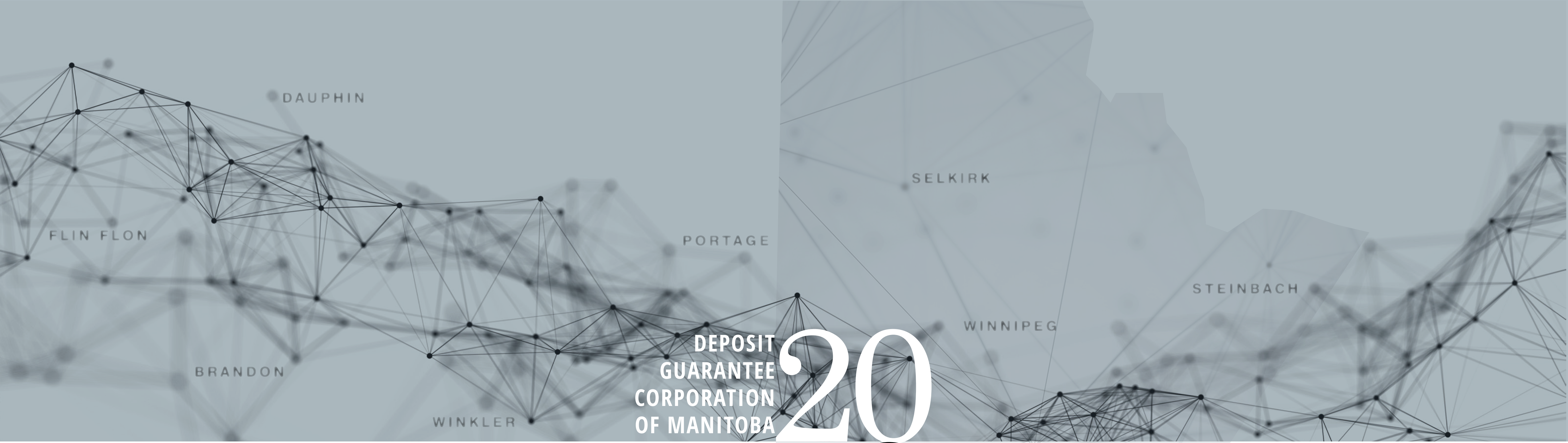

DEPOSIT GUARANTEE CORPORATION OF MANITOBA

2018 ANNUAL REPORT

Vision

The Deposit Guarantee Corporation of Manitoba is respected as a proactive and effective regulator and deposit guarantor.

Mission

To maintain confidence in the strength and sustainability of the Manitoba credit union and caisse Systems.

Corporate Values

- We conduct our activities with a high level of integrity, accountability, and sound judgement.
- We adjust our regulatory approach in an evolving environment.
- We communicate openly with our stakeholders.
- We consider our Board and staff our most important asset.
- We employ best practices.
- We treat everyone with respect and fairness.

Deposit Guarantee Corporation of Manitoba
390-200 Graham Avenue
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www.depositguarantee.mb.ca

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John Wiens, Chair

Vernon MacNeill, Chief Executive Officer

Report from the Chair and Chief Executive Officer

We are very pleased to report on another successful year for the Deposit Guarantee Corporation of Manitoba (DGCM), and the Manitoba credit union and caisse Systems. Although there was a tremendous amount of uncertainly in the Canadian and global economy in 2018, the Manitoba Systems continued to remain resilient and competitive.

DGCM ended 2018 with a Guarantee Fund size of $326.9 million or 113.4 basis points (bps) of insurable Systems deposits. This is well within our revised target Guarantee Fund range of 105 to 130 bps. This higher range was approved by the Board and the Financial Institutions Regulation Branch (FIRB) in 2018, and affirms DGCM's commitment to continue to build the Guarantee Fund in a gradual and sustainable manner.

Revenues for DGCM in 2018 were $27.6 million or a $2.5 million increase. This increase was due to a combination of an additional $971 thousand in assessment revenue, plus $1.5 million or a 41% increase in investment income. Assessment rates remained constant in 2018 at 8 bps of insurable deposits.

Operating expenses were very well controlled at $5.1 million and represented a decrease of $237 thousand or 4.4% below 2017. This decrease in operating expenses is largely attributed to a restructure of our staffing levels to recognize efficiencies in technology and processes.

As at December 31, 2018, there were 27 credit unions and 1 caisse, holding total assets of $31.8 billion. Regulatory capital in our regulated institutions, on a leveraged basis, improved to 6.8% and the Risk-Weighted Capital (RWC) improved slightly to 12.3%. We were pleased to see financial margins continue to inch upward to 1.6%. Comprehensive income dropped slightly to 49 bps, as there were higher charges for loan impairments in 2018. Delinquency remains well controlled within the Systems, with a 90-day rate of .31%.

The Manitoba housing market remains balanced, with slight increases in average home prices during the past year. Although we did not mandate the same stress testing as the B-20 guideline issued by the Office of the Superintendent of Financial Institutions (OSFI), many of the credit unions and the caisse used the higher 5-year mortgage rates to qualify new mortgages and to ensure their members can afford payments, should interest rates keep increasing. We continue to monitor mortgage underwriting standards, and are quite comfortable not imposing a similar B-20 guideline at this time.

Our Regulatory Practices department was very busy in 2018, developing and issuing guidelines for credit unions and the caisse, as well as internal policies for DGCM. Some of the larger projects they worked on are as follows:

Crisis Management Plan – DGCM worked collaboratively with Credit Union Central of Manitoba (CUCM) and FIRB over the past year on a plan to establish a credible emergency lending framework with the Bank of Canada. This project will continue in 2019.

Resolution and Recovery Framework – DGCM continued to enhance its Resolution and Recovery Framework by enhancing a number of internal policies.

Standards of Sound Business Practice (Standards) – DGCM updated its Standards, to better align with guidelines that have were issued since the original Standards document was published.

Report from the Chair and Chief Executive Officer

Systemically Important Financial Institution (SIFI) – DGCM's Board approved a framework for designating a regulated entity in Manitoba as a SIFI. DGCM engaged in extensive consultation with the Systems and CUCM on these guidelines, and we thank everyone who provided input.

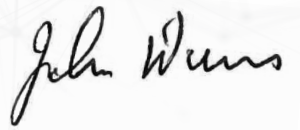
We work closely with our counterparts across the country through the Credit Union Prudential Supervisors Association (CUPSA) Secretariat. The Secretariat provides an excellent opportunity for sharing information between provinces and minimizes costs to develop new and appropriate regulations. In 2018, DGCM's staff led CUPSA working groups in International Financial Reporting Standards (IFRS) and Information Technology (IT). The work conducted by the two working groups is beneficial to all members of CUPSA. DGCM is also a founding member of the International Credit Union Regulator's Network (ICURN) and attended the annual conference in Ireland in 2018. The conference was attended by delegates from 20 countries ranging from large, well-established jurisdictions (such as the United States and Canada), to smaller developing regulatory authorities in such countries as Haiti and Malawi.

DGCM is defined as a government agency, due to our Board being appointed by an Order in Council. As such, two new government initiatives are applicable to DGCM: *The Public Services Sustainability Act (Sustainability Act)* and *The Red Tape Reduction and Government Efficiency Act (Red Tape Reduction Act). The Sustainability Act* limits DGCM employee's salary increases over a four-year period. Under the *Red Tape Reduction Act*, we inventoried all regulatory requirements that apply to credit unions and the caisse, and provided that information to government. *The Red Tape Reduction Act* comes into force July 1, 2019.

The Board held a strategic planning session again in 2018. As in previous years, we invited Systems representatives to speak to the Board on a number of topics, in preparation for the session in June. The Board finds this input very valuable, as they deliberate on the direction of DGCM. The outcome of the session was a reaffirmation of our existing plan, which will continue into 2019.

There were some changes to DGCM's Board this past year. After six years of service on the Board, the last four as Chair, we said goodbye to Bryan Rempel. We would like to thank Bryan for his knowledge, dedication, and true commitment to the Cooperative Principles during his tenure. We also welcome John Wiens as the new Chair. John has extensive Systems experience, having served as Director of Cambrian Credit Union and as Chair of Access Credit Union. The Board and Management look forward to the leadership that John will provide.

Finally, we would like to thank the staff and Board for the work they have completed over the past year. The industry in which we operate is becoming increasingly competitive, challenging, and disrupted. What ensures we will fulfill our mandate is our knowledgeable, trained, and professional staff and Board. By working collaboratively with the Systems, CUCM, and FIRB, we look forward to our continued success.



John Wiens, Chair

Vernon MacNeill, Chief Executive Officer

Corporate Governance

DGCM is administered by a Board of seven Directors, all of whom are formally appointed by the Lieutenant Governor in Council, Province of Manitoba. Three Directors are nominated by government, two Directors are nominated by CUCM, and one Director is nominated by the caisse System; and the Chair is jointly appointed by government, CUCM, and the caisse System.

The Board governs the business affairs of DGCM and establishes the strategic direction that oversees the safety and stability of the Guarantee Fund as mandated by *The Credit Union and Caisses Populaires Act*. The Directors operate under formal Terms of Reference for the Board and its Committees. A Code of Conduct is acknowledged annually by Directors and employees. The Board and senior management, as a team, complement each other's skills in directing the use of DGCM's resources to accomplish its purposes and sets the foundation for ongoing effective governance.

FRAMEWORK

DGCM began operating in 1965 as The Credit Union Stabilization Fund. Since 1968, legislation has required that every Manitoba credit union and caisse be covered by a deposit guarantee entity.

DGCM established a governance framework that closely follows best practices in the financial industry. Our framework is based on the legal, regulatory, institutional, and ethical environment that addresses the administration and controls in our organization.

DGCM regularly reviews its objectives to ensure we remain focused on our mandate to fully guarantee the safety of member deposits. There are internal programs in place to closely monitor the Manitoba credit union and caisse environment and keep DGCM apprised of changes and trends. Our proactive risk-based approach to regulation allows us to become involved earlier to mitigate potential risks to the Guarantee Fund.

Board of Directors *Left to right: John Wiens (Chair), Paul Gilmore (Vice-Chair), Chuck Golfman, Robert Jones, Myron Pawlowsky, Dale Ward, Mabel Wieler*

Corporate Governance

COMMITTEES
Board Committees are designed to utilize Directors' strengths to enhance our governance practices and address key responsibilities and activities.

Finance & Audit Committee
The Finance & Audit Committee reports quarterly to the Board and meets independently with the Auditors to verify external and internal due diligence in DGCM's controls and financial reporting. This reporting includes confirming the activities outlined in its Terms of Reference to ensure that the fundamental activities are being conducted.

The Finance & Audit Committee is subject to the following legislative requirements:

- review the annual audited financial statements
- review the changes in the accounting principles and practices
- recommend the appointment of an auditor
- review the scope, timing, and coordination of the external and internal audit plans
- review all significant recommendations made by the auditor

The Finance & Audit Committee is also responsible for oversight of:

- compliance and regulatory practices
- financial performance and budget
- financial reporting and accounting practices
- operational and internal control practices
- investment policy reporting and compliance

Governance & Human Resources Committee
The Governance & Human Resources Committee reports quarterly to the Board. The Committee oversees DGCM's corporate governance practices and confirms it operates under a formal Terms of Reference, satisfactorily fulfilling its functions during the year.

