

# **Community Credit Union of Cumberland Colchester Limited**

Financial Statements  
**December 31, 2017**



April 11, 2018

## **Independent Auditor's Report**

### **To the Members of Community Credit Union of Cumberland Colchester Limited**

We have audited the accompanying financial statements of **Community Credit Union of Cumberland Colchester Limited**, which comprise the statement of financial position as at December 31, 2017 and the statements of changes in members' equity, income and comprehensive income and cash flows for the year then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

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

#### **Auditor's responsibility**

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

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

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

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Community Credit Union of Cumberland Colchester Limited as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

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# Community Credit Union of Cumberland Colchester Limited

## Statement of Financial Position

As at December 31, 2017

(expressed in Canadian dollars)

	2017 \$	2016 \$
<b>Assets</b> (note 9)		
<b>Cash resources</b>	1,012,864	1,713,230
<b>Interest bearing deposits</b>	8,130,586	6,121,852
<b>Other assets and prepaid expenses</b> (note 4)	1,554,660	1,456,762
<b>Members' loans</b>		
Mortgage	48,898,464	48,673,924
Personal	14,484,446	15,166,691
Commercial loans and mortgages	16,945,018	13,163,780
Accrued interest	118,395	86,298
	<u>80,446,323</u>	<u>77,090,693</u>
<b>Allowance for impaired loans</b> (note 5)	<u>(150,062)</u>	<u>(153,406)</u>
	<u>80,296,261</u>	<u>76,937,287</u>
<b>Long-term investments</b> (note 6)	1,807,489	4,895,409
<b>Intangible assets subject to amortization</b> (note 7)	533,845	598,845
<b>Property and equipment</b> (note 8)	2,975,834	3,110,508
<b>Deferred income tax asset</b> (note 18)	18,000	33,000
	<u>96,329,539</u>	<u>94,866,893</u>
<b>Liabilities</b>		
<b>Accounts payable and accrued liabilities</b>		
Trade	817,900	602,679
Income taxes	-	29,379
	<u>817,900</u>	<u>632,058</u>
<b>Members' deposits</b>		
Savings and chequing	69,281,129	67,534,410
Term deposits	20,132,007	20,784,692
Accrued interest	146,466	147,042
	<u>89,559,602</u>	<u>88,466,144</u>
<b>Members' shares</b> (note 10)	<u>32,265</u>	<u>32,870</u>
<b>Members' Equity</b>	<u>5,919,772</u>	<u>5,735,821</u>
	<u>96,329,539</u>	<u>94,866,893</u>
<b>Commitments and contingencies</b> (note 13)		

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, 2017

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(expressed in Canadian dollars)

	Retained earnings \$	Surplus shares \$ (note 11)	Total equity \$
<b>Balance – January 1, 2016</b>	4,669,530	853,982	5,523,512
Net income and comprehensive income for the year	252,284	–	252,284
Decrease in surplus shares	–	(39,975)	(39,975)
<b>Balance – December 31, 2016</b>	<u>4,921,814</u>	<u>814,007</u>	<u>5,735,821</u>
<b>Balance – January 1, 2017</b>	4,921,814	814,007	5,735,821
Net income and comprehensive income for the year	215,992	–	215,992
Decrease in surplus shares	–	(32,041)	(32,041)
<b>Balance – December 31, 2017</b>	<u>5,137,806</u>	<u>781,966</u>	<u>5,919,772</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, 2017

(expressed in Canadian dollars)

