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of CUCM.

Class 1 and 2 CUCM shares are subject to an annual rebalancing mechanism and 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 Credit Union is not intending to dispose of any CUCM shares as the services supplied by CUCM are relevant to the day to day activities of the Credit Union.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

4. Investments (continued)

Dividends on these shares are at the discretion of the Board of Directors of CUCM.

The shares of Concentra Financial Services Association are required as a condition of membership and are redeemable upon withdrawal of membership subject to the approval of the Board of Directors of the Association.

Debentures

| | 2013 | 2012 |
|--|-------------------|------|
| Concentra Financial Services Association Debenture, interest at 4.03%, due November 2022) | \$ 750,000 | \$ - |

5. Loans to Members

| | 2013 | 2012 |
|------------------------------|-----------------------|----------------|
| Consumer | | |
| Term loans | \$ 7,738,456 | \$ 7,842,523 |
| Real estate | 115,866,500 | 111,226,457 |
| Lines of credit | 2,009,662 | 2,216,922 |
| Commercial | | |
| Term loans | 6,375,585 | 9,051,752 |
| Real estate | 65,782,809 | 53,982,013 |
| Lines of credit | 5,540,448 | 5,438,059 |
| Agricultural | | |
| Term loans | 1,156,949 | 1,465,527 |
| Real estate | 6,107,909 | 7,203,362 |
| Lines of credit | 1,150,167 | 1,518,556 |
| | 211,728,485 | 199,945,171 |
| Accrued interest receivable | 572,628 | 559,099 |
| | 212,301,113 | 200,504,270 |
| Allowance for impaired loans | 379,039 | 511,946 |
| Net loans to members | \$ 211,922,074 | \$ 199,992,324 |

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

5. Loans to Members (continued)

Terms and Conditions

Loans to members can have either a variable or fixed rate of interest and mature within five years. The rate is determined by the type of security offered and the members' credit worthiness.

Variable rate loans are based on a "prime rate" formula, ranging from prime plus 0% to prime plus 6%. The Credit Union's prime rate at September 30, 2013 was 3.75%.

The interest rate offered on fixed rate loans being advanced at September 30, 2013 ranges from 2.50% to 6.25%.

Consumer, commercial and agricultural loans consist of term loans, real estate and lines of credit and, as such, have various repayment terms. They are secured by various types of collateral, including mortgages on residential and real property, general security agreements, charges on specific equipment, assignments of crops and livestock, investments, and personal guarantees.

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:

| | <u>2013</u> | <u>2012</u> |
|--|-----------------------|-----------------------|
| Unsecured loans | \$ 5,485,503 | \$ 7,930,550 |
| Loans secured by assignment of members' deposits | 2,636,950 | 2,901,948 |
| Loans secured by real property | 155,228,929 | 137,103,975 |
| Loans secured by chattels | 13,077,228 | 13,854,795 |
| Residential mortgages insured by government | 35,872,503 | 38,713,002 |
| | <u>\$ 212,301,113</u> | <u>\$ 200,504,270</u> |

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

5. Loans to Members (continued)

Concentration of Risk

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

No individual or related groups of loans to members exceed 5% of members' deposits and capital as at September 30, 2013.

As at September 30, 2013, the Credit Union held \$28,292,870 (2012 - \$21,939,603) in outstanding commercial loans relating to the real estate, rental, and leasing industry, \$11,614,143 (2012 - \$14,569,280) relating to the agriculture industry and \$23,576,354 (2012 - \$18,725,762) in outstanding commercial loans relating to the construction industry.

The majority of loans to members are with members located in southern Manitoba. A sizeable portfolio of the Credit Union's loan portfolio is secured by residential property in southern Manitoba. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio coverage should the 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.