The Governance & Human Resources Committee is responsible for:

- corporate governance
- board orientation and education
- succession planning
- Chief Executive Officer (CEO) performance and compensation
- stakeholder communication

BOARD AND COMMITTEE MEETING ATTENDANCE
DGCM's Board held five meetings in 2018, one of which was the strategic planning session. The Finance & Audit Committee and the Governance & Human Resources Committee each met four times. Director meeting attendance is summarized as follows.

Directors	Board of Directors Meetings (5)	Finance & Audit Committee Meetings (4)	Governance & Human Resources Committee Meetings (4)
Paul Gilmore	5/5	4/4	–
Chuck Golfman	5/5	–	4/4
Robert Jones	5/5	4/4	–
Myron Pawlowsky	5/5	4/4	–
Bryan Rempel	3/3*	–	2/2*
Dale Ward	5/5	–	4/4
Mabel Wieler	5/5	4/4	–
John Wiens	2/2*	–	2/2*

* John Wiens succeeded Bryan Rempel as Chair in August 2018.

Management Discussion and Analysis

MANDATE

Our mission and vision, coupled with our corporate values, keeps us focused on fulfilling our mandate. Manitoba legislation prescribes DGCM's mandate to:

- guarantee deposits in credit unions and the caisse
- promote credit union and caisse development of sound business practices to protect them from financial losses
- ensure that credit unions and the caisse operate under sound business practices

The CEO plans, communicates, and sets in motion the action undertaken by the organization to meet the Board's strategic direction.

STANDARDS OF SOUND BUSINESS PRACTICE

The Standards of Sound Business Practice (Standards) are a set of principles that assists DGCM to direct and manage itself in a prudent, effective, and appropriate manner. DGCM's four Standards are:

1. **Corporate Governance** – DGCM must effectively direct, oversee, and manage its business activities and ensure that performance, accountability, and integrity are achieved.
2. **Strategic Management** – DGCM must ensure that business operations are effectively planned, executed, and monitored.
3. **Risk Management** – DGCM must have a comprehensive approach to identifying, managing, and controlling business and operating risks.
4. **Internal Control Structure** – DGCM must establish and maintain effective internal controls, and ensure these controls are reviewed and validated on a regular basis.

MANAGING RISK

DGCM utilizes a formal Enterprise Risk Management (ERM) framework for identifying, evaluating, and managing risks present in our operating environment. ERM is comprised of the following distinct stages:

- **Risk Identification** – identifies broad risk categories and principal inherent risks within each category
- **Current Mitigation Strategies** – determines existing risk management strategies and evaluates effectiveness
- **Residual Risk** – defines residual risk, considering inherent risks and existing risk mitigation strategies, on the basis of likelihood and impact
- **DGCM's Risk Tolerance** – establishes DGCM's comfort or acceptable level of risk
- **Comprehensive Risk Profile** – consolidates all principal residual risks relative to DGCM's accepted risk tolerance level in the form of a risk map
- **Risk Management & Monitoring** – identifies and implements risk management strategies to avoid, accept, transfer, or mitigate principal residual risks approaching or exceeding DGCM's accepted risk tolerance level; also reviews the effectiveness of risk management strategies in controlling principal risks to DGCM

Senior Management *From left to right: Vernon MacNeill (CEO), Ray Braun (CRO), Joe Nowicky (CFO), Zach Zahradnik (COO), Alli Funk (Manager, Governance & HR)*





Key Initiatives and Achievements

DGCM's 2018 business plan re-affirmed three core strategies to fulfill its mandate. To support these strategies, a number of strategic initiatives were identified and scheduled for implementation during the year. The following table summarizes the core strategies and results for the year, along with key initiatives planned over the next year.

Corporate Strategy #1	2018 Results	2019 Planned Key Initiatives
Prevention DGCM maintains a proactive approach to collaborate with credit unions and the caisse in providing effective regulation and oversight; supporting Systems strength in the dynamic environment. DGCM provides leadership to the Systems through the distribution of the Standards which are based on industry best practices and interpretive guidance documentation on critical operational issues within the Standards. Examination and Monitoring frameworks recognize the individuality of each credit union and caisse and support their autonomy, while encouraging proactive risk mitigations within the institutions to minimize the demand for deposit protection.	**Oversight Enhancements** Completed enhancements to DGCM's oversight frameworks and practices. **Standards** Consistent with DGCM's vision and corporate values to adjust our regulatory approach in an evolving environment, DGCM updated its core Standards for governance and risk management. **Provincial Collaboration** Collaborated with government and CUCM regarding upcoming legislative changes.	**Corporate Governance Guidelines** Create a set of corporate governance guidelines for use within the Manitoba credit union and caisse Systems. **Basel III Reforms** Conduct a review to determine if capital standards should be amended to incorporate the final Basel III reforms. **Provincial Collaboration** Continue to collaborate with government and CUCM regarding upcoming legislative changes.

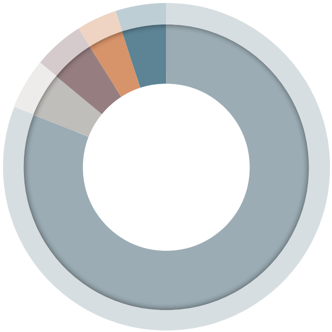
Corporate Strategy #2	2018 Results	2019 Planned Key Initiatives
Corporate Excellence DGCM will fulfill its legislated mandate through the engagement of a dedicated team of knowledgeable staff, using an effective inventory of tools and resources to satisfy the needs of key stakeholders, while aligning operations to support core strategies. These efforts will be executed prudently to achieve the required results.	**Specialization Enhancements** Fostered continued development of subject matter expertise among oversight employees. **Management Information Systems** Transitioned to new core technology platforms to enhance oversight and analytical capabilities.	**Specialization Enhancements** Continue to foster development of subject matter expertise among oversight employees. **Management Information Systems** Continue to transition to new core technology platforms to enhance oversight and analytical capabilities.

Corporate Strategy #3	2018 Results	2019 Planned Key Initiative
Deposit Protection DGCM utilizes global best practices to fulfill its mandate in protecting the deposits of Manitoba's credit unions and the caisse. Comprehensive regulatory and intervention frameworks support effective crisis management, resolution, and reimbursement strategies to minimize risk to DGCM. A Guarantee Fund of appropriate size and mix is maintained to support the risk mitigation requirements of DGCM, and to provide a revenue stream to help offset operational costs.	**International Association of Deposit Insurers (IADI) Compliance** Formalized a comprehensive Crisis Management Plan to identify critical processes for managing, coordinating and communication during a crisis. Published a set of policies addressing: • Crisis Resolution and Recovery • Supervision Processes • Depositor Payout and Reimbursement **Guarantee Fund Size Adequacy** Assessed the adequacy of the Guarantee Fund, leveraging existing actuarial analysis, in an environment of evolving risk tolerances amongst stakeholders.	**Emergency Lending Agreement (ELA) Preparation** DGCM is working with the Bank of Canada and CUCM to ensure that Manitoba is eligible to receive loan facilities in the event of an emergency liquidity crisis.

DGCM Financial Overview

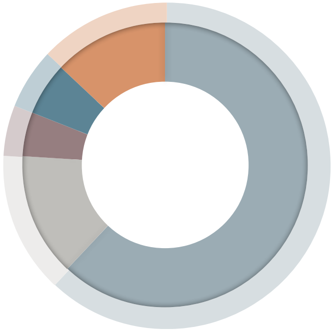
On December 31, 2018, our assets totaled $327.8 million. The increase of $20.9 million, or 6.8% over 2017, was derived principally from comprehensive income. Our investment portfolio, which represents 97% of our assets, is principally invested in segregated Canadian government bonds and treasury bills, and Canadian corporate bonds. DGCM invests in additional asset classes to diversify risk exposure to the portfolio, and enhance investment returns. The following charts illustrate the composition of the investment portfolio.

Asset Class Profile



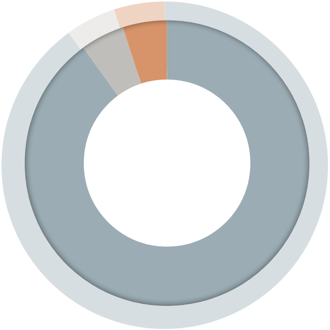
80.7% Canadian fixed income
5.0% Canadian equities
4.9% Canadian real estate
4.8% Foreign fixed income
4.6% Foreign equities

Sector Profile



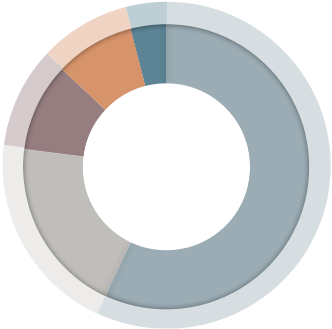
62.0% Government
13.9% Financials
6.3% Real estate
5.0% Energy
12.8% Other

Geographic Profile



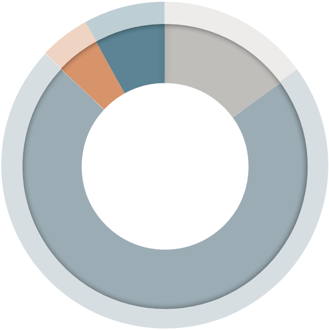
90.6% Canada
4.9% United States
4.5% International

Credit Profile
(excluding Equity and Real Estate Funds)



57.0% AAA
20.1% AA
10.2% A
9.1% BBB
3.6% Unrated (CUCM GICs)

Maturity Profile
(excluding Equity and Real Estate Funds)



14.9% Under one year
71.7% One to five years
5.2% Five to ten years
8.2% Over ten years

DGCM Financial Overview

EQUITY POSITION

DGCM's equity totaled $326.9 million at year-end, comprised of retained earnings and accumulated other comprehensive income (AOCI). Also referred to as the Guarantee Fund, it represents the current internal financial resources available to protect Manitoba's credit union and caisse Systems.

Retained earnings are DGCM's net income accumulated over time. At year-end, retained earnings totaled $328.7 million, an increase of $22.7 million or 7.4% over 2017. This increase was due to annual net income from regular operations.

AOCI is accumulated unrealized gains and losses, driven by fluctuations in the fair market value of the investment portfolio. At year-end, AOCI was in an unrealized loss position of $1.9 million, net of deferred taxes.

When AOCI is combined with retained earnings, the total equity position in absolute dollars, and relative to all credit union and caisse deposits, reflects the fair market value of our Guarantee Fund. At year-end, total equity was 113.4 bps of Systems' deposits.

