

**Community Credit Union of
Cumberland Colchester Limited**

Financial Statements
December 31, 2019



Independent auditor's report

To the Members of Community Credit Union of Cumberland Colchester Limited

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Community Credit Union of Cumberland Colchester Limited (the Credit Union) as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Credit Union's financial statements comprise:

- the statement of financial position as at December 31, 2019;
- the statement of changes in members' equity for the year then ended;
- the statement of income and comprehensive income for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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 the Credit Union'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 the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union'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 generally accepted auditing standards 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 generally accepted auditing standards, 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 the Credit Union'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 the Credit Union'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 the Credit Union 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
April 20, 2020

Community Credit Union of Cumberland Colchester Limited


Statement of Financial Position

As at December 31, 2019

(expressed in Canadian dollars)

	2019 \$	2018 \$
Assets (note 10)		
Cash resources	2,739,217	825,793
Interest bearing deposits	9,333,749	14,703,786
Other assets and prepaid expenses (note 5)	1,375,427	463,595
Members' loans		
Mortgage	50,101,020	45,568,224
Personal	11,172,239	11,664,845
Commercial loans and mortgages	23,239,431	19,660,770
Accrued interest	115,113	107,728
	<u>84,627,804</u>	<u>77,001,567</u>
Allowance for credit losses (note 6)	<u>(243,294)</u>	<u>(159,287)</u>
	<u>84,384,510</u>	<u>76,842,280</u>
Long-term investments (note 7)	1,803,668	1,836,709
Intangible assets subject to amortization (note 8)	420,025	515,509
Property and equipment (note 9)	3,683,094	2,970,214
Deferred income tax asset (note 21)	<u>60,000</u>	<u>23,000</u>
	<u>103,799,690</u>	<u>98,180,886</u>
Liabilities		
Bank indebtedness (note 10)	310,064	741,997
Lease liabilities (note 11)	1,018,097	-
Accounts payable and accrued liabilities	557,936	501,419
Members' deposits		
Savings and chequing	66,558,131	68,443,055
Term deposits	29,741,387	22,284,650
Accrued interest	214,693	194,125
	<u>96,514,211</u>	<u>90,921,830</u>
Members' shares (note 12)	<u>30,788</u>	<u>31,380</u>
Members' Equity	<u>5,368,594</u>	<u>5,984,260</u>
	<u>103,799,690</u>	<u>98,180,886</u>
Commitments and contingencies (note 15)		

Approved by the Board of Directors

 Director

 Director

The accompanying notes form an integral part of these financial statements.

Community Credit Union of Cumberland Colchester Limited

Statement of Changes in Members' Equity

For the year ended December 31, 2019

(expressed in Canadian dollars)

	Retained earnings \$	Surplus shares \$ (note 13)	Total equity \$
Balance – January 1, 2018	5,137,806	781,966	5,919,772
Net income and comprehensive income for the year	100,239	-	100,239
Decrease in surplus shares	-	(35,751)	(35,751)
Balance – December 31, 2018	<u>5,238,045</u>	<u>746,215</u>	<u>5,984,260</u>
Net loss and comprehensive loss for the year	(586,286)	-	(586,286)
Decrease in surplus shares	-	(29,380)	(29,380)
Balance – December 31, 2019	<u>4,651,759</u>	<u>716,835</u>	<u>5,368,594</u>

The accompanying notes form an integral part of these financial statements.

Community Credit Union of Cumberland Colchester Limited

Statement of Income and Comprehensive Income

For the year ended December 31, 2019

(expressed in Canadian dollars)

	2019	2018
	\$	\$
Interest income		
Members' loans	3,475,575	3,348,285
Investments and deposits	255,781	179,697
	<u>3,731,356</u>	<u>3,527,982</u>
Interest expense		
Members' deposits	651,778	548,888
Interest on lease liabilities	40,414	-
	<u>692,192</u>	<u>548,888</u>
Net interest income	3,039,164	2,979,094
Fees and commission income (note 16)	1,496,361	1,325,770
Provision for loan losses (note 6)	(219,107)	(7,874)
Net interest and other income	<u>4,316,418</u>	<u>4,296,990</u>
Operating expenses		
Salary and employee benefits	1,696,840	1,706,457
General and administrative (note 17)	2,243,869	1,795,744
Occupancy (note 17)	253,646	272,112
Members' security (note 17)	122,230	116,933
Impairment loss on assets (notes 8 and 9)	215,533	-
Depreciation	447,052	285,273
	<u>4,979,170</u>	<u>4,176,519</u>
(Loss) income before income taxes	<u>(662,752)</u>	<u>120,471</u>
Provision for (recovery of) income taxes (note 21)		
Current	(39,466)	25,232
Deferred	(37,000)	(5,000)
	<u>(76,466)</u>	<u>20,232</u>
Net (loss) income and comprehensive (loss) income for the year	<u>(586,286)</u>	<u>100,239</u>

The accompanying notes form an integral part of these financial statements.