6. Allowance for Impaired Loans

Total allowance for impaired loans is comprised of:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------|-----------------------|------------------|
| Collective allowance | \$ (207,378)\$ | (216,139) |
| Individual specific allowance | (171,661) | (295,807) |
| Total allowance | <u>\$ (379,039)\$</u> | <u>(511,946)</u> |

During the year ended September 30, 2013, the Credit Union acquired \$650,000 (September 30, 2012 - \$2,292,755) of assets in respect of problem loans.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

6. Allowance for Impaired Loans (continued)

Movement in individual specific and collective allowance for impairment is as follows:

| | Consumer | Agricultural | Commercial | 2013 Total |
|---|---------------------|-------------------|-------------------|---------------------|
| Balance at September 30, 2012 | \$ 155,612 | \$ 234,203 | \$ 122,131 | \$ 511,946 |
| Provision for impaired loans | 200,805 | (3,679) | 9,234 | 206,360 |
| Loans transferred from (to) property held for resale | (174,915) | - | - | (174,915) |
| Loans written off | (36,952) | (127,400) | - | (164,352) |
| Balance at September 30, 2013 | \$ 144,550 | \$ 103,124 | \$ 131,365 | \$ 379,039 |
| Gross principal balance of individually impaired loans | \$ 1,343,395 | \$ 167,304 | \$ 350,142 | \$ 1,860,841 |
| | Consumer | Agricultural | Commercial | 2012 Total |
| Balance at September 30, 2011 | \$ 126,017 | \$ 131,897 | \$ 122,172 | \$ 380,086 |
| Provision for impaired loans | 79,805 | 240,807 | 30,558 | 351,170 |
| Loans transferred from (to) property held for resale | (14,577) | 54,944 | 54,742 | 95,109 |
| Loans written off | (35,633) | (193,445) | (85,341) | (314,419) |
| Balance at September 30, 2012 | \$ 155,612 | \$ 234,203 | \$ 122,131 | \$ 511,946 |
| Gross principal balance of individually impaired loans | \$ 1,116,705 | \$ 458,439 | \$ 762,224 | \$ 2,337,368 |

An analysis of individual loans that are impaired or potentially impaired based on period of delinquency is as follows:

| | 2013 | | 2012 | |
|--|---------------------|-------------------------------|---------------------|-------------------------------|
| | Carrying Value | Individual Specific Allowance | Carrying Value | Individual Specific Allowance |
| Period of delinquency | | | | |
| Less than 30 days | \$ 233,353 | \$ - | \$ 143,671 | \$ - |
| 31 to 90 days | 35,509 | 14,659 | 391,095 | 14,122 |
| Greater than 90 days | 1,088,878 | 111,809 | 647,478 | 145,024 |
| Total impaired loans in arrears | 1,357,740 | 126,468 | 1,182,244 | 159,146 |
| Total impaired loans not in arrears | 503,101 | 45,193 | 1,155,124 | 136,661 |
| Total impaired loans | \$ 1,860,841 | \$ 171,661 | \$ 2,337,368 | \$ 295,807 |

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

6. Allowance for Impaired Loans (continued)

Key Assumptions in Determining the Allowance for Impaired Loans Collective Allowance

The Credit Union 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 Credit Union 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 Credit Union 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, historical write-offs, and losses that have occurred in the agriculture and manufacturing sectors.

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

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

| | Consumer | Agricultural | Commercial | 2013 Total |
|-------------------------------|---------------------|---------------------|-------------------|-----------------------|
| 1 to 30 days | \$ 1,237,658 | \$ - | \$ - | \$ 1,237,658 |
| 31 to 90 days | 173,412 | - | - | 173,412 |
| Greater than 90 days | - | - | - | - |
| Balance at September 30, 2013 | \$ 1,411,070 | \$ - | \$ - | \$ 1,411,070 |

| | Consumer | Agricultural | Commercial | 2012 Total |
|-------------------------------|---------------------|---------------------|-------------------|-----------------------|
| 1 to 30 days | \$ 1,885,512 | \$ 667,102 | \$ 310,451 | \$ 2,863,065 |
| 31 to 90 days | 128,064 | 56,195 | 222,961 | 407,220 |
| Greater than 90 days | - | - | - | - |
| Balance at September 30, 2012 | \$ 2,013,576 | \$ 723,297 | \$ 533,412 | \$ 3,270,285 |