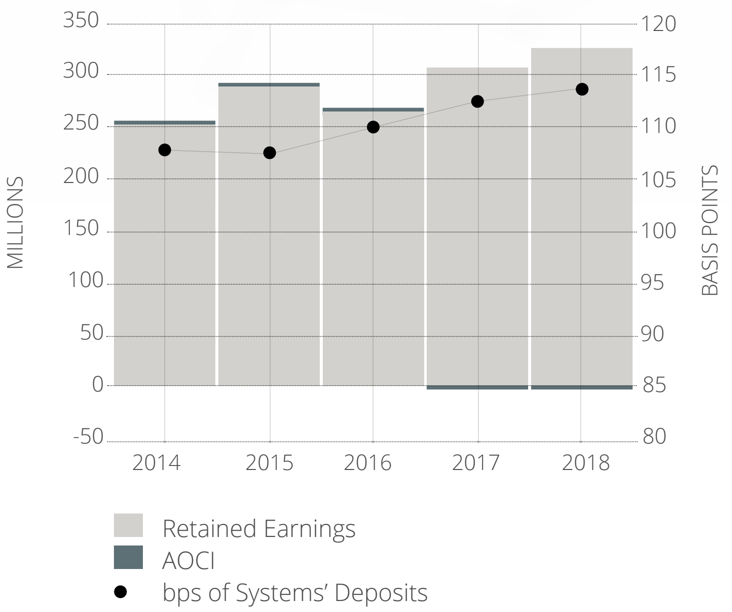
COMPREHENSIVE INCOME

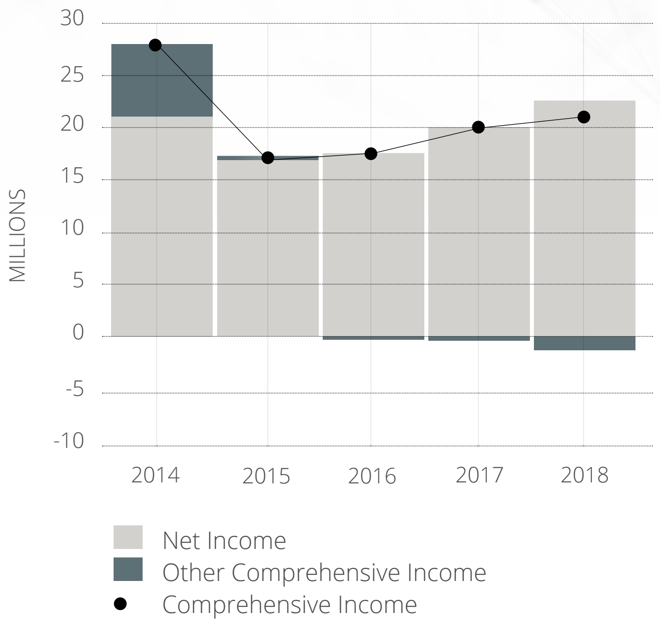
Comprehensive income is the total income over the course of the year for DGCM. Net income is derived from regular operations. Other comprehensive income is derived from unrealized changes in the fair market value of the investment portfolio and, after January 1, 2018, realized gains or losses on equity instruments. Comprehensive income for the year totaled $20.9 million.

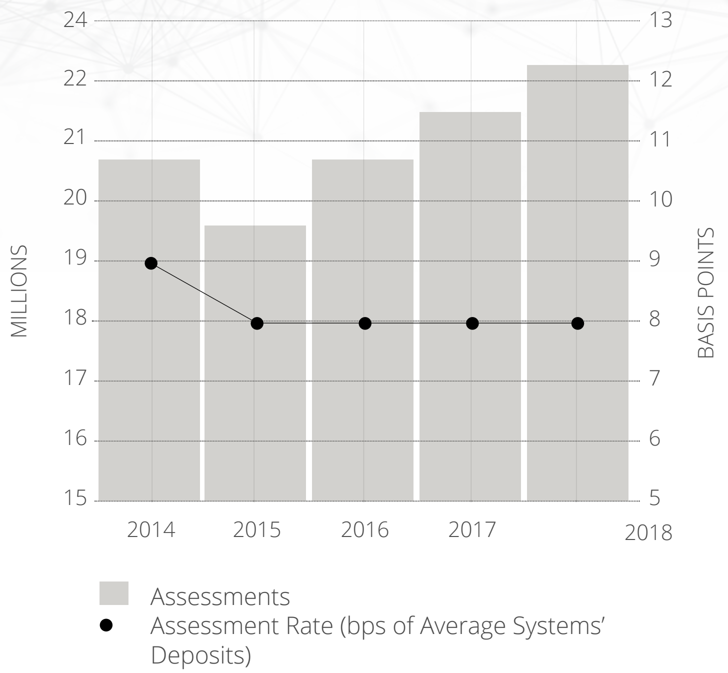
Revenue for the year totaled $27.6 million, offset by operating expenses and taxes of $5.2 million. The result was a net income of $22.4 million. DGCM experienced an other comprehensive loss in 2018 of $1.5 million.

ASSESSMENTS

DGCM charges quarterly assessments to Manitoba credit unions and caisse to maintain the Guarantee Fund. This Guarantee Fund is available to offset credit union or caisse shortfalls to reimburse depositors in the event of failure. In 2018, DGCM charged an annualized rate of 8.0 bps of average Systems' deposits, generating $22.5 million in revenue.







DGCM Financial Overview

INVESTMENT INCOME

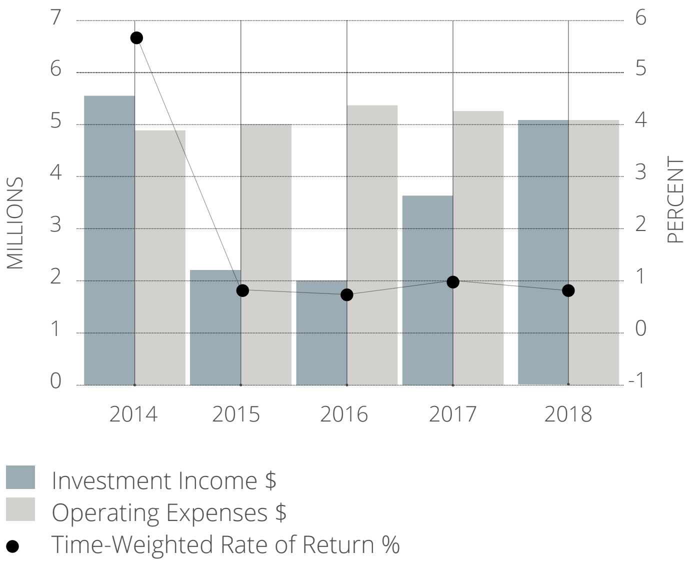
DGCM earns income on its investments through interest revenue, and gains/losses on the sales of investments and foreign exchange. Total investment revenue was $5.1 million, comprised of interest revenue of $6.2 million, losses. on the sales of investments of $0.9 million, due to rebalancing the portfolio in a rising yield environment, and losses on foreign exchange of $0.2 million, due to charges for hedging foreign currency exposure. Investment income is used to offset operating expenses and provides some relief on the assessment rate charged to maintain the Guarantee Fund.

The notable increase in income for 2018 was due to completing the transition from a short-term mandate, to a new investment policy statement, extending the duration on fixed income investments, and introducing new asset classes to diversify risk exposure and enhance total returns on investments. Total return takes into account the investment income noted above, as well as unrealized gains/losses on investments and realized gains/losses on the sale of equity instruments, recognized in other comprehensive income, and is measured as time-weighted rate of return.

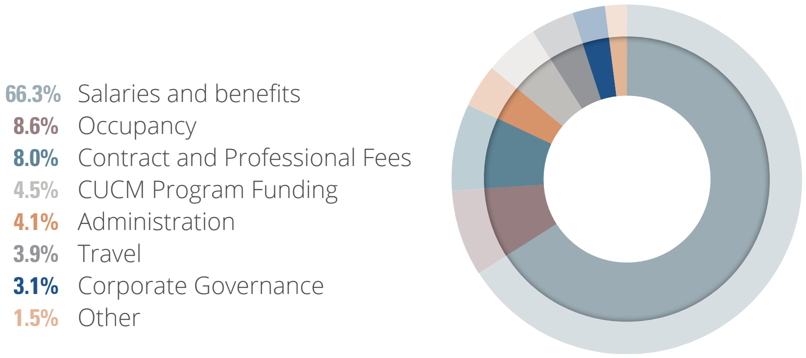
OPERATING EXPENSES

DGCM incurs operating expenses in fulfilling its legislated mandate. The total operating expenses for 2018 were $5.1 million, a decrease of $0.2 million or 4.4% below 2017. Notable decreases were one-time expenses for special projects in 2017, not reoccurring in 2018; as well as corporate restructuring and improved efficiencies in leveraging technology.

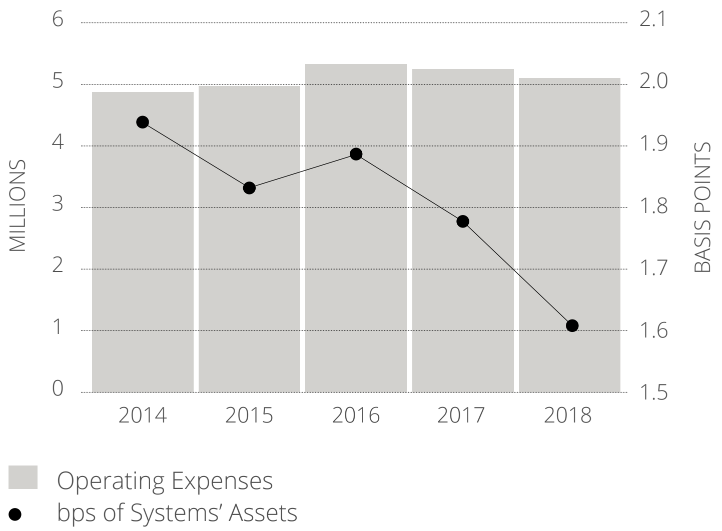
DGCM is committed to managing expenses. Relative to Systems' assets, expenses remain contained, declining over the past five years from 1.92 bps to 1.61 bps. In absolute dollars, expenses have increased over the past five years, largely due to salary merit and range increases, consistent with industry standards. However, in 2017 and 2018, a concerted effort to control costs resulted in reductions for these two years.



Profile



Trends



Systems' Financial Overview

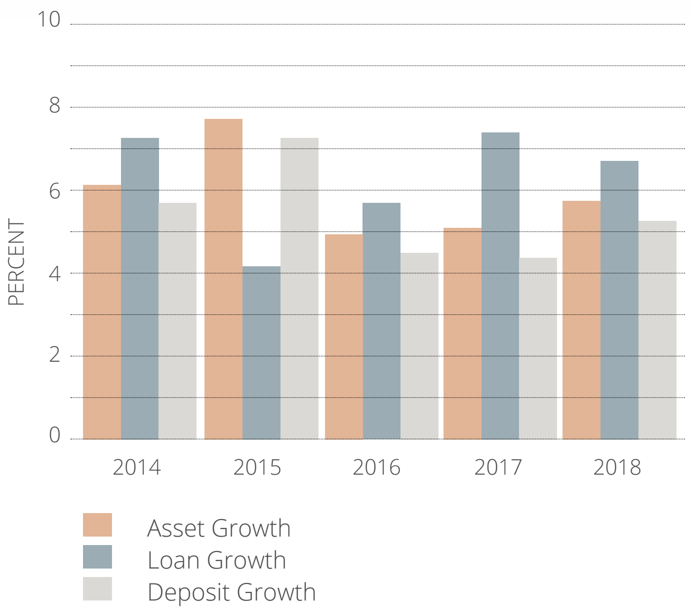
2018 asset and deposit growth were slightly higher than the prior year at 5.65% and 5.29% respectively. Loan growth dropped to 6.64% after increasing the prior two years.