Community Credit Union of Cumberland Colchester Limited

Statement of Cash Flows

For the year ended December 31, 2019

(expressed in Canadian dollars)

	2019 \$	2018 \$
Cash provided by (used in)		
Operating activities		
Net (loss) income and comprehensive (loss) income for the year	(586,286)	100,239
Charges (credits) to income not involving cash		
Depreciation of property and equipment	374,568	216,937
Amortization of intangible assets	72,484	68,336
Impairment loss on assets	215,533	-
Interest on lease liabilities	40,414	-
Provision for loan losses	109,534	7,874
Provision for foreclosed properties	109,573	-
Recovery of deferred income taxes	(37,000)	(5,000)
	298,820	388,386
Net change in non-cash working capital balances related to operations		
Decrease (increase) in other assets and prepaid expenses	(161,623)	99,296
Decrease (increase) in accrued interest receivable	(7,385)	10,667
Increase (decrease) in accounts payable and accrued liabilities	56,517	(316,481)
Increase (decrease) in accrued interest payable	20,568	47,659
	206,897	229,527
Financing activities		
Net increase (decrease) in members' deposits		
Savings and chequing	(1,884,924)	(838,074)
Term deposits	7,456,737	2,152,643
Net decrease in membership shares	(29,977)	(36,636)
Payment of lease liabilities	(150,771)	-
	5,391,065	1,277,933
Investing activities		
Net decrease in other assets - concentra mortgage pool receivable	(750,209)	708,381
Net (decrease) increase in bank indebtedness	(431,933)	741,997
Net decrease (increase) in interest bearing deposits	5,370,037	(6,573,200)
Net decrease (increase) in members' loans	(7,753,950)	3,435,440
Proceeds on sale of foreclosed properties (note 6)	-	283,388
Net decrease (increase) in long-term investments	33,041	(29,220)
Acquisition of intangible assets	-	(50,000)
Purchase of property and equipment	(151,524)	(211,317)
	(3,684,538)	(1,694,531)
Net change in cash resources during the year	1,913,424	(187,071)
Cash resources – Beginning of year	825,793	1,012,864
Cash resources – End of year	2,739,217	825,793
Supplemental cash flow information		
Interest received	3,481,112	3,371,666
Interest paid	631,210	501,229
Income taxes (refund)/paid	(6,532)	27,124

The accompanying notes form an integral part of these financial statements.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

1 General information

Community Credit Union of Cumberland Colchester Limited (“Community Credit Union” or the “credit union”) is incorporated under the *Companies Act* of Nova Scotia and its operations are subject to the Credit Union Act of Nova Scotia. The credit union provides a full range of banking services to its customer-owners in 2 branches in Nova Scotia.

Community Credit Union’s head office is located at 33 Prince Arthur Street, Amherst, Nova Scotia.

These financial statements have been approved for issue by the Board of Directors on April 20, 2020.

2 Changes in accounting policies

The credit union has adopted IFRS 16 – *Leases* from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are recognised in the statement of financial position on January 1, 2019. The impact of this change has resulted in the recognition of right of use assets of \$768,660 and corresponding lease liabilities \$768,660 on January 1, 2019. The new accounting policies are disclosed in note 3.

3 Summary of significant accounting policies

a) Basis of presentation

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The credit union presents its statement of financial position on a non-classified basis in order of liquidity. The following balances are generally considered to be current: cash resources, interest bearing deposits, short-term investments, other assets and prepaid expenses, loans outstanding due within one year, savings and deposits due on demand or within one year, accounts payable and accrued liabilities and income taxes payable.

The credit union classifies its expenses by nature of expenses.

b) Basis of measurement

The financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets and liabilities at fair value through profit or loss (“FVTPL”).

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

c) Foreign currency translation

i) Functional and presentation currency

The functional and presentation currency of the credit union is the Canadian dollar.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in currencies other than the credit union's functional currency are recognised in the statement of income and comprehensive income in fee and commission income.

d) Cash resources

Cash resources include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

e) Interest bearing deposits

Interest bearing deposits consist of deposits held for liquidity purposes with Atlantic Central and other financial institutions and are recorded at amortized cost using the effective interest method.

f) Financial instruments

Financial assets and liabilities

The credit union has applied IFRS 9, Financial Instruments, and classifies its financial instruments in the following measurement categories: FVTPL; fair value through other comprehensive income ("FVOCI"); or amortized cost. Management determines the classification of its financial instruments at initial recognition. The credit union uses trade date accounting for regular way contracts when recording financial asset transactions.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

f) Financial instruments (continued)

Measurement methods

Amortized cost and effective interest rate

Amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition, minus the principal repayments, plus or minus the cumulative amortization, using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any loan loss allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses ("ECLs") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When the credit union revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in net income and comprehensive income.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or "stage 3"), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the ECL provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the credit union measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in net income. At the first reporting date after initial recognition, an ECL allowance is recognised for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in net income and comprehensive income when an asset is originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the difference is deferred and the timing of recognition of deferred income or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs or realized through settlement.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

f) Financial instruments (continued)

Measurement methods (continued)

Classification and subsequent measurement

The credit union classifies its financial assets using the following measurement categories:

- FVTPL; or
- Amortized cost

Assets carried at amortized cost will continue to be measured as outlined in measurement methods above.

Investments

The classification requirements for debt and equity investments are as follows:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective and would include term deposits held by the credit union.

Classification and subsequent measurement of debt instruments depend on the business model for managing the asset and the cash flow characteristics of the asset.