NIVERVILLE CREDIT UNION LIMITED
Notes to Financial Statements

For the year ended September 30, 2013

7. Property, Plant and Equipment

| | Land | Buildings | Furniture and Equipment | Computer Equipment | Parking Lot | Signage | Total |
|--------------------------------------|-------------------|---------------------|-------------------------------|-----------------------|------------------|------------------|---------------------|
| <u>Cost</u> | | | | | | | |
| Balance at September 30, 2011 | \$ 101,294 | \$ 3,293,728 | \$ 675,931 | \$ 283,851 | \$ 89,465 | \$ 48,029 | \$ 4,492,298 |
| Additions | - | - | 36,775 | 3,320 | - | - | 40,095 |
| Disposals | - | - | 85,077 | 94,593 | - | - | 179,670 |
| Balance at September 30, 2012 | 101,294 | 3,293,728 | 627,629 | 192,578 | 89,465 | 48,029 | 4,352,723 |
| Additions | - | - | 217,960 | 19,498 | - | - | 237,458 |
| Disposals | - | - | - | 11,271 | - | - | 11,271 |
| Balance at September 30, 2013 | \$ 101,294 | \$ 3,293,728 | \$ 845,589 | \$ 200,805 | \$ 89,465 | \$ 48,029 | \$ 4,578,910 |
| <u>Accumulated Depreciation</u> | | | | | | | |
| Balance at September 30, 2011 | \$ - | \$ 1,057,438 | \$ 486,254 | \$ 175,016 | \$ 31,299 | \$ 21,754 | \$ 1,771,761 |
| Depreciation expense | - | 69,322 | 34,561 | 29,041 | 4,474 | 8,889 | 146,287 |
| Disposals | - | - | 78,067 | 86,577 | - | - | 164,644 |
| Balance at September 30, 2012 | - | 1,126,760 | 442,748 | 117,480 | 35,773 | 30,643 | 1,753,404 |
| Depreciation expense | - | 69,321 | 46,775 | 28,462 | 4,473 | 8,888 | 157,919 |
| Disposals | - | - | - | 11,271 | - | - | 11,271 |
| Balance at September 30, 2013 | \$ - | \$ 1,196,081 | \$ 489,523 | \$ 134,671 | \$ 40,246 | \$ 39,531 | \$ 1,900,052 |
| <u>Net Book Value</u> | | | | | | | |
| September 31, 2012 | \$ 101,294 | \$ 2,166,968 | \$ 184,881 | \$ 75,098 | \$ 53,692 | \$ 17,386 | \$ 2,599,319 |
| September 30, 2013 | \$ 101,294 | \$ 2,097,647 | \$ 356,066 | \$ 66,134 | \$ 49,219 | \$ 8,498 | \$ 2,678,858 |

NIVERVILLE CREDIT UNION LIMITED
Notes to Consolidated Financial Statements

For the year ended September 30, 2013

8. Intangible Assets

| | Computer Software |
|--------------------------------------|--------------------------|
| <u>Cost</u> | |
| Balance at September 30, 2011 | \$ 478,994 |
| Additions | 30,366 |
| Balance at September 30, 2012 | \$ 509,360 |
| Additions | - |
| Balance at September 30, 2013 | \$ 509,360 |
| <u>Accumulated Depreciation</u> | |
| Balance at September 30, 2011 | \$ 87,816 |
| Depreciation expense | 51,617 |
| Balance at September 30, 2012 | \$ 139,433 |
| Depreciation expense | 51,618 |
| Balance at September 30, 2013 | \$ 191,051 |
| <u>Net Book Value</u> | |
| September 30, 2012 | \$ 369,927 |
| September 30, 2013 | \$ 318,309 |

9. Investment Property

| | Land | Buildings | Equipment | Parking Lot | Total |
|--------------------------------------|------------------|-------------------|------------------|--------------------|-------------------|
| <u>Cost</u> | | | | | |
| Balance at September 30, 2011 | \$ 76,554 | \$ 460,634 | \$ 32,019 | \$ 19,273 | \$ 588,480 |
| Additions | - | - | - | - | - |
| Balance at September 30, 2012 | 76,554 | 460,634 | 32,019 | 19,273 | 588,480 |
| Additions | - | - | - | - | - |
| Balance at September 30, 2013 | \$ 76,554 | \$ 460,634 | \$ 32,019 | \$ 19,273 | \$ 588,480 |
| <u>Accumulated Depreciation</u> | | | | | |
| Balance at September 30, 2011 | \$ - | \$ 271,500 | \$ 32,019 | \$ 19,273 | \$ 322,792 |
| Depreciation expense | - | 11,462 | - | - | 11,462 |
| Balance at September 30, 2012 | - | 282,962 | 32,019 | 19,273 | 334,254 |
| Depreciation expense | - | 11,463 | - | - | 11,463 |
| Balance at September 30, 2013 | \$ - | \$ 294,425 | \$ 32,019 | \$ 19,273 | \$ 345,717 |
| <u>Net Book Value</u> | | | | | |
| September 30, 2012 | \$ 76,554 | \$ 177,672 | \$ - | \$ - | \$ 254,226 |
| September 30, 2013 | \$ 76,554 | \$ 166,209 | \$ - | \$ - | \$ 242,763 |

