Community Credit Union of Cumberland Colchester Limited

Financial Statements
December 31, 2020

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, 2020 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, 2020;
- 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 significant accounting policies and other explanatory information.

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.

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.

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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 13, 2021

Community Credit Union of Cumberland Colchester Limited

Statement of Financial Position

As at December 31, 2020

(expressed in Canadian dollars)

	2020 $	2019 $
Assets		
Cash resources	7,248,609	2,739,217
Interest bearing deposits	14,200,858	9,333,749
Other assets and prepaid expenses (note 4)	314,447	1,375,427
Income taxes recoverable	2,847	-
Members' loans		
Mortgage	59,588,187	50,101,020
Personal	13,683,446	11,172,239
Commercial loans and mortgages	26,510,814	23,239,431
Accrued interest	127,378	115,114
	99,909,825	84,627,804
Allowance for credit losses (note 5)	(219,225)	(243,294)
	99,690,600	84,384,510
Long-term investments (note 6)	1,917,015	1,803,668
Intangible assets subject to amortization (note 7)	350,854	420,025
Property and equipment (note 8)	3,358,702	3,683,094
Deferred income tax asset (note 21)	54,000	60,000
	127,137,932	103,799,690
Liabilities		
Bank indebtedness (note 9)	-	310,064
Lease liabilities (note 10)	429,367	1,018,097
Accounts payable and other liabilities		
Accounts payable and accrued liabilities	906,963	557,936
Patronage interest payable to members (note 11)	22,381	-
Dividends payable	10,695	-
	940,039	557,936
Members' deposits		
Savings and chequing	88,961,223	66,558,131
Term deposits	30,730,459	29,741,387
Accrued interest	260,419	214,693
	119,952,101	96,514,211
Members' shares (note 12)	31,656	30,788
Members' Equity	5,784,769	5,368,594
	127,137,932	103,799,690

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, 2020

(expressed in Canadian dollars)

	Retained earnings $	Surplus shares $ (note 13)	Total equity $
Balance – January 1, 2019	5,238,045	746,215	5,984,260
Net loss and comprehensive loss for the year	(586,286)	-	(586,286)
Decrease in surplus shares	-	(29,380)	(29,380)
Balance – December 31, 2019	4,651,759	716,835	5,368,594
Net income and comprehensive income for the year	41,185	-	41,185
Dividends	(10,695)	-	(10,695)
Increase in surplus shares – net	-	385,685	385,685
Balance – December 31, 2020	4,682,249	1,102,520	5,784,769

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, 2020

(expressed in Canadian dollars)

	2020 $	2019 $
Interest income		
Members' loans	3,488,437	3,475,575
Investments and deposits	327,735	255,781
	3,816,172	3,731,356
Interest expense		
Members' deposits	703,379	651,778
Patronage interest to members	22,381	-
Interest on lease liabilities	41,884	40,414
	767,644	692,192
Net interest income	3,048,528	3,039,164
Fees and commission income (note 16)	1,214,592	1,496,361
Provision for loan losses (note 5)	(62,583)	(219,107)
Net interest and other income	4,200,537	4,316,418
Operating expenses		
Salary and employee benefits	1,620,784	1,696,840
General and administrative (note 17)	1,732,356	2,243,869
Occupancy (note 17)	283,099	253,646
Members' security (note 17)	147,457	122,230
Impairment loss on assets (notes 7 and 8)	-	215,533
Loss on sale of foreclosed property	62,378	-
Depreciation	404,266	447,052
Gain on modifications of leases (note 10)	(97,206)	-
	4,153,134	4,979,170
Income (loss) before income taxes	47,403	(662,752)
Provision for (recovery of) income taxes (note 21)		
Current	218	(39,466)
Deferred	6,000	(37,000)
	6,218	(76,466)
Net income (loss) and comprehensive income (loss) for the year	41,185	(586,286)

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, 2020

(expressed in Canadian dollars)