Business model

The business model reflects how the credit union manages the assets in order to generate cash flows. That is, whether the credit union's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the credit union in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Solely payments of principal and interest ("SPPI")

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the credit union assesses whether each financial instrument's cash flows in the portfolio represent SPPI. In making this assessment, the credit union considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

f) Financial instruments (continued)

Investments (continued)

Solely payments of principal and interest ("SPPI") (continued)

Based on these factors, the credit union classifies its debt instruments into one of the following measurement categories:

- Amortized cost: Financial assets that are held for collection of contractual cash flows, where the assets' cash flows represent SPPI and that are not designated at FVTPL, are measured at amortized cost.
- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated at FVTPL, are measured at FVOCI. Changes in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of ECLs, interest revenue and foreign exchange gains and losses on the instrument's amortized cost, which are recognised in net income and comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to net income and comprehensive income.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in net income and comprehensive income and presented in the statement of net income and comprehensive income within "investment income" in the year in which it arises.

The credit union reclassifies debt investments when, and only when, its business model for managing those assets changes. The reclassification takes place from the start of the first reporting year following the change. Such changes are expected to be very infrequent and none have occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. An example of equity instruments include the credit union's investment in shares of Atlantic Central.

The credit union subsequently measures all equity investments at FVTPL, except where the credit union's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to net income, including disposals. Dividends, when representing a return on such investments, continue to be recognised in net income as investment income when the credit union's right to receive payments is established. Gains and losses on equity investments at FVTPL are included in 'investment income' in the statement of income and comprehensive income.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

f) Financial instruments (continued)

Impairment

The credit union assesses on a forward-looking basis ECL associated with its assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The credit union recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events and current conditions. Note 19 provides more detail of how the ECL is measured.

Modification of loans

The credit union sometimes renegotiates or otherwise modifies the contractual cash flows of loans to members. When this happens, the credit union assesses whether or not the new terms are substantially different than the original terms. The credit union does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; or
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the credit union derecognizes the original financial asset, recognizes a new asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the credit union also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed upon payments. Differences in the carrying amount are also recognised in net income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the credit union recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in net income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

f) Financial instruments (continued)

Financial liabilities

The credit union designates members' deposits, accounts payable and secured borrowing as other financial liabilities. In both the current and prior year, other financial liabilities are initially recognised at fair value and subsequently measured at amortized cost using the effective interest method.

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

g) Foreclosed property

In certain circumstances, the credit union takes possession of collateral property as a result of foreclosure on loans that are in default. Foreclosed properties are classified as held-for-sale and are measured at the lower of carrying amount and fair value less costs to sell and are classified within other assets.

h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the credit union and the cost can be measured reliably. Repairs and maintenance costs are charged to other operating expenses during the financial year in which they are incurred.

Land is not depreciated. Depreciation is calculated on a straight-line basis to allocate the asset cost to residual value over their estimated useful lives, as follows:

Buildings	20-40 years
Furniture and equipment	3-5 years
Paving	10-40 years
Right-of-use assets – naming rights	3-10 years

The credit union allocates the amount initially recognised in respect of an item of property and equipment to its significant parts and depreciates each part separately. The useful lives of property and equipment are reviewed, and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

h) Property and equipment (continued)

Gains and losses on disposals of property and equipment are determined by comparing the proceeds to the net book value of the asset and are presented as a gain or loss on disposal in the statement of income and comprehensive income.

Right-of-use assets comprise the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received and any initial direct costs. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

i) Leases

From January 1, 2019, leases are recognised as a right-of-use assets and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payment, less any lease incentives receivable
- Variable lease payments that are based on an index or rate
- Amounts expected to be payable under residual value guarantees
- Payments of penalties for terminating the lease, if the lease term reflects the credit union exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, which is generally the case for leases of the credit union, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The credit union has elected not to separate non-lease components to the right-of-use naming rights and instead account for each lease component and any associated non-lease components as a single lease component.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in income or loss. Short-term leases are leases with a lease term of 12 months or less.

j) Intangible assets

The intangible asset, consisting of a customer list with a finite life is carried at its cost, net of accumulated amortization and any impairment losses. Amortization is provided over its estimated useful life of 10 years on a straight-line basis.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

k) Impairment of non-financial assets

Property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). Recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management). The credit union evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

l) Members' deposits

Members' deposits are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing deposits are stated at amortized cost with any difference between cost and redemption value being recognised in income over the deposit term on an effective interest basis.

m) Revenue recognition

Fee and commission income is recognised on an accrual basis as it is earned.

n) Income taxes

i) Current income taxes

Income taxes payable (receivable) is calculated on the basis of current Canadian tax laws and is recognised as an expense (income) for the year, except to the extent that it relates to items that are recognised in other comprehensive income or directly in equity.

Where the credit union has tax losses that can be relieved against a tax liability for a previous year, it recognizes those losses as an asset, because the tax relief is recoverable by refund of taxes previously paid. This asset is offset against an existing current tax balance.

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are offset against deferred tax liabilities carried in the statement of financial position.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

n) Income taxes (continued)

ii) Deferred income taxes

Deferred income taxes are provided, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and will apply when the related deferred income tax asset or liability are expected to be realized or settled. The principal temporary differences arise from depreciation of property and equipment, investments and allowances for impaired loans. Deferred tax assets are recognised when it is probable that future taxable profit will be available against which these temporary differences can be utilized.

4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the credit union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the year the assumptions changed.

Significant estimates made in the preparation of these financial statements include, but are not limited to the following areas, with further information contained in the applicable accounting policy note.

Measurement of the expected credit loss allowance

The credit union reviews its loan portfolio to assess the ECL allowance for loans on at least a quarterly basis. The measurement of the ECL allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of members defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 19.