	2017 \$	2016 \$
<b>Financial income</b>		
Members' loans	3,185,039	3,212,847
Investments and deposits	227,222	210,861
	<u>3,412,261</u>	<u>3,423,708</u>
<b>Financial expense</b>		
Members' deposits	<u>528,052</u>	<u>677,569</u>
<b>Net financial income</b>	2,884,209	2,746,139
Fees and commission income (note 14)	1,505,433	1,441,880
Recovery of (provision for) loan losses (note 5)	(44,712)	24,810
Recovery of (provision for) foreclosed properties (note 4)	<u>(37,762)</u>	<u>16,190</u>
<b>Gross margin</b>	<u>4,307,168</u>	<u>4,229,019</u>
<b>Operating expenses</b>		
Salary and employee benefits	1,698,350	1,820,983
General and administrative (note 15)	1,686,896	1,433,748
Occupancy (note 15)	251,333	242,741
Members' security (note 15)	116,633	116,531
Depreciation	<u>278,842</u>	<u>257,976</u>
	<u>4,032,054</u>	<u>3,871,979</u>
<b>Income before income taxes</b>	<u>275,114</u>	<u>357,040</u>
<b>Provision for (recovery of) income taxes</b> (note 18)		
Current	44,122	45,756
Deferred	<u>15,000</u>	<u>59,000</u>
	<u>59,122</u>	<u>104,756</u>
<b>Net income and comprehensive income for the year</b>	<u>215,992</u>	<u>252,284</u>
<b>Net income and comprehensive income for the year attributable to members</b>	<u>215,992</u>	<u>252,284</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, 2017

(expressed in Canadian dollars)

	2017 \$	2016 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the year	215,992	252,284
Charges (credits) to income not involving cash		
Depreciation of property and equipment	213,842	206,821
Amortization of intangible assets	65,000	51,155
Provision for (recovery of) loan losses	44,712	(24,810)
Provision for (recovery of) foreclosed properties	37,762	(16,190)
Provision for (recovery of) deferred income taxes	15,000	59,000
	592,308	528,260
Net change in non-cash working capital balances related to operations		
Decrease (increase) in other assets and prepaid expenses	(135,472)	263,982
Decrease (increase) in accrued interest receivable	(32,097)	10,326
Increase (decrease) in accounts payable and accrued liabilities	215,221	187,470
Increase (decrease) in income taxes	(29,567)	14,453
Increase (decrease) in accrued interest payable	(576)	(18,960)
	609,817	985,531
<b>Financing activities</b>		
Net increase (decrease) in members' deposits		
Savings and chequing	1,746,719	(5,047,002)
Term deposits	(652,685)	(1,337,332)
Net decrease in membership shares	(32,646)	(40,575)
	1,061,388	(6,424,909)
<b>Investing activities</b>		
Net decrease (increase) in interest bearing deposits	(2,008,734)	631,409
Net decrease (increase) in members' loans	(3,371,589)	895,618
Net decrease (increase) in long-term investments	3,087,920	(187,546)
Acquisition of intangible assets	-	(650,000)
Additions to property and equipment	(79,168)	(78,058)
	(2,371,571)	611,423
<b>Net change in cash resources during the year</b>	(700,366)	(4,827,955)
<b>Cash resources – Beginning of year</b>	1,713,230	6,541,185
<b>Cash resources – End of year</b>	1,012,864	1,713,230
<b>Supplemental cash flow information</b>		
Interest received	3,380,164	3,223,173
Interest paid	528,628	696,529
Income taxes paid	73,689	28,610

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, 2017

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(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 in Amherst, Nova Scotia.

These financial statements have been approved for issue by the Board of Directors on April 10, 2018.

### 2 Summary of significant accounting policies

#### a) Basis of preparation

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 classified as 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 available-for-sale (“AFS”) financial assets accounted for at fair value through profit or loss, which have been measured at fair value.

#### c) Foreign currency translation

##### i) Functional and presentation currency

The functional 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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 2 Summary of significant accounting policies (continued)

#### 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) Members' loans

Members' loans comprise term and revolving credit facilities provided to members and members' overdrawn accounts. Members' loans are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortized cost using the effective interest method, less impairment losses. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan to the carrying amount of the loan. When estimating the future cash flows, the credit union considers all contractual terms of the loan excluding any future credit losses. Included in this calculation are all fees paid or received that are integral to the contract.