Systems' assets were $31.8 billion at year-end while deposits and loans totaled $28.8 billion and $27.6 billion respectively

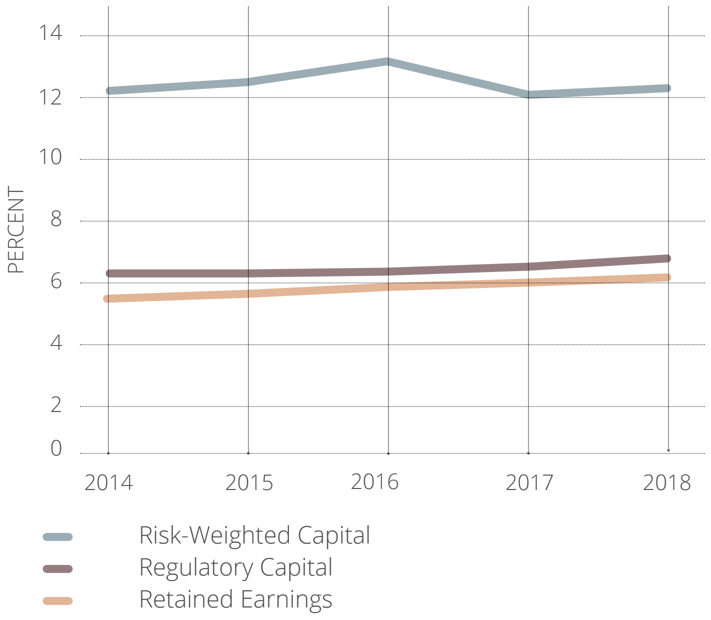
Retained earnings and regulatory capital increased to 6.14% and 6.78% respectively, after modest asset growth. Risk-weighted capital improved slightly to 12.26% after declining in 2017 as a result of a change in the calculation metrics to align with Basel III standards.

Gross financial margin increased slightly again in 2018 to 1.63%, due primarily to further increases in the prime lending rate. Gross operating expenses continued to decline to 1.38%. Comprehensive income dropped marginally to 0.49%, due to a decline in other income coupled with increased provisions for both impaired loans and income tax.

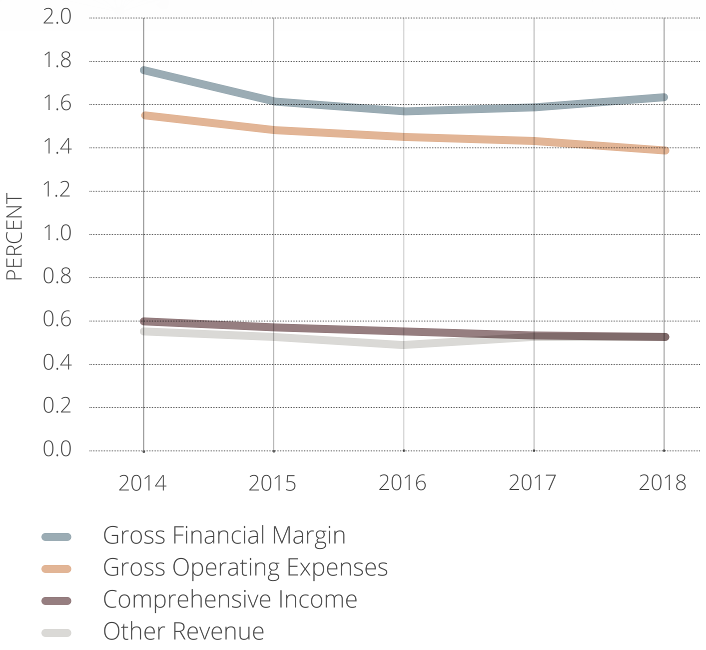
Growth



Capital



Profitability

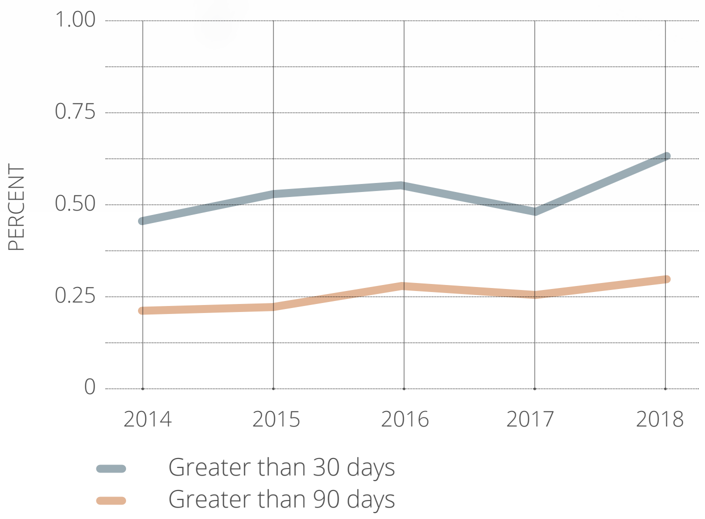


Systems' Financial Overview

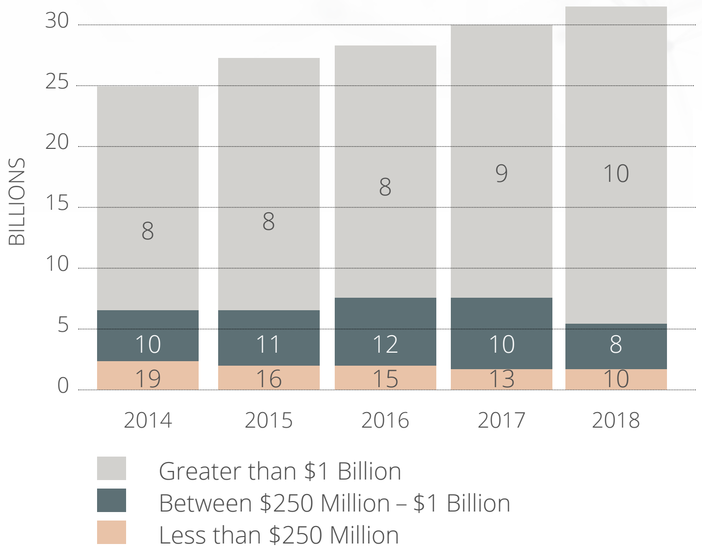
Average 30 and 90 day loan delinquency has trended upwards over the past five years with 2018 values of .61% and .31%. Delinquency remains below industry norms and continues to be closely scrutinized for signs of stress.

The profile of institutions changed again in 2018. The total number of institutions dropped from 32 to 28 as a result of 4 mergers. Credit unions and the caisse over $1 billion increased by 1, while the number of smaller institutions continued to decline.

Delinquency



Systems' Profile by Asset Size and Number of Institutions



A Vibrant Network

DGCM regulates and guarantees the deposits of Manitoba's vibrant network of 27 credit unions and 1 caisse.

Access Credit Union
Amaranth Credit Union
Assiniboine Credit Union
Beautiful Plains Credit Union
Belgian-Alliance Credit Union
Caisse Financial Group
Cambrian Credit Union
Carpathia Credit Union
Casera Credit Union
Compass Credit Union

Crosstown Civic Credit Union
Entegra Credit Union
Flin Flon Credit Union
Fusion Credit Union
Me-Dian Credit Union
Minnedosa Credit Union
Niverville Credit Union
North Winnipeg Credit Union
Noventis Credit Union
Rosenort Credit Union

Steinbach Credit Union
Strathclair Credit Union
Stride Credit Union
Sunova Credit Union
Sunrise Credit Union
Swan Valley Credit Union
Westoba Credit Union
Winnipeg Police Credit Union

Virtual deposit taking institutions are identified below, linked to its credit union.

AcceleRate Financial (Crosstown Civic)
Achieva Financial (Cambrian)
Casera Financial (Casera)
Hubert Financial (Sunova)
Ideal Savings (Carpathia)
Implicity Financial (Entegra)
Maxa Financial (Westoba)
Outlook Financial (Assiniboine)

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Management's Responsibility

Management of the Deposit Guarantee Corporation of Manitoba (DGCM) is responsible for the integrity and fair presentation of the consolidated financial statements included in the annual report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

In discharging its responsibility, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, proper records are maintained, and assets safeguarded.

The Board of Directors of DGCM oversees management's responsibilities for the financial reporting procedures and internal control systems. The Board reviews the consolidated financial statements in detail prior to approving the statements for publication.

The Board's Finance & Audit Committee recommends the appointment of the external auditor and reviews the terms of the external audit engagement, annual fees, audit plans and scope, and management letter recommendations.

Vernon MacNeill, MBA
Chief Executive Officer

S. Joe Nowicky, CPA, CMA
Chief Financial Officer

Independent Auditor's Report

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To the Board of Directors of the Deposit Guarantee Corporation of Manitoba

Opinion

We have audited the consolidated financial statements of Deposit Guarantee Corporation of Manitoba ("DGCM"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DGCM as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of DGCM in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing DGCM's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate DGCM or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing DGCM's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 DGCM's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on DGCM's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause DGCM to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
March 8, 2019

Consolidated Statement of Financial Position

(in thousands of dollars)

As at December 31		2018		2017
ASSETS				
Cash (Note 5)	$	1,587	$	1,504
Investments (Note 6)		319,509		299,110
Assessments receivable (Note 7)		5,766		5,481
Deferred tax assets (Note 8)		723		537
Other assets (Note 9)		196		252
	$	327,781	$	306,884
LIABILITIES				
Accounts payable and accrued liabilities (Note 10)	$	396	$	373
Defined benefit obligation (Note 11)		526		585
Total liabilities		922		958
Contingent liabilities (Note 12)				
CORPORATION EQUITY				
Retained earnings		328,739		306,082
Accumulated other comprehensive (loss) income		(1,880)		(156)
Total corporation equity		326,859		305,926
	$	327,781	$	306,884

Approved by the Board March 8, 2019

John Wiens
Board Chair

Paul Gilmore
Finance & Audit Committee Chair

Consolidated Statement of Comprehensive Income

(in thousands of dollars)

Year Ended December 31	2018	2017
REVENUES		
Regular assessments (Note 13)	$ 22,513	$ 21,542
Investment income (Note 13)	5,109	3,618
	27,622	25,160
EXPENSES		
Operating expenses (Note 14)	5,109	5,346
INCOME BEFORE INCOME TAXES	22,513	19,814
Income tax expense (recovery) (Note 8)	69	(106)
NET INCOME	22,444	19,920
OTHER COMPREHENSIVE LOSS		
Items that may be reclassified subsequently to net income		
Unrealized gains on available-for-sale assets, net of tax (Note 16)	-	73
Realized gains on available-for-sale assets, net of tax (Note 16)	-	(330)
Unrealized losses on fair value through other comprehensive income debt instruments, net of tax (Note 16)	(219)	-
Realized losses on fair value through other comprehensive income debt instruments, net of tax (Note 16)	778	-
Total items that may be reclassified	559	(257)
Items that will not be reclassified subsequently to net income		
Unrealized losses on fair value through other comprehensive income equity instruments, net of tax (Note 16)	(2,070)	-
Total items that will not be reclassified	(2,070)	-
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX	(1,511)	(257)
COMPREHENSIVE INCOME	$ 20,933	$ 19,663