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The judgments, inputs, methodology and assumptions used for estimating the ECL allowance are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of equity investments

The equity investments held by the credit union do not have quoted market prices in an active market. For certain shares, fair value is considered to approximate par value based on the terms of those shares. The credit union continues to monitor these shares for any indication that a new measure of fair value is available.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

5 Other assets and prepaid expenses

	2019 \$	2018 \$
Prepaid expenses	113,187	83,212
Accrued interest receivable	1,806	1,815
Rebates and other receivables	11,912	16,495
Concentra mortgage pool receivable	1,110,202	359,993
Foreclosed properties, net of provision of \$109,573 (2018 - \$nil)	103,305	-
Income taxes receivable	35,015	2,080
	1,375,427	463,595

6 Members' loans

At December 31, 2019, loans to members are presented net of allowances for ECLs totalling \$243,294 (2018 - \$159,287). The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the credit union's maximum exposure to credit risk on these assets.

	Stage 1 \$	Stage 2 \$	Stage 3 \$	2019 Total \$
Personal				
Term loan	10,018,229	-	19,416	10,037,645
Line of credit	972,773	-	41,883	1,014,656
Mortgage	49,619,371	591,058	10,529	50,220,958
Business				
Term loan	11,900,106	-	156,861	12,056,967
Line of credit	8,611,139	33,497	13,572	8,658,208
Business	2,524,256	-	-	2,524,256
Accrued interest	115,113	-	-	115,113
Gross carrying amount	83,760,987	624,555	242,261	84,627,803
Loss allowance	(89,948)	-	(153,346)	(243,294)
Carrying amount	83,671,039	624,555	88,915	84,384,509
	Stage 1 \$	Stage 2 \$	Stage 3 \$	2019 Total \$
Personal				
Term loan	10,576,653	6,121	7,148	10,589,922
Line of credit	956,125	18,959	99,839	1,074,923
Mortgage	44,554,501	622,360	391,363	45,568,224
Business				
Term loan	8,775,775	130,067	119,431	9,025,273
Line of credit	2,352,271	39,418	20,332	2,412,021
Business	8,223,476	-	-	8,223,476
Accrued interest	107,728	-	-	107,728
Gross carrying amount	75,546,529	816,925	638,113	77,001,567
Loss allowance	(48,844)	(3,643)	(106,800)	(159,287)
Carrying amount	75,497,685	813,282	531,313	76,842,280

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

6 Members' loans (continued)

Loss allowance

The loss allowance recognised in the year is impacted by a variety of factors, such as:

- Transfers between Stage 1 and Stages 2 or 3 due to members' loans experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the year, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognised during the year, as well as releases for financial instruments de-recognised in the year;
- Impact on the measurement of ECL due to changes in probability of default (PD), exposure at default (EAD) and loss given default (LGD) in the year, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Financial assets derecognised during the year and utilization of allowances related to assets that were written off during the year.

The following tables explain the changes in the loss allowance between the beginning and end of the year:

Consumer				2019
	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
	\$	\$	\$	\$
Loss allowance as at January 1, 2019	38,029	3,021	40,807	81,857
Transfers	(152,989)	(3,021)	156,010	-
Net remeasurement of loss allowance	171,915	-	(22,828)	149,087
Write-offs, net of recoveries	-	-	(135,100)	(135,100)
Loss allowance as at December 31, 2019	56,955	-	38,889	95,844

Commercial				2019
	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
	\$	\$	\$	\$
Loss allowance as at January 1, 2019	10,815	622	65,993	77,430
Transfers	57,931	(622)	(57,309)	-
Net remeasurement of loss allowance	(35,753)	-	105,773	70,020
Loss allowance as at December 31, 2019	32,993	-	114,457	147,450

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

6 Members' loans (continued)

Loss allowance (continued)

Consumer				2018
	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
	\$	\$	\$	\$
Loss allowance as at January 1, 2018	56,927	-	74,278	131,205
Transfers	39,606	3,021	(42,627)	-
Net remeasurement of loss allowance	(58,504)	-	1,827	(56,677)
Write-offs, net of recoveries	-	-	7,329	7,329
Loss allowance as at December 31, 2018	38,029	3,021	40,807	81,857

Commercial				2019
	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
	\$	\$	\$	\$
Loss allowance as at January 1, 2018	16,818	-	2,039	18,857
Transfers	(71,102)	622	70,480	-
Net remeasurement of loss allowance	65,099	-	(548)	64,551
Write-offs, net of recoveries	-	-	(5,978)	(5,978)
Loss allowance as at December 31, 2018	10,815	622	65,993	77,430

Foreclosed collateral

During the year, there were \$214,575 (2018 - \$nil) in foreclosed loans. Foreclosed properties are sold as soon as is practicable and when in management's opinion it is the most advantageous time to mitigate the risk of additional loss. At December 31, 2019, the credit union had \$105,000 in foreclosed properties held for resale (2018 - \$nil), after a writedown of \$109,753, which are included in other assets on the statement of financial position.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

7 Long-term investments

	2019	2018
	\$	\$
Securities at FVTPL		
Atlantic Central	836,890	892,880
NS Provincial shares	257,000	257,000
Atlantic Central class LSM shares	375,996	353,048
League Data Limited shares	32,830	32,830
Concentra Financial shares	300,000	300,000
Other	952	951
	<u>1,803,668</u>	<u>1,836,709</u>

The securities held in Atlantic Central, including NS Provincial and Class LSM shares, League Data Limited and Concentra Financial are classified as FVTPL and held at fair value which approximates their redemption value. Other investments consist of shares held in private companies and co-operatives