Loans are reviewed and graded according to the assessed level of credit risk. Classifications adopted are as follows:

- **Past due loans** – Are loans and advances where the borrower has failed to make a repayment when contractually due.
- **Restructured loans** – Arise when the borrower is granted concessional terms or conditions due to difficulties in meeting the original contractual terms, and the revised terms are more favourable than comparable new facilities.
- **Impaired loans** – Are loans and advances where the full recovery of outstanding principal and interest is considered doubtful.
- **Assets acquired through the enforcement of security** – Are assets (usually residential property or motor vehicles) acquired in full or partial settlement of an advance through the enforcement of security arrangements. The recoverable value of such assets forms part of the net value of loans and advances as part of the estimated future cash flows.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 2 Summary of significant accounting policies (continued)

#### g) Provision for impairment

All loans are subject to a continuous management review process to assess whether there is any objective evidence that any loan or group of loans is impaired.

Impairment of loans and advances is recognized when objective evidence is available that a loss event has occurred.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

Impairment losses are recognized in income.

- **Specific provision** – Loans that meet significant delinquency and loan size criteria are individually assessed for impairment to estimate the likely loss on the loan.
- **Collective provision** – Loans that do not meet significant delinquency criteria are not individually assessed but are placed into portfolios of assets with similar risk profiles and a collective assessment of impairment is performed based on objective evidence from historical experience.

The quantitative effect is disclosed in note 5.

#### h) Financial instruments

##### i) Recognition and measurement

In accordance with IAS 39 – *Financial Instruments – Recognition and Measurement* (“IAS 39”) regular purchases and sales of financial assets are recognized on the settlement date – the date that an asset is delivered to or by an entity. Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued. At initial recognition, the credit union classifies its financial instruments as follows:

##### a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The credit union's loans and receivables comprise cash resources, interest bearing deposits and members' loans. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 2 Summary of significant accounting policies (continued)

#### h) Financial instruments (continued)

##### i) Recognition and measurement (continued)

##### b) AFS investments

AFS investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The credit union's AFS assets are its long-term equity investments.

AFS investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from remeasurement are recognized in other comprehensive income. When an AFS investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in "other operating expenses".

Dividends or distributions on AFS investments are recognized in the statement of income in investment income, when the credit union's right to receive payment is established.

##### c) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities and members' deposits. Trade payables and accrued liabilities are initially recognized at the amount required to be paid. Subsequently, they are measured at amortized cost using the effective interest method. All other financial liabilities are recognized initially at fair value, net of any transaction costs incurred and subsequently, at amortized cost using the effective interest method.

##### d) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. They are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within "other" in the period in which they arise.

##### e) Held-to-maturity investments

Investments are classified as held-to-maturity if they have fixed or determinable payments and fixed maturity that the credit union has the intention and ability to hold to maturity. Held-to-maturity investments are measured at amortized cost using the effective interest rate method.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### **2 Summary of significant accounting policies** (continued)

#### **i) Impairment of financial assets**

##### i) Assets carried at amortized cost

The credit union assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or “events”) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the impairment loss on a fixed rate financial instrument is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

##### ii) Assets classified as AFS

The credit union assesses at each balance sheet date if there is objective evidence that an AFS financial asset or a group of financial assets may be impaired. A significant or prolonged decline in the fair value of an AFS equity security below its cost is considered objective evidence that the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is reclassified from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed.

##### iii) Re-negotiated loans

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been re-negotiated are no longer considered to be past due but are treated as new loans.

#### **j) 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 recorded within other assets.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 2 Summary of significant accounting policies (continued)

#### k) 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 period 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

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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were identified as impaired as at December 31, 2017 (2016 - \$nil).

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.

#### l) Intangible assets

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

#### m) 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. No property and equipment or intangible assets were identified as impaired as at December 31, 2017.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 2 Summary of significant accounting policies (continued)

#### n) Members' deposits

Members' deposits are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in profit or loss over the period of the borrowings on an effective interest basis.