Consolidated Statement of Changes in Equity

(in thousands of dollars)

	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2017	$ 286,162	$ 101	$ 286,263
Net income	19,920	-	19,920
Other comprehensive loss	-	(257)	(257)
Total comprehensive income	19,920	(257)	19,663
Balance at December 31, 2017	$ 306,082	$ (156)	$ 305,926

	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2018 prior to adoption of IFRS 9	$ 306,082	$ (156)	$ 305,926
Impact of adopting IFRS 9 at January 1, 2018 (see Note 15)	(35)	35	-
Balance at January 1, 2018	$ 306,047	$ (121)	$ 305,926
Net income	22,444	-	22,444
Other comprehensive loss	-	(1,511)	(1,511)
Total comprehensive income	22,444	(1,511)	20,933
Transfer of revaluation reserve upon disposal of FVTOCI equity instruments	248	(248)	-
Balance at December 31, 2018	$ 328,739	$ (1,880)	$ 326,859

Consolidated Statement of Cash Flows

(in thousands of dollars)

Year Ended December 31	2018	2017
OPERATING ACTIVITIES		
Net income	$ 22,444	$ 19,920
Non-cash recovery – deferred income taxes	(186)	(214)
Non-cash expense – depreciation	104	110
Net impairment loss on investments	5	-
Net increase in assessments receivable	(285)	(232)
Net (increase) decrease in prepaid expenses	(8)	24
Net decrease in current net tax receivable	-	84
Net increase in accounts payable and accrued liabilities	23	106
Net (decrease) increase in defined benefit obligation	(59)	11
Cash flows generated by operating activities	22,038	19,809
INVESTING ACTIVITIES		
Net increase in investments, net of deferred tax liability	(21,915)	(19,161)
Purchase of property and equipment, net of disposal proceeds	(40)	(57)
Cash flows used in investing activities	(21,955)	(19,218)
INCREASE IN CASH	83	591
CASH, BEGINNING OF YEAR	1,504	913
CASH, END OF YEAR	$ 1,587	$ 1,504
SUPPLEMENTARY CASH FLOW INFORMATION		
Income taxes recovered	$ -	$ (84)

Notes to Consolidated Financial Statements

(in thousands of dollars, unless otherwise noted)

1 Nature of organization

The Deposit Guarantee Corporation of Manitoba (DGCM) is a deposit guarantee corporation established under *The Credit Unions and Caisses Populaires Act* of Manitoba (*The Act*). All of the operational activities of DGCM are focused on achieving its legislated objectives:

- Guarantee deposits in Manitoba credit unions and caisses populaires (hereinafter credit unions)
- Promote credit union development of sound business practices to protect them from financial losses
- Ensure the credit unions operate under sound business practices

Without limiting the generality of the foregoing, DGCM shall do such things as are necessary to enable a credit union assigned to it to satisfy the claims of the members of the credit union for withdrawals of deposits. The registered address of DGCM is 390-200 Graham Avenue, Winnipeg, Manitoba, Canada.

2 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were authorized for issue by the Board of Directors on March 8, 2019.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements in accordance with IFRS.

a) Basis of consolidation

The consolidated financial statements include the accounts of T.S.F. Holdings Limited, a wholly-owned subsidiary, which was incorporated for the purpose of purchasing and collecting loans guaranteed by DGCM under merger and liquidation agreements. All intercompany balances and transactions have been eliminated upon consolidation.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets, which are measured at fair value in the consolidated statement of financial position.

c) Cash

Cash consists of cash on hand, and chequing and demand balances with Credit Union Central of Manitoba (CUCM) and chartered banks.

d) Regular assessments, special assessments, and financial assistance repayments

Credit union regular assessments, special assessments, and financial assistance repayments are measured at the fair value of the consideration received or receivable.

Credit union regular assessments, special assessments, and financial assistance repayments are recognized as follows:

- Credit union regular assessments are recognized when earned. Regular assessments are determined quarterly, and accrued for monthly. Credit union payments are received quarterly.
- Special assessments are recognized when earned. Special assessments are only charged if, in the opinion of DGCM's Board, the Guarantee Fund is, or is about to be, impaired.
- Financial assistance repayments are recognized when received.

e) Financial assets – Policy applicable prior to January 1, 2018

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit and loss (FVTPL), which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at FVTPL', 'available-for-sale' (AFS) financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

i. Classification

Cash	Loans and receivables
Fixed income investments	Available-for-sale
Equity investments	Available-for-sale
Derivative assets	Fair value through profit and loss
Assessments receivable	Loans and receivables

ii. Available-for-sale (AFS)

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Except as mentioned below, AFS financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to income.

AFS financial assets that do not have quoted market prices in an active market are recorded at cost.

Interest on interest-bearing AFS financial assets is calculated using the effective interest method and recorded in investment revenue.

iii. Loans and receivables

Cash, certain other assets, and assessments receivable with fixed or determinable payments are classified as loans and receivables. Loans and receivables are accounted for at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate.

iv. Impairment of financial assets

DGCM determines, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets, other than those classified or designated as FVTPL, are impaired. Those financial assets are impaired according to either debt, equity, or loans and receivables impairment model. The appropriate impairment model is determined based on:

- the characteristics of each instrument;
- the capacity of the issuer to pay dividends or interest; and
- DGCM's intention to either hold or sell the financial asset.

Under the debt impairment model, a financial asset is impaired if there is objective evidence of impairment, as a result of one or more loss events (a payment default for example) that occurred after initial recognition and that loss event has an impact on the estimated future cash flows of the financial asset. Under the debt impairment model, a security is impaired when it is probable that the future cash flows will not be recovered based on credit considerations rather than based on the fair value of that security. The debt model is used to assess impairments for fixed income investments which have been purchased with the intent of holding for the long-term.

Under the equity impairment model, objective evidence of impairment includes a significant or prolonged decline in the fair value of an investment below cost. It also includes information about significant changes with an adverse effect that have taken place in the environments in which the issuer operates, indicating that the cost of an equity instrument may not be recovered. The equity model is used to assess the impairment for equity investments.

Under the loans and receivables impairment model, loans and receivables that are individually significant are tested for impairment when there is a payment default or when there are objective indications that the counterparty will not honor its obligations. Loans and receivables which have not been individually impaired are grouped by similar characteristics to be tested for impairment.

When an AFS financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are reclassified to net income in the period. 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 through net income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

v. Derecognition of financial assets

DGCM derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If DGCM neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, DGCM recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If DGCM retains substantially all the risks and rewards of ownership of a transferred financial asset, DGCM continues to recognize the financial asset and also recognizes a collateralized borrowing for proceeds received.

f) Financial assets – Policy applicable from January 1, 2018

All financial assets are initially recognized at fair value in the Consolidated Statement of Financial Position and are subsequently classified as measured at FVTPL, fair value through other comprehensive income (FVTOCI) or amortized cost based on DGCM's assessment of the business model within which the financial asset is managed and the financial asset's contractual cash flow characteristics. Financial assets can only be reclassified when there is a change to the business model within which they are managed. Such reclassifications are applied on a prospective basis.

i. Classification

Cash	Amortized cost
Fixed income investments	FVTOCI (Debt Instruments)
Equity investments	FVTOCI (Equity Instruments)
Derivative assets	FVTPL
Assessments receivable	Amortized cost

ii. Amortized cost

A financial asset is measured at amortized cost if it is held within a business model of holding financial assets and collecting contractual cash flows and those cash flows are comprised solely of payments of principle and interest. Amortized cost financial assets are accounted for at amortized cost using the effective interest method, less any impairment. Interest revenue is recognized through investment income by applying the effective interest rate.

iii. Fair value through other comprehensive income

Debt instruments that meet the following conditions are measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal

Equity instruments that are not held for trading are irrevocably elected to be measured at FVTOCI.

FVTOCI financial assets are carried at fair value with unrealized gains and losses recorded in the Consolidated Statement of Comprehensive Income on a net of tax basis. Accumulated other comprehensive income (AOCI) forms part of corporation equity.

Accumulated realized gains or losses on fixed income investments are transferred from OCI to net income. Accumulated realized gains or losses on equity investments are transferred directly from OCI to retained earnings, without being recorded through profit or loss.

Interest on interest-bearing fixed income investments is calculated using the effective interest method and recorded in investment revenue.

Dividends on equity investments are recorded in investment revenue upon declaration.

iv. Fair value through profit or loss

All financial assets not measured at amortized cost or FVTOCI are measured at FVTPL. A financial asset that would otherwise be measured at amortized cost or FVTOCI can be designated as FVTPL through an irrevocable election if doing so eliminates or significantly reduces an accounting mismatch. Unrealized and realized gains and losses, dividends declared, and interest income on these financial assets are recorded in investment revenue.

v. Impairment of financial assets

DGCM recognizes loss allowances for expected credit losses (ECL) for any FVTOCI debt instrument or amortized cost asset. Loss allowance is measured as 12-month ECL if debt investment securities held at reporting date are of low credit risk. DGCM considers a debt security to have a low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. The ECL is a probability-weighted estimate of credit losses measured as the present value of all cash shortfalls that are possible within the 12 months after the reporting date.

At each reporting date, DGCM assesses whether FVTOCI debt instruments or amortized cost assets are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

In making an assessment of whether an FVTOCI debt instrument or amortized cost asset is credit-impaired, DGCM considers the following factors.

- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessment of creditworthiness.
- The issuer's ability to access the capital markets for new debt issuance.The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt foregiveness.

vi. Derecognition of financial assets

DGCM derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If DGCM neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, DGCM recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If DGCM retains substantially all the risks and rewards of ownership of a transferred financial asset, DGCM continues to recognize the financial asset and also recognizes a collateralized borrowing for proceeds received.

g) Financial liabilities

Financial liabilities are classified either as measured at amortized cost using the effective interest method or as FVTPL, which are recorded at fair value.

Classification

Accounts payable and accrued liabilities	Amortized cost
Derivative liabilities	FVTPL

Financial liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

h) Derivative financial instruments

DGCM designates certain derivative financial instruments held for risk management as fair value hedging instruments in qualifying hedging relationships. On initial designation of the hedge, DGCM formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. DGCM makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value of the respective hedged items(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%.