8 Intangible assets

	Customer lists
	\$
Cost	
Balance at January 1, 2019	700,000
Additions	-
Impairment loss	-
Balance at December 31, 2019	<u>700,000</u>
Accumulated amortization	
Balance at January 1, 2019	184,491
Amortization	72,484
Impairment loss	23,000
Balance at December 31, 2019	<u>279,975</u>
Net book value	<u>420,025</u>

In 2015, the credit union entered into an agreement to purchase the wealth management relationships of Qajaq Management Limited. During the year, the the credit union has performed an impairment test related to the customer relationships based on a decline in the financial performance of the portfolio. An impairment loss of \$23,000 has been recognised using a fair value less costs of disposal model using comparable portfolio multiples that are considered to be level 2 inputs for determining fair value.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

9 Property and equipment

	Land \$	Buildings \$	Furniture and equipment \$	Paving \$	Auto- mobile	Right-of- use assets \$	Total 2019 \$
Year ended December 31, 2019							
Opening net book value	468,817	1,879,897	396,631	224,869	-	-	2,970,214
Recognised upon adoption of IFRS 16	-	-	-	-	-	768,660	768,660
Additions	-	4,428	54,735	-	92,362	359,795	511,320
Impairment loss	-	-	-	-	-	(192,533)	(192,533)
Depreciation	-	(119,475)	(101,272)	(14,753)	(12,095)	(126,972)	(374,567)
Closing net book value	468,817	1,764,850	350,094	210,116	80,267	808,950	3,683,094
At December 31, 2019							
Cost less impairment	468,817	2,565,067	1,760,911	317,762	92,362	935,922	6,140,841
Accumulated depreciation	-	(800,217)	(1,410,817)	(107,646)	(12,095)	(126,972)	(2,457,747)
Net book value	468,817	1,764,850	350,094	210,116	80,267	808,950	3,683,094
Year ended December 31, 2018							
Opening net book value	468,817	1,900,074	368,129	238,814	-	-	2,975,834
Additions	-	96,161	115,156	-	-	-	211,317
Depreciation	-	(116,338)	(86,654)	(13,945)	-	-	(216,937)
Closing net book value	468,817	1,879,897	396,631	224,869	-	-	2,970,214
At December 31, 2018							
Cost	468,817	2,560,639	1,706,176	317,762	-	-	5,053,394
Accumulated depreciation	-	(680,742)	(1,309,545)	(92,893)	-	-	(2,083,180)
Net book value	468,817	1,879,897	396,631	224,869	-	-	2,970,214

The credit union recognised an impairment loss of \$192,533 on right-of-use assets in 2019.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

10 Assets pledged as security

The credit union has pledged all of its assets as security for a \$2,375,000 (2018 - \$2,375,000) line of credit with Atlantic Central. As at December 31, 2019, \$2,064,936 (2018 - \$1,633,003) was available under the line of credit. When utilized, the line of credit bears interest at the prime rate as set by Atlantic Central.

11 Leases

The following table sets out maturity analysis of lease liabilities:

	2019 \$
Not later than one-year	144,695
1 to 3 years	310,115
Over 3 years	<u>563,287</u>
Total undiscounted lease liabilities	<u>1,018,097</u>

The lease liabilities were discounted at incremental borrowing rate of 4.2%.

The credit union has recognised following amounts in the statement of income and comprehensive income:

	2019 \$
Interest expense on lease liabilities	40,414
Depreciation on right-of-use assets	126,972
Impairment on right-of-use assets	192,533

The credit union has recognised following amounts in the statement of cash flows:

	2019 \$
Total cash out-flow for leases	150,771

12 Members' shares

Members are required to hold a minimum of one share. The par value of each share is \$5. Members are entitled to redeem their shares if they end their membership and, accordingly, members' shares are presented as a liability. The total number of shares issued at the end of the year is 6,466 (2018 - 6,090).

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

13 Surplus shares

Surplus shares have no par value and may be redeemed, subject to compliance with the *Credit Union Act* and approval of the Board of Directors, if the member is no longer eligible for or withdraws from membership, or if the member is deceased.

	2019		2018	
	#	\$	#	\$
Balance – January 1	6,060	746,215	6,160	781,966
Net redeemed	(87)	(29,380)	(100)	(35,751)
Balance – December 31	5,973	716,835	6,060	746,215

14 Compensation of key management

Key management includes the credit union's Board of Directors, Chief Executive Officer, Chief Operations Officer, Vice President of Corporate and Lending Services and Branch Managers. Compensation awarded to key management included:

a) Key management, excluding directors

	2019	2018
	\$	\$
Salaries and short-term employee benefits	697,067	581,305

b) Directors' remuneration

	2019	2018
	\$	\$
Honorarium	39,250	40,917
Reimbursement for expenses incurred while on credit union business, meetings and training	10,895	8,206
	50,145	49,123

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

14 Compensation of key management (continued)

c) Loans to Directors and to key management personnel

Loans to Directors and key management personnel are either unsecured or secured by registered mortgage over eligible security in accordance with standard lending policies.