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

9. Investment Property (continued)

The fair value of the investment property is \$840,000. Investment properties were subject to external valuation on September 30, 2012, performed by Derksen Appraisal Services, qualified professional valuers adhering to the generally accepted Standards of Professional Practice (CUSPAP) and the Code of Ethics of the Appraisal Institute of Canada. The fair value of investment property is determined by discounting the expected cash flows of the properties based upon internal plans and assumptions and comparable market transactions. There are no indicators that would create a difference in fair value of the investment property from the date of its valuation.

Investment property held by the Credit Union is leased out under operating leases. The lease contracts are on a month to month basis.

During the year, the Credit Union earned \$76,514 from investment property with operating expenses of \$92,403.

10. Members' Deposits

| | 2013 | 2012 |
|---------------------------------|-----------------------|-----------------------|
| Chequing | \$ 32,064,038 | \$ 32,519,394 |
| Savings | 69,891,657 | 62,721,823 |
| Term deposits | 82,542,387 | 84,242,670 |
| Registered plans | 46,964,561 | 50,228,608 |
| Unclaimed and inactive accounts | 17,357 | 16,709 |
| | 231,480,000 | 229,729,204 |
| Accrued interest payable | 1,941,893 | 2,534,583 |
| | \$ 233,421,893 | \$ 232,263,787 |

Terms and Conditions

Chequing and savings accounts are due on demand and bear interest at a variable rate up to 1.50% at September 30, 2013.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi annually, monthly or upon maturity. The interest rates offered on term deposits issued on September 30, 2013 range from 2.05% to 2.80%.

The registered plans can be fixed or variable rate. The fixed rate accounts have terms and rates similar to the term deposit accounts described above. Members may make withdrawals from accounts on a monthly, semi-annual or annual basis.

Included in chequing and savings deposits is an amount of \$2,218,076 to be settled in US dollars (September 30, 2012 - \$2,614,862).

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

10. Members' Deposits (continued)

Concentration of Risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

No individual or related groups of members' deposits exceed 5% of members' deposits and capital as at September 30, 2013 and 2012.

The majority of members' deposits are with members located in and around southern Manitoba.

11. Insurance Reserve

The Credit Union has set aside funds to pay out the Life Insured Savings Accounts as they become due.

| | <u>2013</u> | | <u>2012</u> |
|-----------------------|-------------------|----|----------------|
| Opening balance | \$ 257,572 | \$ | 264,146 |
| Insurance claims paid | 18,000 | | 6,574 |
| Ending balance | <u>\$ 239,572</u> | \$ | <u>257,572</u> |

12. Pension Plan

The Credit Union has a multi-employer defined contribution pension plan for full and part 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 a rate of 6% of the employee salary. The expense and payments for the year ended September 30, 2013 were \$97,182 (2012 - \$96,681). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

13. Income Taxes

The total provision for income taxes in the consolidated 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 | (15.7) | (16.0) |
| Change in tax rate applied to deferred tax components | 3.2 | - |
| Provincial Profits Tax | 0.6 | 0.7 |
| Non-deductible and other items | 0.6 | (0.5) |
| | 15.7 | 11.2 |

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

| | Balance at September 30 2012 | Recognize in Net Income | Recognize Directly in Equity | Reclassify from Equity to Net Income | 2013 Balance at September 30 2013 |
|-----------------------------------|------------------------------------|-------------------------------|------------------------------------|--|--|
| Deferred income tax liabilities | | | | | |
| Property, plant and equipment | \$ 62,200 | \$ 77,100 | \$ - | \$ - | 139,300 |
| | 62,200 | 77,100 | - | - | 139,300 |
| Deferred income tax assets | | | | | |
| Insurance reserve | 28,300 | 36,400 | - | - | 64,700 |
| Allowance for impaired loans | 5,600 | 9,800 | - | - | 15,400 |
| | 33,900 | 46,200 | - | - | 80,100 |
| Net deferred income tax liability | \$ 28,300 | \$ 30,900 | \$ - | \$ - | 59,200 |