When a derivative is designated as a hedging instrument in a hedge of the change in fair value of a recognized asset, changes in the fair value of the derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk, in investment income.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then the hedge accounting is discontinued prospectively.

i) Foreign currency translation

DGCM's consolidated financial statements are presented in Canadian dollars, DGCM's functional currency.

j) Effective interest method

DGCM uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

k) Transaction costs

Transaction costs for financial assets classified as FVTOCI, amortized cost, and financial liabilities classified as amortized cost, are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

l) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. DGCM does not have finance leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

m) Employee benefits

i. Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in net income in the periods during which services are rendered by employees.

ii. Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. DGCM's defined benefit plan is a retirement allowance, limited to a single future obligation, as a proportion of an employee's annual salary. DGCM's net obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds. The calculation is performed annually by a qualified actuary using the projected unit credit method. Termination benefits are recognized as an expense at the earlier of the following dates:

- when DGCM recognizes costs for a restructuring within the scope of IAS 37 that includes the payment of termination benefits, or
- when DGCM can no longer withdraw the offer of those benefits

If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

iii. Short-term employee benefits

Short-term employee benefits are obligations that are expected to be settled wholly within 12 months of the end of the annual reporting period in which the employees render related services. These obligations are measured on an undiscounted basis.

n) Provision for financial assistance to credit unions

The provision for financial assistance to credit unions is based on potential losses that may arise due to merger, liquidation arrangements, or dissolution. The provision is established based on an individual credit union's probability of requirement for assistance and an assessment of the aggregate risk in the credit union Systems.

o) Assets acquired from merger/dissolution of credit unions

Loans and real property acquired as a result of merger or dissolution proceedings are recorded at estimated net realizable value.

p) Taxation

Income tax expense represents the sum of the current tax and deferred tax. Tax is recognized as an expense or recovery in net income except to the extent that it relates to items that are recognized outside net income.

i. Current income tax

Current income tax is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. DGCM's current tax liabilities are measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates that have been enacted or substantively enacted at the balance sheet date.

ii. Deferred tax

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in its subsidiary except where it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which DGCM expects, at each balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and DGCM intends to settle its current tax assets and liabilities on a net basis.

q) Changes in accounting policies

IFRS 9 – *Financial Instruments*

As of January 1, 2018, DGCM has adopted IFRS 9 which replaces IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 was completed in three separate phases:

- Classification and measurement: This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- Impairment methodology: This phase replaces the incurred loss model for impairment of financial assets with an expected credit loss model.
- Hedge accounting: This phase replaces the rule-based hedge accounting requirements with guidance that more closely aligns the accounting with an entity’s risk management activities.

DGCM has elected to not restate its comparative financial information for the effect of applying IFRS 9, as permitted by the transitional provisions within IFRS 9. The cumulative impact of applying IFRS 9 is recognized as an adjustment to the current period’s opening retained earnings and comparative information continues to be presented in accordance with IAS 39.

The table below summarizes the reclassification of financial instruments in transitioning from IAS 39 to IFRS 9.

Financial Instrument	IAS 39 Classification	IFRS 9 Classification
Cash	Loans and receivables	Amortized cost
Fixed income investments	Available-for-sale	FVTOCI (Debt Instruments)
Equity investments	Available-for-sale	FVTOCI (Equity Instruments)
Derivative assets	FVTPL	FVTPL
Assessments receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The application of the ECL reclassified $35 of AOCI to retained earnings. This reclassification had no impact on the net fair value measurement of the underlying asset or the statement of financial position.

DGCM has adopted the hedge accounting requirements of IFRS 9. Certain derivative instruments have been designated as hedging instruments to avoid an accounting mismatch between derivative instruments and associated equity investments. Application of IFRS 9 hedge accounting requirements had no impact on DGCM.

IFRS 15 – *Revenue from Contracts with Customers*

As of January 1, 2018, DGCM has adopted IFRS 15 which provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers (credit union assessments) and related costs.

The adoption of this standard did not have a significant impact on DGCM's consolidated financial statements.

r) New standards and interpretations not yet adopted

IFRS 16 – *Leases*

In January 2017, the IASB issued IFRS 16 – *Leases* which requires a lessee to recognize a right-of-use (ROU) asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the ROU asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. The standard is effective for annual reporting periods beginning on or after January 1, 2019. DGCM is anticipating the impact of IFRS 16 upon transition is the recognition of approximately $882 in ROU assets and lease liabilities at January 1, 2019. DGCM has elected to apply the standard using the modified retrospective approach where comparative figures are not restated and the ROU asset is equal to the lease liability at the date of transition.

4 Critical accounting judgments and key sources of estimation uncertainty

In the application of DGCM's accounting policies, which are described in Note 3, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a) Critical judgments in applying accounting policies

Prior to January 1, 2018, there are no critical judgments, apart from those involving estimations, that management has made in the process of applying DGCM's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

From January 1, 2018, judgement is made on the classification of financial assets, significantly affecting the amount recognized in the consolidated financial statements.

Within DGCM's classification of financial assets, the business model within which the assets are held and whether the contractual terms of the financial assets are solely payments of principal and interest on the principal amount outstanding are assessed.

There are no other critical judgments, apart from those involving estimations, that management has made in the process of applying DGCM's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i. Provision for financial assistance to credit unions

- Individual provisions for credit union assistance

  Individual provisions and contingencies for financial assistance are recognized in accordance with IFRS. The process defined below will be applied quarterly at minimum, and more frequently if required. Credit union analysis will consider:

  - an individual credit union's risk rating as established by DGCM
  - an individual credit union's financial strength, including capital strength to absorb potential losses and earning trends
  - whether a credit union appears to have appropriately valued assets
  - whether levels of collective and individual allowances appear reasonable
  - provisions and contingencies related to assisted mergers and arrangements

  DGCM has determined that there are no individual provisions for credit union assistance required.

- Collective provision for credit union assistance

  The collective accrual for financial assistance is based on five-year, ten-year, and twenty-year averages of loss experience and other components that consider capital shortfalls and insufficient capital levels. This will include management's judgment based on historical information and other factors.

  In addition, a collective provision may be deemed necessary based on DGCM's best estimate of current aggregate risk to DGCM as determined by evaluating the following conditions:

  - market and economic conditions
  - credit union analysis
  - historic loss experience

  DGCM has determined that there is no collective provision for credit union assistance required.

ii. Estimates of fair values

Financial instrument carrying values reflect the prevailing market and the liquidity premiums embedded within the market pricing methods DGCM relies upon.

Fair values of marketable investments classified as FVTOCI are determined with reference to quoted market prices, within the bid/ask spread, primarily provided by third party independent pricing sources. Where prices are not quoted in a normally active market, fair values are determined by valuation models. DGCM maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring value. DGCM obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure marketable securities and other investments at fair value.

iii. Impairment of financial instruments

From January 1, 2018, the assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. DGCM's investment policy statement requires FVOCI debt instruments to be of investment grade, with a credit rating of BBB or higher. Credit risk increases significantly for FVOCI debt instruments falling below investment grade. Credit ratings for FVOCI debt instruments is monitored on a daily basis.

5 Cash

Cash includes cash on hand, and current accounts with CUCM, CIBC Mellon, and Scotiabank. Cash at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

As at December 31	2018	2017
Cash on hand	1	1
CUCM	1,092	811
Scotiabank	1	1
CIBC Mellon	493	691
	1,587	1,504

6 Investments

Investments include fixed income investments and equity investments. A summary of investments as reflected in the consolidated statement of financial position is as follows:

As at December 31	2018	2017
Fixed income investments		
GICs	9,872	9,939
Treasury bills	38,545	51,086
Government bonds	146,882	144,102
Corporate bonds	62,192	42,691
	257,491	247,818
Equity investments		
Canadian equities	15,949	15,074
Global equity funds (net of forward contracts)	14,717	13,934
Global bond funds (net of forward contracts)	15,384	14,390
Canadian real estate	15,896	7,822
CUCM and Concentra Shares	72	72
	62,018	51,292
	319,509	299,110

a) Assets pledged as security

GICs with CUCM with a carrying amount of $10,000 (2017: $10,000) have been pledged to secure an operating line of credit for DGCM. The pledge agreement is renewed annually. DGCM is not permitted to pledge these assets as security for other borrowings or to sell them to another entity.

7 Assessments receivable

Assessments receivable refer to the outstanding balance, owed by credit unions, for the fourth quarter assessment, or any special assessment, charged by DGCM. Significantly all of the outstanding balances are collected within 31 days of year-end.

As at December 31	2018	2017
Assessments receivable	5,766	5,481

8 Income taxes

a) Income tax recognized in net income

Year ended December 31	2018	2017
Current tax		
Current tax expense in respect of the current year	75	76
Adjustments recognized in the current year in relation to the current tax of previous year	-	-
	75	76
Deferred tax		
Deferred tax expense (recovery) recognized in the current year	(6)	(182)
Total tax expense (recovery) relating to continuing operations	69	(106)

The expense for the year can be reconciled to the accounting income as follows:

Year ended December 31	2018	2017
Income from continuing operations	22,513	19,814
Income tax expense at statutory rate	2,364	2,080
Non-taxable credit union assessments	(2,364)	(2,262)
Non-deductible operating expenses	2	-
Change in income tax rates	(8)	-
Foreign withholding taxes	75	76
Adjustments recognized in the current year in relation to the current tax of previous years	-	-
	69	(106)
Adjustments recognized in the current year in relation to the deferred tax of prior years	-	-
Income tax expense (recovery) recognized in net income	69	(106)

The tax rate used for the 2018 and 2017 reconciliations above is the corporate rate of 10.5% and 10.5% respectively payable on taxable income under tax law in Manitoba.

b) Income tax recognized in other comprehensive income

Year ended December 31	2018	2017
Deferred tax		
Fair value re-measurement of FVTOCI financial assets	(177)	(9)
Total income tax recovery recognized in other comprehensive income	(177)	(9)

c) Current tax assets and liabilities

As at December 31	2018	2017
Current tax assets		
Tax refund receivable	-	-
Current tax liability		
Income tax payable	-	-
	-	-

d) Deferred tax balances

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

As at December 31	2018	2017
Deferred tax assets	723	537
Deferred tax liability	-	-

2017	Opening balance	Recognized in net income	Recognized in Other Comprehensive Income	Closing balance
Deferred tax assets/ (liabilities) in relation to:				
Property and equipment	(4)	2	-	(2)
Defined benefit obligation	64	(3)	-	61
Loss carryforwards	275	184	-	459
FVTOCI financial assets	(12)	-	31	19
	323	183	31	537
Tax losses	-	-	-	-
Other	-	-	-	-
	323	183	31	537

2018	Opening balance	Recognized in net income	Recognized in Other Comprehensive Income	Closing balance
Deferred tax assets/ (liabilities) in relation to:				
Property and equipment	(2)	2	-	-
Defined benefit obligation	61	(6)	-	55
Loss carryforwards	459	(2)	-	457
FVTOCI financial assets	19	-	177	196
	537	(6)	177	708
Tax losses	-	-	-	-
Other	-	-	15	15
	537	(6)	192	723

9 Other assets

Other assets include prepaid expenses, accounts receivable, employee loans, and property and equipment. A summary of other assets as reflected in the consolidated statement of financial position is as follows:

As at December 31	2018	2017
Prepaid expenses	62	51
Employee loans	1	4
Property and equipment	133	197
	196	252

10 Accounts payable and accrued liabilities

Accounts payable are outstanding invoices to vendors, payable upon receipt. Insured savings accounts are deposits acquired through mergers of credit unions. Accrued liabilities refer to obligations to vendors where no invoice has been received.

As at December 31	2018	2017
Accounts payable	53	74
Insured savings accounts	22	13
Accrued liabilities	321	286
	396	373

11 Post-employment plans

a) Defined contribution plans

DGCM contributes to two defined contribution retirement benefit plans for all qualifying employees. These benefit plans are operated by the Co-operative Superannuation Society and Great-West Life Assurance Company. DGCM is required to match employee's contributions of a specified percentage of earnings to the benefit plans. The only obligation of DGCM with respect to the retirement benefit plans is to make specified contributions.