	2019 \$	2018 \$
Loans outstanding at January 1	853,220	1,028,076
Loans issued during the year	1,112,241	136,069
Loan repayments during the year	(213,995)	(314,408)
Changes to board and key management	(191,010)	3,483
	<hr/>	<hr/>
Loans outstanding at December 31	1,560,456	853,220
	<hr/>	<hr/>
Interest income earned	57,261	32,169

Included in the above loans is \$nil of unsecured loans in stage 3 (2018 - \$63,700). No specific provisions have been recognised in respect of the above loans (2018 - \$63,700). The loans issued during the year to Directors, key management personnel and close family members of \$1,112,241 (2018 - \$136,069) are repayable over 1-20 years and have interest rates of 3.2% - 9% (2018 - 4% - 5%).

15 Commitments and contingencies

a) Credit commitments

The following amounts represent the maximum amount of additional credit that the credit union could be obligated to extend to its members. These amounts are not necessarily indicative of credit risk as many of these arrangements may expire or terminate without being utilized.

	2019 \$
Undrawn lines of credit	<hr/> 5,936,759
Commitments to extend credit	<hr/> 3,813,704
Letters of credit	<hr/> 74,600

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

15 Commitments and contingencies (continued)

b) Contingencies

In the ordinary course of business, the credit union has legal proceedings brought against it and provisions have been included in liabilities where appropriate. Based on current knowledge, the credit union expects that final determination of these claims will not have a material adverse effect on its financial position or operating results.

c) Other commitments

In 2019, the credit union entered in to contract for training of its employees and another agreement for naming rights. Under these contracts credit union is committed for payments as follows:

	2019 \$
Not later than one-year	106,522
1 to 3 years	28,913
Over 3 years	55,000

16 Fees and commission income

	2019 \$	2018 \$
Account service fees	847,608	866,100
Credit cards	5,977	25,033
Foreign exchange	312,660	94,902
Commissions and fees	228,823	275,645
Other	101,293	64,090
	<u>1,496,361</u>	<u>1,325,770</u>

17 Operating expenses

	2019 \$	2018 \$
General and administrative		
Advertising	646,900	252,758
Banking fees	238,347	457,715
Board and committee costs	94,880	102,940
Computer costs	314,792	301,168
Courier and postage	7,275	7,552
Credit Union Central	100,737	97,028
Office	419,059	386,672
Other	109,869	48,485
Professional fees	181,011	136,394
Staff training	130,999	5,032
	<u>2,243,869</u>	<u>1,795,744</u>

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

17 Operating expenses (continued)

	2019 \$	2018 \$
Occupancy		
Property insurance	12,352	18,635
Property taxes	87,568	84,850
Rent	5,124	4,012
Repairs and maintenance	80,981	95,639
Utilities	67,621	68,976
	<hr/>	<hr/>
	253,646	272,112
Members' security		
CUDIC	99,283	96,448
Insurance and other	22,947	20,485
	<hr/>	<hr/>
	122,230	116,933

18 Fair value of financial assets and liabilities

Fair value

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date.

Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. Where there is no quoted market value, fair value is determined using a variety of valuation techniques and assumptions. The credit union has estimated fair values taking into account changes in interest rates that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of the credit union's financial instruments. The carrying value is a reasonable approximation of fair value for the credit union's cash resources, demand deposits, certain other assets and certain other liabilities, due to their short-term nature.

The fair values of financial instruments are as follows:

Loans

In determining the fair value of loans, the credit union incorporates the following assumptions:

- For fixed rate loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms;
- For floating rate loans, changes in interest rates have minimal impact on the fair value since the loans float to market. On that basis, fair value is assumed to equal carrying value; and
- The total value of loans determined using the above assumption is reduced by the allowance for credit losses to determine the fair value of the credit union's loan portfolio.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

18 Fair value of financial assets and liabilities (continued)

Deposits

In determining the fair value of deposits, the credit union incorporates the following assumptions:

- For fixed rate, fixed maturity deposits, the credit union discounts the remaining contractual cash flows at market interest rates offered for deposits with similar terms and risks; and
- For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits reprice to market. On that basis, fair value is assumed to equal carrying value.

The table below sets out the fair values of financial instruments, using the valuation methods and assumptions referred to above. Fair values for items that are short-term in nature are approximately equal to book value. These include cash resources, interest-bearing deposits, accounts payable and accrued liabilities and members' shares.

The table does not include these items or assets and liabilities that are not considered financial instruments.

	2019		2018	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Financial assets				
Members' loans	84,627,804	83,560,332	76,893,839	75,868,805
Financial liabilities				
Members' deposits	96,514,211	96,695,076	90,727,705	90,953,738

Fair value hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Valuation based on quoted prices observed in active markets for identical assets or liabilities;

Level 2 – Valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 – Valuation techniques with significant unobservable market inputs.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

18 Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. Long-term investments have been valued using level 2 inputs.

While not carried at fair value, fair values are disclosed for members' loans and members' deposits. These fair value measurements are classified as level 2.

19 Risk management

The credit union, through its financial assets and liabilities, has exposure to the following risks from use of its financial instruments: credit risk, liquidity risk and market risk (interest rate risk). Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

a) Credit risk

Credit risk is the risk of financial loss to the credit union if a member or counterparty of a financial instrument fails to meet its contractual obligations resulting in financial loss to the credit union. This risk arises primarily from the credit union's personal and commercial loans, mortgages and loan commitments arising from such lending activities.

The measurement of ECLs under IFRS 9 uses the information and approaches that the credit union uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is discussed below.

Credit risk is the single largest risk for the credit union's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is provided by management who reports to the Board of Directors.