#### o) Revenue recognition

##### i) Interest income

Interest on members' loans is recognized on an amortized cost basis using the effective interest method. The effective rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan to the net carrying amount of the loan. When estimating the future cash flows, the credit union considers all contractual terms of the loan excluding any expected future credit losses. The calculation includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Mortgage prepayment fees are recognized in other interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the expected remaining term of the original mortgage using the effective interest rate method. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. All interest is recognized on an accrual basis.

##### ii) Fee and commission income

Fee and commission income is recognized on an accrual basis as it is earned. Dividend income is recognized in the statement of income as part of income when the group's right to receive payments is established.

#### p) Income taxes

##### i) Current income taxes

Income taxes payable (receivable) is calculated on the basis of current Canadian tax law and is recognized as an expense (income) for the period, 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 tax 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, 2017

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(expressed in Canadian dollars)

### 2 Summary of significant accounting policies (continued)

#### p) Income taxes (continued)

##### ii) Deferred income taxes

Deferred income taxes are provided in full, 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 are expected to apply when the related deferred income tax asset or liability is 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 profit will be available against which these temporary differences can be utilized.

#### q) Accounting standards issued but not yet adopted

##### *IFRS 9 – “Financial Instruments” (“IFRS 9”)*

In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity’s business model and the nature of the cash flows to the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit and loss (“FVTPL”), fair value through other comprehensive income or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously including IAS 39.

IFRS 9 also introduces an expected loss impairment model for all financial assets not as FVTPL. The model has three stages: (1) On initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) If credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) When a financial asset is considered credit-impaired, the loss allowance continues to reflect lifetime expected credit losses and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Changes in the required loss allowance, including the impact of movement between 12 months and lifetime expected credit losses, will be recorded in profit or loss.

Finally, IFRS 9, introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity’s risk management activities.

IFRS 9 is effective January 1, 2018. The credit union is in the process of completing an assessment of the impact to financial asset classification and developing impairment methodology to support the calculation of the expected credit loss model. As this model will continue to be refined in 2018, it is not yet possible to quantify the financial impact of IFRS 9.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 2 Summary of significant accounting policies (continued)

#### q) Accounting standards issued but not yet adopted (continued)

##### *IFRS 15 – “Revenue from Contracts with Customers” (“IFRS 15”)*

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, “Revenue”, IAS 11, “Construction Contracts”, and some revenue related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. As IFRS 15 does not impact revenues associated with financial instruments, the credit union does not currently expect a material impact to the financial statements

##### *IFRS 16 – “Leases” (“IFRS 16”)*

IFRS 16, which is effective January 1, 2019, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). IFRS 16 eliminates the classification of leases as either operating leases or finance leases and the lessor is required to recognize:

- Assets and liabilities for all leases with a term more than 12 months, unless the underlying asset is of low value; and
- Depreciation of lease assets separately from interest on lease liabilities in the statement of income.

The credit union is currently evaluating the impact of the new standard on its financial statements.

### 3 Critical accounting estimates and judgments

The credit union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The following are the estimates and judgments applied by management that most significantly affect the credit union’s financial statements.

#### **Critical accounting estimates**

##### i) Impairment losses on members’ loans

The credit union reviews its loan portfolio to assess impairment regularly. In determining whether an impairment loss should be recorded in the statement of income, the credit union makes judgments as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a loan. This evidence may include observable data indicating that there has been an adverse change in the payment status of member, or local economic conditions that correlate with defaults on assets held by the credit union. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

(expressed in Canadian dollars)

### 3 Critical accounting estimates and judgments (continued)

#### Critical accounting estimates (continued)

##### ii) Fair value of AFS securities

The fair values of AFS securities, where no active market exists or where quoted prices are not otherwise available, are determined by using valuation techniques. In each instance, management has reviewed the attributes of its investments and determined that fair value was liquidation value for each investment as there is no ability to otherwise sell the investments. Management also determined that liquidation value approximated historical cost less any allowance for impairment.