| | Balance at October 1 2011 | Recognize in Net Income | Recognize Directly in Equity | Reclassify from Equity to Net Income | 2012 Balance at September 30 2012 |
|-----------------------------------|---------------------------------|-------------------------------|------------------------------------|--|--|
| Deferred income tax liabilities | | | | | |
| Property, plant and equipment | \$ 74,600 | \$ (12,400) | \$ - | \$ - | 62,200 |
| Other | 26,800 | (26,800) | - | - | - |
| | 101,400 | (39,200) | - | - | 62,200 |
| Deferred income tax assets | | | | | |
| Insurance Reserve | 31,700 | (3,400) | - | - | 28,300 |
| Allowance for impaired loans | 7,200 | (1,600) | - | - | 5,600 |
| | 38,900 | (5,000) | - | - | 33,900 |
| Net deferred income tax liability | \$ 62,500 | \$ (34,200) | \$ - | \$ - | 28,300 |

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

14. Members' Shares

| | Authorized | 2013 | | 2012 | |
|---------|------------|---------------------|---------------------|---------------------|---------------------|
| | | Equity | Liability | Equity | Liability |
| Common | Unlimited | \$ 3,702,091 | \$ 1,114,278 | \$ 3,686,627 | \$ 1,233,922 |
| Surplus | Unlimited | 1,344,931 | - | 1,305,644 | - |
| | | \$ 5,047,022 | \$ 1,114,278 | \$ 4,992,271 | \$ 1,233,922 |

Terms and Conditions

Common Shares:

Authorized common share capital consists of an unlimited number of common shares, with an issue price per share to be not less than \$5 and redeemable in the amount of consideration received for the share. No member may hold more than 10% of the total number of shares.

In order to accelerate the equity building plan undertaken by the Credit Union, a member share subscription program was commenced October 1994. This share program allows members to increase their investment in the Credit Union by purchasing additional shares at \$5 each to a maximum of \$15,000 per member.

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 the option of the Credit Union at \$1 per share. The total amount of surplus shares purchased or redeemed by the Credit Union in a fiscal year shall not reduce the Credit Union's equity below 5% of assets.

Each member of the Credit Union has one vote, regardless of the number of shares that member holds.

The total share balance will not be reduced below the previous year end balance or below 2% of the Credit Union's assets (whichever is the lesser).

Distributions to members:

| | 2013 | | 2012 | |
|----------------------------|------------------|-------------------|------------------|-------------------|
| | Net Income | Equity | Net Income | Equity |
| Dividends on common shares | \$ 32,520 | \$ 147,294 | \$ 40,147 | \$ 130,103 |
| Less related income taxes | (4,878) | (22,093) | (4,416) | (14,311) |
| | \$ 27,642 | \$ 125,201 | \$ 35,731 | \$ 115,792 |

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

15. Personnel Expenses

| | 2013 | 2012 |
|--------------------|---------------------|--------------|
| Salaries and wages | \$ 1,741,334 | \$ 1,748,251 |
| Employee benefits | 306,430 | 297,941 |
| | \$ 2,047,764 | \$ 2,046,192 |

16. Related Party Transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly. Key management personnel have been taken to comprise the directors and members of management responsible for the day to day financial and operational management of the Credit Union.

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

| | 2013 | 2012 |
|--|-------------------|------------|
| Compensation | | |
| Salaries, and other short-term employee benefits | \$ 551,862 | \$ 591,666 |
| Total pension and other post-employment benefits | 34,066 | 36,972 |
| | \$ 585,928 | \$ 628,638 |

Included in compensation above are \$19,490 (2012 - \$22,390) of honouraria and per diems and \$10,138 (2012 - \$5,776) of meeting, training and conference costs to the directors and officers of the Credit Union for expenses associated with the performance of their duties:

| | 2013 | 2012 |
|--|------------------|--------------|
| Loans to key management personnel | | |
| Aggregate value of loans advanced | \$ - | \$ 300,629 |
| Interest received on loans advanced | 90,871 | 143,561 |
| Aggregate value of undisbursed loans | - | 55,552 |
| Aggregate value of loans outstanding | 1,827,809 | 2,909,318 |
| Deposits from key management personnel | | |
| Aggregate value of term and savings accounts | \$ 3,241,659 | \$ 5,265,973 |
| Interest paid on term and savings accounts | 69,293 | 45,186 |