The credit union's maximum exposure to credit risk at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements the credit union holds as security for loans include: (i) insurance and mortgages over residential lots and properties; (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable; and (iii) recourse to liquid assets, guarantees and securities. The value of collateral held against individual exposures is generally only assessed at the time of borrowing or when a specific review of that exposure is undertaken in accordance with policy.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

19 Risk management (continued)

a) Credit risk (continued)

Credit risk exposure

Beyond the credit risk associated with the above financial assets, the credit union is also exposed to credit risk associated with undrawn lines of credit and undisbursed commitments to members for loans at year end as disclosed in note 15.

See note 6 for further disclosure on credit risk.

Cash resources have a low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the credit union's underwriting methodologies and risk modeling is customer based rather than product based. The credit union reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing credit risk.

ECL measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the credit union.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECLs on a lifetime basis.

The key judgments and assumptions adopted by the credit union in addressing the requirements of the standard are discussed below:

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

19 Risk management (continued)

a) Credit risk (continued)

SICR

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all instruments held by the credit union. A watch list is used to monitor credit risk; this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR is monitored and reviewed periodically for appropriateness by management.

The credit union considers a financial instrument to have experienced an SICR when one or more of the following quantitative or qualitative criteria have been met:

For consumer loans:

- contractual cash flow obligations are more than 30 days past due; and/or
- Available information at the reporting date indicates that the ability of the borrower to fulfill its contractual cash flow obligations has been reduced (e.g. using internal watch lists for monitoring the credit risk of borrowers).

For commercial loans:

- contractual cash flow obligations are more than 30 days past due; and/or
- available information at the reporting date indicates that the borrower's ability to fulfill its contractual cash flow obligations has been reduced (e.g. significant deterioration in risk rating, in short-term forbearance, early signs of cash flow/liquidity problems, adverse change in operating results, adverse changes in business, financial or economic conditions in which the business operates).

Definition of default and credit-impaired assets

The credit union defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following:

- The borrower is more than 90 days past due on its contractual payments; and/or
- The borrower is in long-term forbearance; and/or
- The borrower is insolvent or has filed for bankruptcy.

The criteria above have been applied to all financial instruments held by the credit union and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the credit union's ECL calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

19 Risk management (continued)

a) Credit risk (continued)

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

IFRS 9 requires the ECL to be measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD, and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.
- EAD is based on the amounts the credit union expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. For example, for a revolving commitment, the credit union includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the credit union's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be incurred if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be incurred if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

The 12-month and lifetime LGDs are determined based on the factors, which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and expected recovery costs.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

19 Risk management (continued)

a) Credit risk (continued)

Measuring ECL — Explanation of inputs, assumptions and estimation techniques (continued)

The assumptions underlying the ECL calculation — such as how the maturity profile of the PDs and how collateral values change etc. — are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Collateral and other credit enhancements

The credit union employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The credit union has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The credit union prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges against chattels;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are either secured or unsecured.

The credit union's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the credit union since the prior period.

b) Liquidity risk

Liquidity risk is the risk that the credit union will encounter difficulty in meeting obligations associated with financial liabilities as they come due. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/or market events.

The credit union's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the credit union's reputation.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

19 Risk management (continued)

b) Liquidity risk (continued)

The credit union is required to maintain 10% of members' deposits in liquid investments of which 90% must be held with Atlantic Central. The credit union was in compliance with this requirement at December 31, 2019.

	2019 \$	2018 \$
Required liquidity	9,707,375	9,109,041
Liquid assets	12,849,939	15,937,451
Excess liquidity	3,142,564	6,828,410

Cash flows payable under financial liabilities by remaining contractual liabilities are as follows:

	2019			
	On demand \$	Under 1 year \$	1 - 3 years \$	Over 3 years \$
Members' deposits	72,709,018	16,828,400	5,650,000	1,112,100
Trade accounts payable and accrued liabilities	-	557,936	-	-
Lease liabilities	-	186,771	375,643	684,643
Credit commitments	5,936,759	3,888,305	-	-
	78,645,777	21,461,412	6,025,643	1,796,743

	2019			
	On demand \$	Under 1 year \$	1 - 3 years \$	Over 3 years \$
Members' deposits	69,326,705	11,021,500	9,856,600	522,900
Trade accounts payable and accrued liabilities	-	501,419	-	-
Credit commitments	5,951,024	3,445,560	-	-
	75,277,729	14,968,479	9,856,600	522,900

The credit union expects that many members will not request repayment on the earliest date the credit union could be required to pay.

c) Market and interest rate risk

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the credit union as part of its normal trading activities. As the credit union does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

19 Risk management (continued)

c) Market and interest rate risk (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For the credit union, mismatches in the balance of assets, liabilities and off-balance sheet financial instruments that mature and reprice in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the credit union manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the credit union to enhance profitability.

Interest rate risk policies and processes

The credit union meets its objectives for interest rate risk management by structuring the statement of financial position to take advantage of the yield curve and mismatch opportunities while limiting risk exposure to approved levels to ensure that net interest income and net market values are not significantly impacted when there is an adverse change in interest rates.

Interest rate risk measurement techniques

The credit union uses a number of techniques to manage interest rate risk. In order to manage the repricing of assets and liabilities, the credit union will alter the product mix through the marketing of particular products and pricing initiatives. Decisions on determining the appropriate mix of assets and liabilities are based on economic conditions, member behaviour, capital levels, liquidity levels and policies that limit exposure by instrument and counterparty.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the credit union's net interest revenue and a 1% movement in rates. At December 31, 2019, the credit union's risk related to a 1% decrease in rates was approximately \$84,000 of net interest income.