	2020 $	2019 $
Cash provided by (used in)		
Operating activities		
Net income (loss) and comprehensive income (loss) for the year	41,185	(586,286)
Charges (credits) to income not involving cash		
Depreciation of property and equipment	335,095	374,568
Amortization of intangible assets	69,171	72,484
Impairment loss on assets	-	215,533
Loss on sale of foreclosed property	62,378	-
Gain on modifications of lease	(97,206)	-
Interest on lease liabilities	41,884	40,414
Provision for loan losses	62,583	109,534
Provision for foreclosed properties	(132,807)	109,573
Deferred income taxes	6,000	(37,000)
	388,283	298,820
Net change in non-cash working capital balances related to operations		
Other assets and prepaid expenses	(49,223)	(161,623)
Accrued interest receivable	(12,265)	(7,385)
Income taxes recoverable	(2,847)	-
Accounts payable and accrued liabilities	349,027	56,517
Patronage interest payable	22,381	-
Accrued interest payable	45,726	20,568
	741,082	206,897
Financing activities		
Net increase (decrease) in members' deposits		
Savings and chequing	22,403,092	(1,884,924)
Term deposits	989,072	7,456,737
Net decrease in membership shares	386,553	(29,977)
Lease liabilities payments	(92,486)	(150,771)
	23,686,231	5,391,065
Investing activities		
Net decrease in other assets - concentra mortgage pool receivable	1,110,202	(750,209)
Net decrease (increase) in bank indebtedness	(310,064)	(431,933)
Net decrease (increase) in interest bearing deposits	(4,867,109)	5,370,037
Net decrease (increase) in members' loans	(15,356,409)	(7,753,950)
Proceeds on sale of foreclosed properties (note 5)	70,425	-
Net decrease (increase) in long-term investments	(113,347)	33,041
Purchase of property and equipment	(451,619)	(151,524)
	(19,917,921)	(3,684,538)
Net change in cash resources during the year	4,509,392	1,913,424
Cash resources – Beginning of year	2,739,217	825,793
Cash resources – End of year	7,248,609	2,739,217
Supplemental cash flow information		
Interest received	3,474,366	3,481,112
Interest paid	657,653	631,210
Income taxes recovered	(31,950)	(6,532)

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

(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 9, 2021.

2 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.

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").

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 recognized in the statement of income and comprehensive income in fee and commission income.

(expressed in Canadian dollars)

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 ("FVTOCI"); 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.

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 (e.g. 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 recognized 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 (e.g. net of the ECL provision).

(expressed in Canadian dollars)

Initial recognition and measurement

Financial assets and financial liabilities are recognized 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. As at the first reporting date after initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVTOCI, which results in an accounting loss being recognized 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.

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 its 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.

(expressed in Canadian dollars)

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 (e.g. 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.

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.
- FVTOCI: 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 FVTOCI. 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 recognized in net income and comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income and comprehensive income.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVTOCI 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 recognized 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 FVTOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to net income, including disposals. Dividends, when representing a return on such investments, continue to be recognized 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.

(expressed in Canadian dollars)

Impairment

The credit union assesses on a forward-looking basis ECL associated with its assets carried at amortized cost and FVTOCI 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 recognized 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 recognized 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).

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 recognized at fair value and subsequently measured at amortized cost using the effective interest method.

(expressed in Canadian dollars)

Derecognition

Financial liabilities are derecognized when they are extinguished (e.g. 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 recognized 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 recognized 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.

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.

(expressed in Canadian dollars)

i) Leases

Leases are recognized 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 lesse 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 recognized 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.

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.

(expressed in Canadian dollars)

l) Members' deposits

Members' deposits are recognized 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 recognized in income over the deposit term on an effective interest basis.

m) Revenue recognition

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

n) Income taxes

i) Current income taxes

Income taxes payable (recoverable) is calculated on the basis of current Canadian tax laws and is recognized as an expense (income) for the year, except to the extent that it relates to items that are recognized 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 income 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.

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 recognized when it is probable that future taxable income will be available against which these temporary differences can be utilized.

3 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.

(expressed in Canadian dollars)

Measurement of the ECL 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 FVTOCI 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.

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, (“COVID-19”), a global pandemic. The Canadian economy experienced significant disruption and market volatility related to COVID-19. The overall impact of COVID-19 continues to be uncertain and is dependent on actions taken by Canadian governments, businesses and individuals to limit spread of COVID-19, as well as government economic response and support efforts.

Due to the unprecedented nature of COVID-19, developing reliable estimates and applying judgment has become more difficult. Accounting for ECLs has become particularly difficult in the current circumstances. Consideration is given both to the effects of COVID-19 and the significant government support measures; however, significant measurement uncertainty exists in determining ECLs and measurement is subject to significant judgment.

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.