The total expense recognized in the income statement of $168 (2017: $175) represents contributions payable to these plans by DGCM at rates specified in the rules of the plans. As at December 31, 2018, all contributions due in respect of the 2018 and 2017 reporting periods had been remitted to the plans.

b) Defined benefit plan

DGCM operates an unfunded defined benefit plan, referred to as a retirement allowance, for qualifying employees. Under the plan, employees are entitled to a one-time retirement benefit varying between 17% and 50% of the final salary on attainment of a minimum retirement age of 55. No other post-retirement benefits are provided to these employees.

This benefit is self-insured, with no plan texts between DGCM and any third-party. The benefit exists outside the scope of provincial and federal legislation, and is not subject to any regulatory framework. DGCM is solely responsible for the governance of the benefit.

The risks associated with the benefit are strictly financial in nature, primarily driven by any concentration in age groups of employees. Current evaluations show no material concentration of age groupings at December 31, 2018.

The most recent actuarial valuation of the defined benefit obligation was carried out in October 2018 by Eckler Ltd. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

As at December 31	2018	2017
Discount rates	3.80%	3.25%
Expected rates of salary increase	2.75%	3.00%
Assumed retirement age	62	62

Amounts recognized in net income in respect to this defined benefit plan are as follows:

Year ended December 31	2018	2017
Current service cost	57	61
Actuarial (gains) losses recognized in the year	(78)	(70)
Past service costs	-	-
Interest costs	17	20
	(4)	11

Actuarial gains and losses, and service costs, including curtailments and settlements, are recognized immediately through net income, and recorded in salaries and employee benefits in the schedule of consolidated operating expenses.

The amount included in the statement of financial position arising from DGCM's obligation in respect of its defined benefit plan is the present value of the unfunded defined benefit obligation.

Movements in the present value of the defined benefit obligation in the current period were as follows:

Year ended December 31	2018	2017
Opening defined benefit obligation	585	574
Current service cost	57	61
Actuarial (gains) losses recognized in the year	(78)	(70)
Past service costs	-	-
Interest costs	17	20
Benefits paid	(55)	-
Closing defined benefit obligation	526	585

DGCM does not hold plan assets to offset the defined benefit obligation. Funding is provided from cash accounts to pay benefits over a period of up to 24 months following employee retirement.

The maturity profile of the obligation is outlined as follows:

As at December 31	2018	2017
Within one year	76	54
Later than one year and not later than five years	297	255
Later than five years	153	276
	526	585

12 Contingent liabilities

As at December 31, 2018, DGCM guaranteed $28.8 billion (2017: $27.4 billion) in credit union deposits. Based on its ongoing monitoring procedures, DGCM has concluded that a provision for such contingencies does not need to be established at this time.

As at December 31, 2018, DGCM has provided a loan indemnification with a maximum exposure of $415 (2017: $480). DGCM has concluded that a provision for loss does not need to be established at this time.

13 Revenue

Year ended December 31	2018	2017
Assessments		
Regular assessments	22,513	21,542
Investment income		
Interest income – loans and receivables	93	43
Interest income – FVTOCI	4,579	2,533
Dividend income – FVTOCI	1,487	970
Realized gains and losses on disposal of marketable investments	(870)	370
Unrealized and realized gains and losses on foreign exchange	(175)	(298)
Impairment loss on investments	(5)	-
	5,109	3,618
	27,622	25,160

For the year ended, December 31, 2018, DGCM disposed of $3,629 of FVTOCI equity instruments, resulting in a cumulative realized gain of $99 on disposal. FVTOCI equity instruments are disposed of for the purpose of recalibrating the investment portfolio, to match the target asset mix of the Investment Policy Statement, on a quarterly basis.

14 Operating expenses

Year ended December 31	2018	2017
Corporate governance	162	164
Salaries and benefits	3,386	3,475
Contract and professional fees	407	384
CUCM program funding	229	274
Occupancy	438	430
Administration	210	363
Travel	200	180
Other	77	76
	5,109	5,346

15 Financial instruments

a) Class disclosure

The following is the disclosure of financial assets by class:

As at December 31	2018	2017
Amortized Cost		
Cash	1,587	1,504
Assessments receivable	5,766	5,481
Prepaid expenses and employee loans	63	55
	7,416	7,040
FVTOCI		
Fixed income investments	257,491	247,818
Equity investments	62,018	51,292
	319,509	299,110
	326,925	306,150

The following is the disclosure of financial liabilities by class:

As at December 31	2018	2017
Amortized Cost		
Accounts payable and accrued liabilities	396	373

b) Capital risk management

DGCM manages its capital to maintain a capital structure that provides the flexibility to provide liquidity to support its obligation to guarantee deposits in credit unions.

The capital structure consists of DGCM equity. In order to maintain or adjust its capital structure, DGCM has a $10,000 line of credit agreement with CUCM. The facility bears an interest rate of 3.75%, payable on demand, subject to annual review on or before March 31, 2019.

DGCM's capital management objective is to maintain total equity (retained earnings and accumulated other comprehensive income) within a range of 105 to 130 basis points (bps) of deposits in credit unions. This equity target range has been approved by the Superintendent of Financial Institutions Regulations Branch. The Board of Directors reviews DGCM's equity position quarterly to ensure prudent positioning within the target range. Where the aggregate shortfall of credit union capital exceeds one-sixteenth of one percent of total deposits and accrued interest, DGCM shall net the shortfall against its equity for this calculation.

c) Financial risk management

DGCM is exposed to risks of varying degrees of significance which could affect its ability to support its obligation to guarantee deposits in credit unions. The main objectives of DGCM's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which DGCM is exposed include interest rate risk, credit risk, liquidity risk, equity price risk, and currency risk.

DGCM seeks to minimize the effects of these risks by utilizing a conservative investment policy. The investment policy contains written principles, addressing interest rate risk, credit risk, liquidity risk, equity price risk, and currency risk. The investment policy is approved by the Registrar, in compliance with subsection 144(h) of *The Act.* Compliance with policy is monitored by the external investment manager on a continuous basis.

The Finance department reports quarterly to the Board of Directors on policy compliance and risk exposures.

i. Interest rate risk management

DGCM is exposed to fluctuations in interest rates that could affect the cash flows from GICs and marketable investments at the time of maturity and reinvestment of individual instruments. These fluctuations could affect the fair values of financial assets and liabilities, and DGCM's ability to support its obligation to guarantee deposits in credit unions.

To manage interest rate risk, DGCM's investment policy restricts the concentration (asset mix) of segregated and pooled fixed income investments within the portfolio. As well, the aggregate duration of segregated and pooled fixed income investments to within 0.25 years of respective benchmark indices, as noted below.

Asset class	Maximum asset mix	Benchmark index
GICs	5.00%	Laddered 1-5 year certificates
Government bonds	59.38%	FTSE TMX Short Term Government Bond
Corporate bonds	25.00%	FTSE TMX All Corporate Bond
Global bonds	6.25%	Barclays Global Aggregate Bond (CDN $)

To further mitigate interest rate risk, the policy permits the allocation of some or all of the portfolio into cash and short-term investments with an aggregate duration within 0.10 years of the FTSE TMX Canada 91-day T-Bills Index for protection from loss of principal and ensure sufficient cash is held to finance the operations of DGCM.

DGCM may use derivative financial instruments to manage interest rate risk. No derivative financial instruments were used during the year for this purpose.

- Interest rate sensitivity analysis

  The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. A 50 bps increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

  If interest rates had been 50 bps higher/lower and all other variables were held constant, DGCM's:

  - net income for the year ended December 31, 2018, would increase/decrease by $185/$182 (2017: increase/decrease by $218/$214). This is attributable to DGCM's exposure to interest rates on current accounts and maturing investments, and
  - other comprehensive income for the year would decrease/increase by $4,633 (2017: decrease/increase by $3,930) mainly as a result of the changes in the fair value of FVOCI fixed rate instruments.

ii. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to DGCM. DGCM's exposure to credit risk consists principally of:

- fixed income investments with Canadian federal, provincial and municipal governments, and corporations
- equity investment in global bond funds

- derivative instruments for hedging purposes
- GICs with CUCM
- assessments receivable from credit unions

Measures are taken to mitigate each exposure to credit risk:

- DGCM's investment policy only permits holding marketable investment-grade (BBB or higher) fixed income investments. Ratings are determined by independent rating agencies. Credit risk exposure is limited to that contained within respective benchmark indices.
- Credit risk with derivative instruments is evaluated quarterly. It is DGCM's practice to transact in derivatives only with the most creditworthy financial intermediaries.
- DGCM's policy is to limit investments in CUCM, to those, pledged as security for the line of credit agreement ($10,000 as at December 31, 2018).
- DGCM monitors the financial strength of individual credit unions on a monthly basis.

Assessments receivable from credit unions are unrated. Significantly all of the outstanding balances are collected within 31 days of year-end. Historically, DGCM has not experienced bad debts related to any of these counterparties.

The table below shows the credit risk exposure of fixed income investments and global bond funds, by credit rating, at the end of the reporting period using DBRS' credit rating symbols:

As at December 31	2018	2017
Credit rating		
AAA	155,684	165,663
AA	54,864	38,600
A	27,412	28,009
BBB	25,043	19,997
	263,003	252,269
Unrated		
CUCM GICs	9,872	9,939
	272,875	262,208

The table below shows the credit risk exposure of investments, by issuer, at the end of the reporting period:

As at December 31	2018	2017
Government	196,760	205,516
Corporate	76,115	56,692
	272,875	262,208

DGCM incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from economic experts and consideration of a variety of external actual and forecast information, DGCM formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and Bank of Canada, forecasts by large Canadian banks and financial institutions and other selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by DGCM for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and pessimistic outcomes.

DGCM has identified and documented key drivers of credit risk and credit losses for the portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2018 included the following Canadian key indicators.

- National unemployment rates;
- National gross domestic product;
- Bank of Canada overnight rate target;
- National annual housing starts; and
- West Texas Intermediate oil prices.

Predicted relationships between key indicators and default and loss rates on financial assets have been developed based on analysing historical data over the past 10 years.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default;
- Loss given default; and
- Exposure at default.

These parameters are derived from external benchmark information derived from Moody's Annual Default Study.

The following table shows reconciliations from the opening to the closing balance of the 12-month ECL allowance for impairment for debt investment securities at FVOCI, net of tax (2017: debt AFS investment securities).

	2018	2017
Balance at January 1 per IAS 39	-	-
Adjustment on initial application of IFRS 9	35	-
Balance at January 1 per IFRS 9	35	-
Remeasurement of loss allowance, net of purchases and disposals	5	-
Balance at December 31	40	-

iii. Liquidity risk management

Liquidity risk is the risk of having insufficient financial resources to meet DGCM's cash and funding requirements in support of the guarantee of deposits in credit unions. DGCM's approach to manage its liquidity risk is to ensure, as far as possible, that it will have cash, demand and GICs, and marketable investments which meet its annual capital target.