The determination of interest rate sensitivity encompasses numerous assumptions. It is based on the earlier of the repricing date or the maturity date of assets and liabilities used to manage interest rate risk.

The gap position presented below is as at December 31, 2019. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based on member behaviour and the application of the credit union's asset and liability management policies.

The assumptions for the year ended December 31, 2019 were as follows:

Assets

- Fixed term assets, such as mortgages and personal loans, are reported based on scheduled repayments.
- Variable rate assets that are related to the prime rate or other short-term market rates are reported within the demand category.

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

19 Risk management (continued)

c) Market and interest rate risk (continued)

Interest rate risk measurement techniques (continued)

Liabilities

- Fixed rate liabilities, such as term deposits, are reported at scheduled maturity.
- Interest bearing deposits on which the members' interest rate changes with prime or other short-term market rates are reported within the demand category.

Rates

- Rates are based on the weighted average rates for the assets and liabilities on December 31.

	2019							
	Demand principal \$	Rate %	Under 1 year principal \$	Rate %	1-3 years principal \$	Rate %	Over 3 years principal \$	Rate %
Assets								
Cash and investments	1,166,894	-	11,207,040	1.79	-	-	1,502,700	2.72
Members' loans	15,863,795	6.44	20,601,995	4.16	18,358,200	3.78	29,688,700	3.90
	<u>17,030,689</u>	<u>6.44</u>	<u>31,809,035</u>	<u>3.32</u>	<u>18,358,200</u>	<u>3.78</u>	<u>31,191,400</u>	<u>3.84</u>
Liabilities								
Members' deposits	72,709,018	0.41	16,828,400	1.84	5,650,000	2.50	1,112,100	2.16
Asset (liability) gap	<u>(55,678,329)</u>		<u>14,980,635</u>		<u>12,708,200</u>		<u>30,079,300</u>	
	2019							
	Demand principal \$	Rate %	Under 1 year principal \$	Rate %	1-3 years principal \$	Rate %	Over 3 years principal \$	Rate %
Assets								
Cash and investments	83,802	-	14,703,780	1.70	300,000	4.60	1,536,709	3.19
Members' loans	15,731,939	6.35	15,902,700	4.06	20,664,500	3.62	24,594,700	4.02
	<u>15,815,741</u>	<u>6.32</u>	<u>30,606,480</u>	<u>2.92</u>	<u>20,964,500</u>	<u>3.64</u>	<u>26,131,409</u>	<u>3.97</u>
Liabilities								
Members' deposits	69,326,705	0.46	11,021,500	1.72	9,856,600	2.32	522,900	1.88
Asset (liability) gap	<u>(53,510,964)</u>		<u>19,584,980</u>		<u>11,107,900</u>		<u>25,608,509</u>	

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

20 Capital management

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

The *Credit Union Act* of Nova Scotia requires the credit union to establish and maintain a level of capital that is not less than 5% of its assets. Capital is comprised of members' equity plus members' shares which amounts to \$5,399,382 as at December 31, 2019 (2018 - \$6,015,640).

As at December 31, 2019, the credit union's capital as a percent of assets was 5.20% (2018 - 6.13%) meeting the 5% minimum requirement.

21 Income taxes

i) Tax rate reconciliation

	2019 \$	2018 \$
Income (loss) before income taxes	(662,752)	120,471
Taxes at statutory rates 12% (2018 - 13%)	(79,530)	15,661
Reduction of small business rate	-	-
Impact of tax rates on deferred tax assets	1,752	-
Impact of tax rate changes on loss carryback	(3,890)	-
Permanent differences and other	5,202	4,571
	<u>(76,466)</u>	<u>20,232</u>

ii) Deferred taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate for 2019 of 12% (2018 - 13 %).

The movement in the deferred income tax account is as follows:

	2019 \$	2018 \$
Balance, December 31	23,000	18,000
Deferred income tax recovery	37,000	5,000
Balance, December 31	<u>60,000</u>	<u>23,000</u>

Community Credit Union of Cumberland Colchester Limited

Notes to Financial Statements

For the year ended December 31, 2019

(expressed in Canadian dollars)

21 Income taxes (continued)

ii) Deferred taxes (continued)

Deferred income tax assets (liabilities) are attributable to the following items:

	2019	2018
	\$	\$
Deferred income tax assets (liabilities)		
Property and equipment	67,000	50,000
Allowance for impaired loans	13,000	8,000
Atlantic Central shares	(31,000)	(33,000)
Capital loss carried forward	1,000	-
Donations	5,000	-
Goodwill and intangibles	5,000	(2,000)
	<hr/>	<hr/>
	60,000	23,000
	<hr/>	<hr/>

22 Subsequent event

Subsequent to December 31, 2019, financial markets have been negatively impacted by a novel strain of coronavirus ("COVID-19"), which was declared a pandemic by the World Health Organization on March 11, 2020. The continued spread of the COVID-19 and the actions being taken by governments, businesses and individuals to limit this pandemic may adversely impact our operations, including, among others, increasing the credit risk and ability to quickly respond to changes in credit risk and limit our ability to serve our customers. The credit union also has minimal excess capital adequacy as at December 31, 2019 and the COVID-19 pandemic has resulted in significant economic uncertainty, of which the potential impact on our future financial results and the ability to maintain capital adequacy is difficult to reliably measure.