4 Other assets and prepaid expenses

	2020 $	2019 $
Prepaid expenses	81,967	113,187
Accrued interest receivable	101,600	1,806
Rebates and other receivables	16,564	11,912
Concentra mortgage pool receivable	-	1,110,202
Foreclosed properties, net of provision of $132,807 (2019 – $109,573)	114,316	103,305
Income taxes recoverable	-	35,015
	314,447	1,375,427

(expressed in Canadian dollars)

5 Members' loans

As at December 31, 2020, loans to members are presented net of allowances for ECLs totalling $219,225 (2019 – $243,294). The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the credit union's maximum exposure to credit risk on these assets.

				2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Personal				
Term loan	12,202,269	31,520	58,788	12,292,577
Line of credit	1,240,304	114,607	35,958	1,390,869
Mortgage	59,386,786	181,798	19,603	59,588,187
Business				
Term loan	15,212,369	155,782	23,602	15,391,753
Line of credit	2,163,650	34,999	5,057	2,203,706
Business	8,915,355	-	-	8,915,355
Accrued interest	127,378	-	-	127,378
Gross carrying amount	99,248,111	518,706	143,008	99,909,825
Loss allowance	(129,835)	(9,829)	(79,561)	(219,225)
Carrying amount	99,118,276	508,877	63,447	99,690,600

				2019
	Stage 1	**Stage 2**	**Stage 3**	**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	2,524,256	-	-	2,524,256
Business	8,611,139	33,497	13,572	8,658,208
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

(expressed in Canadian dollars)

Loss allowance

The loss allowance recognized 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 recognized during the year, as well as releases for financial instruments de-recognized 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 derecognized 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:

				2020
Consumer	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 month ECL	**Lifetime ECL**	**Lifetime ECL**	
	$	**$**	**$**	**$**
Loss allowance as at January 1, 2020	56,955	-	38,889	95,844
Transfers	(109,637)	8,932	100,705	-
Net remeasurement of loss allowance	71,452	-	(1,640)	69,812
Write-offs, net of recoveries	-	-	(65,643)	(65,643)
Loss allowance as at December 31, 2020	18,770	8,932	72,311	100,013

				2020
Commercial	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 month ECL	**Lifetime ECL**	**Lifetime ECL**	
	$	**$**	**$**	**$**
Loss allowance as at January 1, 2020	32,993	-	114,457	147,450
Transfers	113,800	897	(114,697)	-
Net remeasurement of loss allowance	(35,728)	-	28,499	(7,229)
Write-offs, net of recoveries	-	-	(21,009)	(21,009)
Loss allowance as at December 31, 2020	111,065	897	7,250	119,212

(expressed in Canadian dollars)

Consumer	**Stage 1**	**Stage 2**	**Stage 3**	**2019 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	**Stage 1**	**Stage 2**	**Stage 3**	**2019 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

Foreclosed collateral

During the year, there were $114,316 (2019 – $214,575) 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. As at December 31, 2020, the credit union had $114,316 in foreclosed properties held for resale (2019 – $105,000).

6 Long-term investments

	2020 **$**	**2019** **$**
Securities at FVTPL		
Atlantic Central	931,010	836,890
NS Provincial shares	257,000	257,000
Atlantic Central class LSM shares	395,224	375,996
League Data Limited shares	32,830	32,830
Concentra Financial shares	300,000	300,000
Other	951	952
	1,917,015	1,803,668

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.

(expressed in Canadian dollars)

7 Intangible assets

	Customer lists $
Cost	
Balance at January 1, 2020	700,000
Balance at December 31, 2020	700,000
Accumulated amortization	-
Balance at January 1, 2020	279,975
Amortization	69,171
Balance at December 31, 2020	349,146
Net book value	350,854

In 2015, the credit union entered into an agreement to purchase the wealth management relationships of Qajaq Management Limited.

(expressed in Canadian dollars)

8 Property and equipment

	Land $	Buildings $	Furniture and equipment $	Paving $	Auto-Mobile $	Right-of-use assets $	Total $
Year ended December 31, 2020							
Opening net book value	468,817	1,764,850	350,094	210,116	80,267	808,950	3,683,094
Additions	-	280,884	86,247	82,149	2,339	-	451,619
Lease modifications (net of accumulated depreciation)	-	-	-	-	-	(440,916)	(440,916)
Depreciation	-	(119,566)	(81,851)	(14,753)	(12,225)	(106,700)	(335,095)
Closing net book value	468,817	1,926,168	354,490	277,512	70,381	261,334	3,358,702
As at December 31, 2020							
Cost less impairment	468,817	2,845,951	1,847,158	399,911	94,701	363,168	6,019,706
Accumulated depreciation	-	(919,783)	(1,492,668)	(122,399)	(24,320)	(101,834)	(2,661,004)
Net book value	468,817	1,926,168	354,490	277,512	70,381	261,334	3,358,702
Year ended December 31, 2019							
Opening net book value	468,817	1,879,897	396,631	224,869	-	-	2,970,214
Recognized 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
As 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