### 4 Other assets and prepaid expenses

	2017 \$	2016 \$
Prepaid expenses	69,778	86,294
Accrued interest receivable	1,834	12,067
Rebates and other receivables	114,485	155,470
Concentra Mortgage Pool receivable	1,068,375	1,126,487
Foreclosed properties, net of provision of \$42,762 (2016 - \$5,000)	300,000	76,444
Income taxes receivable	188	—
	1,554,660	1,456,762

### 5 Impairment of members' loans

#### a) Continuity of allowance for impaired loans:

	Specific \$	Collective \$	Total \$
<b>Balance – January 1, 2017</b>	54,950	98,456	153,406
Increase (decrease) in allowance	69,422	(24,711)	44,711
Amounts written-off during the year	(58,513)	—	(58,513)
Recoveries of loans previously written-off	10,458	—	10,458
<b>Balance – December 31, 2017</b>	76,317	73,745	150,062
	Specific \$	Collective \$	Total \$
<b>Balance – January 1, 2016</b>	68,185	157,544	225,729
Increase (decrease) in allowance	34,278	(59,088)	(24,810)
Amounts written-off during the year	(71,628)	—	(71,628)
Recoveries of loans previously written-off	24,115	—	24,115
<b>Balance – December 31, 2016</b>	54,950	98,456	153,406

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

(expressed in Canadian dollars)

### 5 Impairment of members' loans (continued)

b) Members' loans individually impaired:

	2017 \$	2016 \$
<b>Members' loans individually impaired or past due with specific allowance</b>		
Mortgage	182,650	309,934
Personal	37,087	71,917
Commercial loans and mortgages	65,703	31,170
	<hr/>	<hr/>
<b>Net impaired loans with specific allowance</b>	285,440	413,021
	<hr/>	<hr/>
<b>Allowance for impairment</b>	76,317	54,950
	<hr/>	<hr/>

Included in the loan and mortgage balances above are three accounts in the amount of \$181,959 that are fully secured, therefore no allowance has been taken.

c) Members' loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either: (i) less than 90 days past due, unless there is information to the contrary that an impairment event has occurred; or (ii) fully secured and collection efforts are reasonably expected to result in repayment. Loans that are past due but not impaired are as follows:

	31 to 60 days \$	61 to 90 days \$	90 days or more \$	Total \$
<b>As at</b>				
December 31, 2017	500,338	59,437	16,144	575,919
December 31, 2016	172,852	2,840	34,398	210,090

d) Impaired loans renegotiated during the year

The credit union has \$370,136 (2016 - \$1,077,177) in loans that have been renegotiated during the year, which would have been considered impaired if not for the restructuring of the loan.

The credit union works proactively with members in financial difficulty to minimize the risk of loss to the credit union as a result of a loan default.

e) Foreclosed collateral

During the year, there were \$363,152 (2016 - \$78,909) 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, 2017, the credit union had \$300,000 in foreclosed properties held for resale (2016 - \$76,444), 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, 2017

(expressed in Canadian dollars)

### 6 Long-term investments

	2017 \$	2016 \$
Subordinated debenture of Concentra Financial	–	3,000,000
Securities available-for-sale		
Atlantic Central	863,660	951,580
NS Provincial shares	257,000	257,000
Atlantic Central class LSM shares	353,048	353,048
League Data Limited shares	32,830	32,830
Concentra Financial shares	300,000	300,000
Other	951	951
	<u>1,807,489</u>	<u>4,895,409</u>

Long-term investments are classified as either held-to-maturity or available-for-sale. The subordinated debentures are held-to-maturity investments which are carried at amortized cost. The securities held in Atlantic Central, including NS Provincial and Class LSM shares, League Data Limited and Concentra Financial are classified as available-for-sale and held at estimated fair value which approximates their redemption value. Other investments consist of shares held in private companies and co-operatives which are held at cost less any impairment which approximates fair value.