The Credit Union's policy for lending to and receiving deposits from key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

17. Financial Instrument Classification and Fair Value

The carrying amount of the Credit Union'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 | \$ - | \$ - | \$ 14,064,242 | \$ - | \$ 14,064,242 |
| Accounts receivable | - | - | 9,106 | - | 9,106 |
| Liquidity deposits | - | - | 20,312,302 | - | 20,312,302 |
| Shares | 1,803,152 | - | - | - | 1,803,152 |
| Debentures | - | 750,000 | - | - | 750,000 |
| Loans to members | - | - | 211,922,074 | - | 211,922,074 |
| Other liabilities | - | - | - | (2,387,162) | (2,387,162) |
| Members' deposits | - | - | - | (233,421,893) | (233,421,893) |
| Members' shares | - | - | - | (1,114,278) | (1,114,278) |
| | \$ 1,803,152 | \$ 750,000 | \$ 246,307,724 | \$ (236,923,333) | \$ 11,937,543 |
| September 30, 2012 | | | | | |
| Funds on hand and on deposit | \$ - | \$ - | \$ 3,774,936 | \$ - | \$ 3,774,936 |
| Accounts receivable | - | - | 3,161 | - | 3,161 |
| Liquidity deposits | - | - | 39,332,955 | - | 39,332,955 |
| Shares | 2,794,772 | - | - | - | 2,794,772 |
| Loans to members | - | - | 199,992,324 | - | 199,992,324 |
| Other liabilities | - | - | - | (1,495,752) | (1,495,752) |
| Members' deposits | - | - | - | (232,263,787) | (232,263,787) |
| Members' shares | - | - | - | (1,233,922) | (1,233,922) |
| | \$ 2,794,772 | \$ - | \$ 243,103,376 | \$ (234,993,461) | \$ 10,904,687 |

The following represents the fair values of on and off balance sheet financial instruments of the Credit Union. 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 Credit Union 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 Credit Union'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.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

17. Financial Instrument Classification and Fair Value (continued)

| <i>(in thousands)</i> | 2013 | | | 2012 | | |
|------------------------------|-------------------|-------------------|---------------------------|-------------------|-------------------|---------------------------|
| | Book Value | Fair Value | Excess over Book Value | Book Value | Fair Value | Excess over Book Value |
| Assets | | | | | | |
| Funds on hand and on deposit | \$ 14,064 | \$ 14,064 | -\$ | 3,775 | 3,775 | - |
| Accounts receivable | 9 | 9 | - | 3 | 3 | - |
| Investments | 22,865 | 22,865 | - | 42,128 | 42,128 | - |
| Loans to members | 211,922 | 212,500 | 578 | 199,992 | 201,224 | 1,232 |
| | \$ 248,860 | \$ 249,438 | 578 | \$ 245,898 | \$ 247,130 | 1,232 |
| Liabilities | | | | | | |
| Other liabilities | \$ 2,387 | \$ 2,387 | -\$ | 1,496 | 1,496 | - |
| Members' deposits | 233,422 | 234,110 | 688 | 232,264 | 233,832 | 1,568 |
| Members' shares | 1,114 | 1,114 | - | 1,234 | 1,234 | - |
| | \$ 236,923 | \$ 237,611 | 688 | \$ 234,994 | \$ 236,562 | 1,568 |

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

Below is an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) and;
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

CUCM - Class 1, CUCM - Class 2, and Concentra shares are classified in Level 2.