(expressed in Canadian dollars)

9 Assets pledged as security

The credit union has pledged all of its assets as security for a $2,578,000 (2019 – $2,375,000) line of credit with Atlantic Central. As at December 31, 2020, $2,578,000 (2019 – $2,064,936) was available under the line of credit. When utilized, the line of credit bears interest at the prime rate as set by Atlantic Central.

10 Leases

The following table sets out maturity analysis of lease liabilities:

	2020 $	2019 $
Not later than one-year	75,466	144,695
1 to 3 years	118,072	310,115
Over 3 years	235,829	563,287
Total undiscounted lease liabilities	429,367	1,018,097

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

During the year, the credit union modified and cancelled a number of leases. Accordingly, the credit union has derecognized the lease liability of $512,033 and right-of-use assets of $502,251, respectively. As a result of these modifications, the credit union recognized a gain of $97,206 in the statement income and comprehensive income.

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

	2020 $	2019 $
Interest expense on lease liabilities	41,884	40,414
Depreciation on right-of-use assets	106,700	126,972
Impairment on right-of-use assets	-	192,533
Gain on modification of leases	97,206	-

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

	2020 $	2019 $
Lease liability payments	92,486	150,771

11 Patronage interest payable to members

In 2020, management of the credit union allocated an amount of $22,381 payable as a patronage to the members who held deposits with the credit union. The amount was based on total investments held at the credit union.

(expressed in Canadian dollars)

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 6,594 (2019 – 6,466).

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.

	2020		2019	
	# of shares	**$**	**# of shares**	**$**
Balance – January 1	716,835	716,835	746215	746,215
Issued	415,255	415,255	-	-
Redeemed	(29,570)	(29,570)	(29,380)	(29,380)
Balance – December 31	1,102,520	1,102,520	716,835	716,835

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

	2020 $	2019 $
Salaries and short-term employee benefits	665,098	697,067

b) Directors' remuneration

	2020 $	2019 $
Honorarium	30,229	39,250
Reimbursement for expenses incurred while on credit union business, meetings and training	7,123	10,895
	37,352	50,145

(expressed in Canadian dollars)

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.

	2020 $	2019 $
Loans outstanding at January 1	1,560,456	853,220
Loans issued during the year	580,293	1,112,241
Loan repayments during the year	(664,146)	(213,995)
Changes to board and key management	243,532	(191,010)
Loans outstanding at December 31	1,720,135	1,560,456
Interest income earned	22,613	57,261

Included in the above loans there are no unsecured loans in Stage 3 (2019 – $nil). No specific provisions have been recognized in respect of the above loans (2019 – $nil). The loans issued during the year to Directors, key management personnel and close family members of $580,293 (2019 – $1,112,241) are repayable over 1 – 20 years and have interest rates of 3.2% – 18% (2019 – 3.2% – 9%).

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.

	2020 $
Undrawn lines of credit	4,400,728
Commitments to extend credit	7,956,477
Letters of credit	84,600

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.

(expressed in Canadian dollars)

c) Other commitments

The credit union entered into contracts related to training of its employees, sponsorships, donations and naming rights. Under these contracts, the credit union is committed to payments as follows:

	2020 $
Not later than one-year	11,957
1 to 3 years	25,000
Over 3 years	40,000

16 Fees and commission income

	2020 $	2019 $
Account service fees	762,027	847,608
Credit cards	45,304	5,977
Foreign exchange	-	312,660
Commissions and fees	203,366	228,823
Other	203,895	101,293
	1,214,592	1,496,361

17 Operating expenses

	2020 $	2019 $
General and administrative		
Advertising	176,223	646,900
Banking fees	367,207	238,347
Board and committee costs	62,168	94,880
Computer costs	321,802	314,792
Courier and postage	2,851	7,275
Credit Union Central	103,401	100,737
Office	341,052	419,059
Other	51,258	109,869
Professional fees	201,572	181,011
Staff training	104,822	130,999
	1,732,356	2,243,869

(expressed in Canadian dollars)

	2020 $	2019 $
Occupancy		
Property insurance	16,784	12,352
Property taxes	88,334	87,568
Rent	25,996	5,124
Repairs and maintenance	81,747	80,981
Utilities	70,238	67,621
	283,099	253,646
Members' security		
CUDIC	122,296	99,283
Insurance and other	25,161	22,947
	147,457	122,230

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.