Management expects that DGCM's principal sources of funds will be cash generated from credit union regular assessments and interest earned on its investments to support its financial obligation to guarantee deposits in credit unions.

A $10,000 line of credit is secured with CUCM to meet any short-term deficiencies in regular assessments and interest earned.

In the event that the investment portfolio must be drawn upon, DGCM's policy is that at least 92.5% of the portfolio is tradeable in major Canadian and American bond and equity markets. Redemptions on the residual balance can be made on a quarterly basis.

The following table details DGCM's expected maturity for its segregated debt instrument financial assets and financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial assets and financial liabilities including interest that will be earned on those assets and liabilities. Excluded from the table below are Canadian and US equities totaling $46,634 (2017: $36,902).

As at December 31	2018	2017
Financial assets		
Under one year	42,278	56,917
One to five years	195,619	182,001
Five to ten Years	14,040	12,533
Ten to twenty years	9,512	4,751
Over twenty years	13,013	7,510
	274,462	263,712

Financial liabilities

All financial liabilities are due within one year.

iv. Equity price risk management

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets and other pricing risk.

To manage equity price risk, DGCM's investment policy restricts the concentration (asset mix) of equity-based investments within the portfolio, and ensure they are passively managed against established diversified indices, as noted in the table below.

Asset class	Maximum asset mix	Benchmark index
Canadian Equities	6.25%	S&P/TSX Composite Index
Global Equities	6.25%	MSCI World Index (CDN $)

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact asset cash flows. A 10% increase/decrease on equity market prices would increase/decrease other comprehensive income by $2,745 (2017: $2,588).

v. Currency risk management

Currency risk relates to DGCM holding financial instruments in different currencies. Changes in foreign exchange rates can expose DGCM to the risk of foreign exchange losses. DGCM has investments in investments denominated in U.S. dollars. In accordance with IFRS, foreign currency translation gains and losses from these investments, net of hedging activities and tax effects, are recorded in net income. A 10% weakening or strengthening of the Canadian dollar would not have a material impact on net income or total comprehensive income as DGCM uses derivative financial instruments to manage currency risk.

vi. Fair value of financial instruments

Fair value of financial instruments carried at amortized cost

DGCM considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the financial statements approximate their fair values.

Valuation techniques and assumptions applied for the purposes of measuring fair value

DGCM has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and financial liabilities measured at fair value on a recurring basis on the balance sheet are categorized as follows:

Level 1: Fair value measurements utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that DGCM has the ability to access. Assets utilizing Level 1 inputs include cash, treasury bills, Canadian equities exchange traded funds (ETFs), and global equities and bond ETFs.

Level 2: Fair value measurements utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 assets include government bonds and corporate bonds, which use quoted prices for similar assets and liabilities in active markets as inputs for valuation. Level 2 assets also include GICs, which use interest rates and yield curves that are observed at commonly quoted intervals as inputs for valuations.

Level 3: Fair value measurements utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. Level 3 assets include a Canadian real estate fund, which is valued primarily based on the discounted cash flow approach, however direct capitalization and comparable sale methodologies are also employed, where appropriate. Level 3 assets also include shares held with CUCM and Concentra, which are held at cost, representing fair value at the end of the reporting period.

The following table presents DGCM's assets and liabilities that are carried at fair value on a recurring basis.

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Cash	1,504	-	-	1,504
Fixed income investments				
GICs	-	9,939	-	9,939
Treasury bills	51,086	-	-	51,086
Government bonds	-	144,102	-	144,102
Corporate bonds	-	42,691	-	42,691
Equity investments				
Canadian equities	15,074	-	72	15,146
Global equity funds	13,934	-	-	13,934
Global bond funds	14,390	-	-	14,390
Canadian real estate	-	-	7,822	7,822
Total assets measured at fair value on a recurring basis	95,988	196,732	7,894	300,614

As at December 31, 2018	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Cash	1,587	-	-	1,587
Fixed income investments				
GICs	-	9,872	-	9,872
Treasury bills	38,545	-	-	38,545
Government bonds	-	146,882	-	146,882
Corporate bonds	-	62,192	-	62,192
Equity investments				
Canadian equities	15,949	-	72	16,021
Global equity funds	14,717	-	-	14,717
Global bond funds	15,384	-	-	15,384
Canadian real estate	-	-	15,896	15,896
Total assets measured at fair value on a recurring basis	86,182	218,946	15,968	321,096

There were no transfers of DGCM's assets between Level 1 and Level 2 in the year.

Liabilities measured at fair value

There are no liabilities carried at fair value on a recurring basis.

The following table presents additional information about assets measured at fair value on a recurring basis and for which DGCM has utilized Level 3 inputs to determine fair value:

2017	Canadian real estate	CUCM and Concentra shares
Balance, beginning of year	-	72
Total gains	515	-
Purchases	7,307	-
Sales	-	-
Other	-	-
Balance, end of year	7,822	72
Total gains for the year included in investment income	90	-
Change in unrealized gains for the year included in earnings for assets held at December 31, 2017	425	-

2018	Canadian real estate	CUCM and Concentra shares
Balance, beginning of year	7,822	72
Total gains	1,540	-
Purchases	6,534	-
Sales	-	-
Other	-	-
Balance, end of year	15,896	72
Total gains for the year included in investment income	433	-
Change in unrealized gains for the year included in earnings for assets held at December 31, 2018	1,107	-

The following table sets out information about significant unobservable inputs used at year-end in measuring assets and liabilities categorized as Level 3 in fair value hierarchy:

Type of asset	**Canadian real estate**	**CUCM and Concentra shares**
Valuation approach	Property valuations are generally determined using models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	CUCM and Concentra shares have been held in excess of 35 years, to support co-operative resources for Manitoba credit unions. The shares do not have an active market and cannot be readily disposed of. As a result, the shares are valued at original cost.
Significant unobservable inputs	Discount rate Reversionary rate Vacancy rate	None
Input values	Discount range 3.75%-10% Reversionary range 3.25%-9% Vacancy weighted average 4.5%	None
Inter-relationship between key inputs and fair value measurement	A decrease/increase in the discount rate would result in an increase/decrease in fair value. A decrease/increase in the reversionary rate would result in an increase/decrease in fair value. A decrease/increase in the expected vacancy rate would generally result in an increase/decrease in fair value.	None

vii. Derivative financial instruments

In the normal course of managing exposure to fluctuations in foreign exchange rates, DGCM is an end-user of forward contracts. Forward contracts are for three-months, with successive renewals upon maturity, to match the existing currency risk exposure. These forward contracts are designated as accounting hedges.

As at December 31, 2018, DGCM had forward contracts with a negative FMV of $367 (2017: positive $635). The notional value of the contracts was $25,102 (2017: $23,103). The counterparty of forward contracts is JP Morgan Chase Bank, New York. The maturity date of the contracts is March 21, 2019.

16 Other Comprehensive Loss

The reconciliation of movements in the investment revaluation reserve for years 2018 and 2017 is presented below:

Year ended December 31	2018	2017
Items that may be reclassified subsequently to net income		
Unrealized gains on available-for-sale assets	-	82
Income tax expense	-	(9)
Realized gains on available-for-sale assets	-	(370)
Income tax expense	-	40
Unrealized losses on FVTOCI debt instruments	(244)	-
Income tax recovery	25	-
Realized losses on FVTOCI debt instruments	869	-
Income tax expense	(91)	-
Total items that may be relcassified	559	(257)
Items that will not be reclassified subsequently to net income		
Unrealized losses on FVTOCI equity instruments	(2,313)	-
Income tax recovery	243	-
Total items that will not be reclassified	(2,070)	-
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX	(1,511)	(257)

17 Related party transactions

a) Loans to related parties

Key management personnel are defined as the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, and Chief Operations Officer.

DGCM provides interest free loans to employees for:

- medical equipment not covered under the insured benefits package and necessary for effective performance of their duties
- computer equipment for the employee’s own use and consistent with the technology utilized by DGCM

The maximum loan size is $8, repayable by payroll deduction over a maximum period of three years.

Outstanding loans to key management personnel at the end of 2018 was $1 (2017: nil).

b) Compensation of key management personnel

The remuneration of key management personnel is determined by the Board of Directors. The aggregate remuneration of key management personnel during the year was as follows:

Year ended December 31	2018	2017
Salaries	858	833
Short-term benefits	35	33
Post-employment benefits	78	55
	971	921

c) Board members' remuneration and expenses

The remuneration of the Board of Directors is determined by the Lieutenant Governor in Council. The remuneration of board members during the year was as follows:

Year ended December 31	2018	2017
Board member remuneration	111	114
Expenses	51	50
	162	164

18 Operating lease arrangements

a) Lease arrangements

DGCM is the lessee on an operating lease related to a five-year agreement for office space. This agreement expires on December 31, 2023. DGCM does not have the option to renew the lease.

DGCM is the lessee on an operating lease related to a month-to-month agreement for a disaster recovery backup site. There is no expiry date on this lease agreement.

DGCM is the lessee on operating leases related to four-year agreements for two corporate vehicles. The leases will expire February 6, 2020 and February 22, 2021. DGCM has the option to purchase the leased vehicles.

b) Payments recognized as an expense

DGCM recognized $199 (2017: $193) in lease payments for the year.

c) Non-cancellable operating lease commitments

As at December 31	2018	2017
No later than one year	200	195
Later than one year and not later than five years	756	28
Later than five years	187	-
	1,143	223

No liabilities have been recognized in respect of non-cancellable operating lease commitments.

The Public Interest Disclosure (Whistleblower Protection) Act

The Deposit Guarantee Corporation of Manitoba (DGCM) is designated as a government body for purposes of *the Public Interest Disclosure (Whistleblower Protection) Act (the Act). The Act* requires that government bodies disclose, in their annual reports, any activities regulated by this legislation.

The Act came into effect in April 2007. This law gives employees a clear process for disclosing concerns about significant and serious matters (wrongdoing) in the Manitoba public service sector, and strengthens protection from reprisal. *The Act* builds on protections already in place under other statutes, as well as collective bargaining rights, policies, practices and processes in the Manitoba public service.

Wrongdoing under *the Act* may be: contravention of federal or provincial legislation; an act or omission that endangers public safety, public health, or the environment; gross mismanagement; or, knowingly directing or counseling a person to commit a wrongdoing. *The Act* is not intended to deal with routine operational or administrative matters.

A disclosure made by an employee in good faith, in accordance with *the Act*, and with a reasonable belief that wrongdoing has been or is about to be committed is considered to be a disclosure under *the Act,* whether or not the subject matter constitutes wrongdoing. All disclosures receive careful and thorough review to determine if action is required under *the Act*, and must be reported in a department's annual report in accordance with Section 18 of *the Act*.

The following is a summary of disclosures received by DGCM for the fiscal year ended December 31, 2018:

Information Required Annually (per Section 18 of *the Act*)	Fiscal Year 2018
The number of disclosures received, and the number acted on and not acted on. Subsection 18(2)(a)	Nil
The number of investigations commenced as a result of a disclosure. Subsection 18(2)(b)	Nil
In the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations or corrective actions taken in relation to the wrongdoing, or the reasons why no corrective action was taken. Subsection 18(2)(c)	Nil