There were no transfers between Level 1, Level 2 and Level 3 for the year ended September 30, 2013.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

18. Financial Instrument Risk Management

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst 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 Credit Union's finance function. The Board of Directors receives monthly reports from the Credit Union's Chief Executive Officer 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 Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

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 Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

Objectives, Policies and Procedures

The Credit Union'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 depreciation 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 Credit Union'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 impaired loans quarterly.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

18. Financial Instrument Risk Management (continued)

Credit Risk (continued)

Maximum Exposure to Credit Risk

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

| | 2013 | | 2012 |
|--------------------------------|-----------------------|-----------------------|-----------------------|
| | Carrying Value | Maximum Exposure | Maximum Exposure |
| CUCM deposits | \$ 20,146,400 | \$ 20,146,400 | \$ 39,018,325 |
| Loans to members | 211,922,074 | 211,922,074 | 199,992,324 |
| Undisbursed loans | - | 25,446,289 | 12,218,103 |
| Unutilized lines of credit | - | 15,081,917 | 14,361,772 |
| Unexpired letters of credit | - | 214,000 | 900,500 |
| | \$ 232,068,474 | \$ 272,810,680 | \$ 266,491,024 |

Details regarding concentration of credit risk, collateral and other credit enhancements held and loans past due but not impaired are disclosed in Notes 5 and 6.

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

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 Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring actual and forecasted cash flows as to meet all cash outflow obligations as they fall due.

Risk Measurement

The assessment of the Credit Union'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 Credit Union'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.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

18. Financial Instrument Risk Management (continued)

Liquidity Risk (continued)

Objectives, Policies and Procedures (continued)

Provisions of the Act require the Credit Union to maintain liquid assets of at least 8% of members' deposits and borrowings in order to meet member withdrawals.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual and 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 Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

As at September 30, 2013, the position of the Credit Union is as follows:

| | |
|----------------------------------|---------------|
| Qualifying liquid assets on hand | \$ 34,210,642 |
| Total liquidity requirement | 18,673,751 |
| Excess liquidity | \$ 15,536,891 |

The following are the contractual maturities of financial liabilities, including estimated interest payments:

| 2013 | | | | | | |
|-------------------------------|--------------------|-------------------------------------|---------------------|----------------|----------------|-------------------------|
| | Carrying Amount | Gross Nominal Cash Outflow | Less than 1 year | 1 - 3 years | 4 - 5 years | Greater than 5 years |
| <i>(in thousands)</i> | | | | | | |
| Other liabilities | \$ 2,387 | \$ (2,387) | \$ (2,387) | - | - | - |
| Members' deposits | 233,422 | (237,507) | (161,528) | (53,808) | (22,171) | - |
| Members' shares | 1,114 | (1,114) | - | - | - | (1,114) |
| Unutilized lines of credit | - | (15,082) | (15,082) | - | - | - |
| Unadvanced loans | - | (25,446) | (25,446) | - | - | - |
| | \$ 236,923 | \$ (281,536) | \$ (204,443) | \$ (53,808) | \$ (22,171) | \$ (1,114) |

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

18. Financial Instrument Risk Management (continued)

Liquidity Risk (continued)

Objectives, Policies and Procedures (continued)

| | 2012 | | | | | |
|-------------------------------|--------------------|-------------------------------------|---------------------|----------------|----------------|-------------------------|
| | Carrying Amount | Gross Nominal Cash Outflow | Less than 1 year | 1 - 3 years | 4 - 5 years | Greater than 5 years |
| <i>(in thousands)</i> | | | | | | |
| Other liabilities | \$ 1,496 | \$ (1,496) | \$ (1,496) | \$ - | \$ - | - |
| Members' deposits | 232,264 | (238,516) | (152,416) | (66,576) | (19,460) | (64) |
| Members' shares | 1,234 | (1,234) | - | - | - | (1,234) |
| Unutilized lines of credit | - | (14,362) | (14,362) | - | - | - |
| Unadvanced loans | - | (12,218) | (12,218) | - | - | - |
| | \$ 234,994 | \$ (267,826) | \$ (180,492) | \$ (66,576) | \$ (19,460) | \$ (1,298) |

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 two types of risk: interest rate risk and currency risk.

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 Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

Risk Measurement

The Credit Union'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 Credit Union's major source of income is financial margin, the difference between interest earned on investments and loans to members 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.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

18. Financial Instrument Risk Management (continued)

Market Risk (continued)

Objectives, Policies and Procedures (continued)

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

The following schedule shows the Credit Union's sensitivity to interest rate changes. 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.