(expressed in Canadian dollars)

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.

	2020		2019	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Financial assets				
Members' loans	99,909,825	98,631,981	84,627,804	83,560,332
Financial liabilities				
Members' deposits	119,952,101	119,985,014	96,514,211	96,695,076

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.

(expressed in Canadian dollars)

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 recognized 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.

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 5 for further disclosure on credit risk.

(expressed in Canadian dollars)

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:

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).

(expressed in Canadian dollars)

For commercial loans:

- contractual cash flow obligations are more than 30 days past due; and/or
- available information as 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 (e.g. to have cured) when it no longer meets any of the default criteria.

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.

(expressed in Canadian dollars)

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 (e.g. 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.

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.

(expressed in Canadian dollars)

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.

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 as at December 31, 2020.

	2020 $	2019 $
Required liquidity	11,995,210	9,707,375
Liquid assets	21,724,059	12,849,939
Excess liquidity	9,728,849	3,142,564

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

				2020
	On demand $	Under 1 year $	1 - 3 years $	Over 3 years $
Members' deposits	91,380,082	19,649,300	6,889,600	1,772,700
Accounts payable and other liabilities	-	940,039	-	-
Lease liabilities	-	75,466	118,072	235,829
Credit commitments	4,400,728	8,041,077	-	-
	95,780,810	28,705,882	7,007,672	2,008,529

				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
Accounts payable and other 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

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

(expressed in Canadian dollars)

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.

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. As at December 31, 2020, the credit union's risk related to a 1% decrease in rates was approximately $72,000 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, 2020. 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, 2020 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.

(expressed in Canadian dollars)

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 as at December 31.

2020

	Demand principal $	Rate %	Under 1 year principal $	Rate %	1-3 years principal $	Rate %	Over 3 years principal $	Rate %
Assets								
Cash and investments	7,249,562	-	14,500,860	0.68	-	-	1,616,060	1.75
Members' loans	15,109,926	5.30	14,043,921	3.60	24,555,100	3.93	46,073,500	3.48
	22,359,488	3.58	28,544,781	2.12	24,555,100	3.93	47,689,560	3.42
Liabilities								
Members' deposits	91,380,082	0.18	19,649,300	1.72	6,889,600	1.31	1,772,700	2.16
Asset (liability) gap	(69,020,594)		8,895,481		17,665,500		45,916,860	

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
	17,030,689	6.44	31,809,035	3.32	18,358,200	3.78	31,191,400	3.84
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	(55,678,329)		14,980,635		12,708,200		30,079,300	

(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 $5,816,425 as at December 31, 2020 (2019 – $5,399,382).

As at December 31, 2020, the credit union's capital as a percent of assets is 4.57% (2019 – 5.20%). As the credit union is not in compliance with these capital requirements, it has been asked by the Superintendent to submit an equity building plan that outlines a number of objectives. These objectives include growing the lending and deposit base of the credit union, managing discretionary expenses and selling surplus shares to increase the capital by increasing the financial margin through organic growth and directly increasing capital by the sale of surplus shares.

The credit union is required to report the results of its achievement of the capital building plan to the regulator on a regular basis. If the regulator is not satisfied as to the credit union's achievement of the goals within the plan, the superintendent may request additional actions to be taken by the credit union or appoint a supervisor to more closely monitor and supervise the credit union's financial performance.

21 Income taxes

i) Tax rate reconciliation

	2020 $	2019 $
Income (loss) before income taxes	47,403	(662,752)
Taxes at statutory rates 12% (2019 – 12%)	5,688	(79,530)
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	530	5,202
	6,218	(76,466)

ii) Deferred taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate for 2020 of 12% (2019 – 12%).

(expressed in Canadian dollars)

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

	2020 $	2019 $
Balance, December 31	60,000	23,000
Deferred income tax recovery	(6,000)	37,000
Balance, December 31	54,000	60,000

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

	2020 $	2019 $
Deferred income tax assets (liabilities)		
Property and equipment	62,000	67,000
Allowance for impaired loans	12,000	13,000
Atlantic Central shares	(31,000)	(31,000)
Capital loss carried forward	1,000	1,000
Donations	-	5,000
Goodwill and intangibles	10,000	5,000
	54,000	60,000