### 7 Intangible assets

	Customer lists \$
Cost	
<b>Balance at January 1, 2017</b>	650,000
Additions	<u>–</u>
<b>Balance at December 31, 2017</b>	<u>650,000</u>
Accumulated amortization	
<b>Balance at January 1, 2017</b>	51,155
Amortization	<u>65,000</u>
<b>Balance at December 31, 2017</b>	<u>116,155</u>
Net book value	<u>533,845</u>

Effective November 23, 2015, the credit union entered in to an agreement to purchase the wealth management relationships of Qajaq Management Limited. The transfer of the customer relationships occurred during 2016 and was finalized as of April 30, 2016. The credit union paid \$650,000 through Qajaq Management Limited as consideration for the purchase. The credit union is amortizing the intangible asset on a straight-line basis over 10 years.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

(expressed in Canadian dollars)

### 8 Property and equipment

	Land \$	Buildings \$	Furniture and equipment \$	Paving \$	Total \$
<b>Year ended December 31, 2016</b>					
Opening net book value	468,817	2,108,215	393,917	268,322	3,239,271
Additions	–	7,140	70,918	–	78,058
Depreciation	–	(108,990)	(83,077)	(14,754)	(206,821)
Closing net book value	468,817	2,006,365	381,758	253,568	3,110,508
<b>At December 31, 2016</b>					
Cost	468,817	2,455,853	1,520,477	317,762	4,762,909
Accumulated depreciation	–	(449,488)	(1,138,719)	(64,194)	(1,652,401)
Net book value	468,817	2,006,365	381,758	253,568	3,110,508
<b>Year ended December 31, 2017</b>					
Opening net book value	468,817	2,006,365	381,758	253,568	3,110,508
Additions	–	8,625	70,543	–	79,168
Depreciation	–	(114,916)	(84,172)	(14,754)	(213,842)
Closing net book value	468,817	1,900,074	368,129	238,814	2,975,834
<b>At December 31, 2017</b>					
Cost	468,817	2,464,478	1,591,020	317,762	4,842,077
Accumulated depreciation	–	(564,404)	(1,222,891)	(78,948)	(1,866,243)
Net book value	468,817	1,900,074	368,129	238,814	2,975,834

### 9 Assets pledged as security

The credit union has pledged all of its assets as security for a \$2,375,000 (2016 - \$2,500,000) line of credit with Atlantic Central. As at December 31, 2017, \$2,375,000 (2016 - \$2,500,000) was available under the line of credit. When utilized, the line of credit bears interest at the prime rate as set by Atlantic Central.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 10 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 6,248 (2016 - 6,549).

### 11 Surplus shares

Surplus shares have no par value and may be redeemed, subject to compliance with the 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.

Continuity of surplus shares:

	2017		2016	
	#	\$	#	\$
Balance – January 1	6,314	814,007	6,432	853,982
Net redeemed	(154)	(32,041)	(118)	(39,975)
Balance – December 31	6,160	781,966	6,314	814,007

### 12 Compensation of key management

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

- a) Key management, excluding directors

	2017	2016
	\$	\$
Salaries and short-term employee benefits	432,602	532,706

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 12 Compensation of key management (continued)

b) Directors remuneration

	2017 \$	2016 \$
Honorarium	18,910	14,551
Payment for expenses incurred while on credit union business or meetings and training	11,330	11,294
	<u>30,240</u>	<u>25,845</u>

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.

	2017 \$	2016 \$
Loans outstanding at January 1	1,102,938	1,157,898
Loans issued during the year	212,102	257,987
Loan repayments during the year	(286,964)	(312,947)
	<u>1,028,076</u>	<u>1,102,938</u>
Loans outstanding at December 31		
Interest income earned	<u>29,580</u>	<u>42,682</u>

No provisions have been recognized in respect of loans given to key management (2016 - \$nil). The loans issued to Directors and key management personnel and close family members during the year of \$212,102 (2016 - \$257,987), are repayable over 1-20 years and have interest rates of 3.19% - 4.00% (2016 - 2.85% - 18.00%).

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 13 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 their members. These amounts are not necessarily indicative of credit risk as many of these arrangements may expire or terminate without being utilized.