| Maturity Dates | Assets | Yield (%) | Liabilities | Cost (%) | Asset / Liability Gap |
|------------------------|-------------------|------------------|--------------------|-----------------|------------------------------|
| <i>(in thousands)</i> | | | | | |
| Interest sensitive | | | | | |
| Variable | \$ 100,670 | 4.25 | \$ 82,950 | 1.27 | \$ 17,720 |
| <12 months | 58,949 | 2.96 | 49,588 | 2.95 | 9,361 |
| 1 - 2 years | 26,962 | 3.93 | 42,458 | 3.26 | (15,496) |
| 2 - 3 years | 25,369 | 3.61 | 8,964 | 3.02 | 16,405 |
| 3 - 4 years | 16,096 | 3.74 | 16,434 | 2.91 | (338) |
| 4 - 5 years | 15,825 | 3.36 | 5,941 | 2.80 | 9,884 |
| Greater than 5 years | 1,502 | 3.63 | - | - | 1,502 |
| Interest sensitive | 245,373 | | 206,335 | | 39,038 |
| Non-interest sensitive | 6,978 | | 46,016 | | (39,038) |
| Total | \$ 252,351 | | \$ 252,351 | | \$ - |

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

An analysis of the Credit Union'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 to net income of \$229,592 while a decrease in interest rates of 1% could result in a decrease to net income of \$521,433.

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.

Currency Risk

Currency exchange risk relates to the Credit Union 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.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

18. Financial Instrument Risk Management (continued)

Market Risk (continued)

Currency Risk (continued)

The Credit Union's currency exchange risk is related to US dollar deposits denominated in US dollars. Foreign currency changes are continually monitored by the investment committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

Risk Measurement

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

Objectives, Policies and Procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to \$100,000 in US funds.

For the year ended September 30, 2013, the Credit Union'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.

19. Capital Management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

Regulations to the Act require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Total members' capital as shown on the balance sheet shall not be less than 5% of the book value of all assets;
- Retained earnings shall not be less than 3% of the book value of assets; and
- Capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets.

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

19. Capital Management (continued)

The Credit Union considers its capital to include members' shares (common shares and surplus shares), and retained earnings. There have been no changes in what the Credit Union considers to be its capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of the Act which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at September 30, 2013 - \$148,331,461 (2012 - \$141,218,562).

As at September 30, 2013, the Credit Union met the capital requirements of The Act with a calculated members' capital ratio of 6.43% (2012 - 6.20%), a retained surplus ratio of 3.92% (2012 - 3.64%) and a risk weighted asset ratio of 11.13% (2012 - 11.12%).

| | 2013 | 2012 |
|---|---------------|---------------|
| Tier I Capital | | |
| Members' shares | \$ 6,161,300 | \$ 6,226,193 |
| Retained earnings | 9,888,580 | 9,084,521 |
| Deferred income tax liability | 59,200 | 28,300 |
| Non-taxable portion of loan provision | 51,195 | 430,011 |
| | \$ 16,160,275 | \$ 15,769,025 |
| Tier II Capital | | |
| Redeemable portion of other member shares | \$ - | \$ - |
| Total regulatory capital | \$ 16,160,275 | \$ 15,769,025 |

20. Commitments

Credit Facilities

The Credit Union has approved lines of credit with CUCM equal to 10% of its members' deposits and bears interest at prime (effective rate of 3% at September 30, 2013). For the current year, this amounts to \$23.3 million. These accommodations are secured by an assignment of shares and deposits in CUCM and a general assignment of loans receivable from members. The balance outstanding at September 30, 2013 was \$Nil (2012 - \$Nil).

Loans to Members

The Credit Union has the following commitments to its members at the year end date on account of loans, unused lines of credit and letters of credit:

| | |
|------------------------|---------------|
| Unadvanced loans | \$ 25,446,289 |
| Unused lines of credit | 15,081,917 |
| Letters of credit | 214,000 |

NIVERVILLE CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended September 30, 2013

20. Commitments (continued)

Contractual Obligations

Other

Credit Union Central of Manitoba

The Credit Union is a member of CUCM, which provides banking and other services to Credit Unions in Manitoba. By nature of membership in CUCM, the Credit Union is obligated to pay affiliation dues which are based on membership and assets.

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 members in every credit union within Manitoba. By legislation, the Credit Union pays a quarterly levy to the Corporation based on a percentage of members' deposits.

Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the delivery of some banking system services and the maintenance of the infrastructure needed to ensure uninterrupted delivery of such 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 and Credit Union Electronic Transaction Services. The agreement expires November 23, 2019.