	\$
Undrawn lines of credit	<u>1,962,110</u>
Commitments to extend credit	<u>5,216,656</u>
Letters of credit	<u>78,570</u>

b) Operating leases

The credit union is committed to the following future minimum lease payments under operating leases for property and equipment that have initial non-cancellable terms.

	\$
No later than one year	13,455
Later than one year and no later than five years	40,365

c) 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.

### 14 Fees and commission income

	2017 \$	2016 \$
Account service fees	868,376	896,414
Credit cards	36,277	35,046
Foreign exchange	182,092	45,561
Commissions and fees	350,339	407,908
Other	68,349	56,951
	<u>1,505,433</u>	<u>1,441,880</u>

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 15 Operating expenses

	2017 \$	2016 \$
<b>General and administrative</b>		
Advertising	202,926	164,570
Banking fees	528,966	390,783
Board and committee costs	106,951	81,852
Computer costs	293,788	281,709
Courier and postage	4,387	9,500
Credit Union Central	98,062	109,567
Office	310,313	245,426
Other	41,694	48,689
Professional fees	69,404	81,419
Staff training	30,405	20,233
	<hr/> 1,686,896	<hr/> 1,433,748
<b>Occupancy</b>		
Property insurance	18,327	15,926
Property taxes	85,590	86,813
Rent	3,618	2,608
Repairs and maintenance	79,651	77,872
Utilities	64,147	59,522
	<hr/> 251,333	<hr/> 242,741
<b>Members' security</b>		
CUDIC	95,518	95,683
Insurance and other	21,115	20,848
	<hr/> 116,633	<hr/> 116,531

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 16 Financial instruments and fair values

#### i) Fair values

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 and credit risk 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.
- The total value of loans determined using the above assumption is reduced by the allowance for credit losses to determine the credit risk adjusted fair value of the credit union's loan portfolio.

#### 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.
- 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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

(expressed in Canadian dollars)

### 16 Financial instruments and fair values (continued)

#### i) Fair values (continued)

The table below sets out the fair values of financial instruments, using the valuation methods and assumptions referred to above. The table does not include assets and liabilities that are not considered financial instruments.

	2017		2016	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
<b>Assets</b>				
Cash resources	1,012,864	1,012,864	1,713,230	1,713,230
Interest bearing deposits	8,130,586	8,130,586	6,121,852	6,121,852
Members' loans	80,327,928	79,842,759	77,004,395	76,854,944
Long-term investments	1,807,489	1,807,489	4,895,409	4,895,409
<b>Liabilities</b>				
Accounts payable and accrued liabilities	817,900	817,900	602,679	602,679
Members' deposits	89,413,136	89,654,382	88,319,102	88,625,633
Members' shares	32,265	32,265	32,870	32,870

#### 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, 2017

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(expressed in Canadian dollars)

### 16 Financial instruments and fair values (continued)

#### i) Fair values (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.

	2017			2016		
	Level 1 \$	Level 2 \$	Level 3 \$	Level 1 \$	Level 2 \$	Level 3 \$
Long-term investments – securities	–	1,807,489	–	–	1,895,409	–

While not carried at fair value, fair values are disclosed for cash resources, interest bearing deposits, members' loans, members' deposits and members' shares. These financial assets and liabilities would be classified as level 3.

#### ii) 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.

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 done 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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 16 Financial instruments and fair values (continued)

#### ii) Risk management (continued)

##### a) Credit risk (continued)

Credit risk exposure

The credit union's maximum exposure to credit risk at the reporting date was:

	2017 \$	2016 \$
Cash resources	1,012,864	1,713,230
Interest bearing deposits	8,130,586	6,121,852
Members' loans	80,327,928	77,004,395
Long-term investments	1,807,489	4,895,409
	<u>91,278,867</u>	<u>89,734,886</u>

See note 5 for further disclosure on credit risk.

Cash resources and held-to-maturity investments 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.

##### 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, 2017

(expressed in Canadian dollars)

### 16 Financial instruments and fair values (continued)

#### ii) Risk management (continued)

##### b) Liquidity risk (continued)

Exposure to liquidity risk:

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, 2017.

	2017 \$	2016 \$
Required liquidity	8,941,314	8,831,910
Liquid assets	10,264,100	9,043,652
Excess liquidity	1,322,786	211,742

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

	2017			
	On demand \$	Under 1 year \$	1 - 3 years \$	Over 3 years \$
Members' deposits	70,278,716	10,624,820	7,983,100	526,500
Trade accounts payable and accrued liabilities	817,900	-	-	-
Operating leases	-	13,455	26,910	13,455
	71,096,616	10,638,275	8,010,010	539,955
	2016			
	On demand \$	Under 1 year \$	1 - 3 years \$	Over 3 years \$
Members' deposits	68,653,322	11,678,830	6,225,850	1,761,100
Trade accounts payable and accrued liabilities	602,679	-	-	-
Operating leases	-	13,455	26,910	26,910
	69,256,001	11,692,285	6,252,760	1,788,010

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

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

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(expressed in Canadian dollars)

### 16 Financial instruments and fair values (continued)

#### ii) Risk management (continued)

##### 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 balance sheet 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, 2017, the credit union's risk related to a 1% increase in rates was approximately \$29,000 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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

(expressed in Canadian dollars)

### 16 Financial instruments and fair values (continued)

#### ii) Risk management (continued)

#### c) Market and interest rate risk (continued)

The gap position presented below is as at December 31, 2017. 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, 2017 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.

#### Liabilities

- Fixed rate liabilities, such as term deposits, are reported at scheduled maturity.
- Interest bearing deposits on which the member 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.

	2017							
	Demand principal \$	Rate %	Under 1 year principal \$	Rate %	1-3 years principal \$	Rate %	Over 3 years principal \$	Rate %
<b>Assets</b>								
Cash and								
investments	1,012,864	-	8,130,586	1.14	300,000	4.60	1,507,489	1.61
Members' loans	16,414,128	6.36	21,932,000	3.51	21,233,300	3.95	20,748,500	3.65
	<u>17,426,992</u>	<u>5.99</u>	<u>30,062,586</u>	<u>2.87</u>	<u>21,533,300</u>	<u>3.96</u>	<u>22,255,989</u>	<u>3.51</u>
<b>Liabilities</b>								
Members'								
deposits	70,278,716	0.40	10,624,820	1.15	7,983,100	2.15	526,500	1.69
Asset (liability)								
gap	<u>(52,851,724)</u>		<u>19,437,766</u>		<u>13,550,200</u>		<u>21,729,489</u>	

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

(expressed in Canadian dollars)

### 16 Financial instruments and fair values (continued)

#### ii) Risk management (continued)

#### c) Market and interest rate risk (continued)

	2016							
	Demand principal \$	Rate %	Under 1 year principal \$	Rate %	1-3 years principal \$	Rate %	Over 3 years principal \$	Rate %
<b>Assets</b>								
Cash and investments	1,971,177	–	6,121,854	0.80	–	–	4,637,460	3.45
Members' loans	16,669,282	6.45	19,334,923	3.26	22,194,320	3.87	18,805,870	3.51
	<u>18,640,459</u>	<u>5.77</u>	<u>25,456,777</u>	<u>2.66</u>	<u>22,194,320</u>	<u>3.87</u>	<u>23,443,330</u>	<u>3.50</u>
<b>Liabilities</b>								
Members' deposits	68,653,322	0.55	11,678,830	1.18	6,225,850	2.18	1,761,100	2.54
Asset (liability) gap	<u>(50,012,863)</u>		<u>13,777,947</u>		<u>15,968,470</u>		<u>21,682,230</u>	

### 17 Capital management

Capital is managed in accordance with policies established by the Board 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 equity that is not less than 5% of its assets. Capital is comprised of members' equity plus members' shares which amounts to \$5,952,037 as at December 31, 2017 (2016 - \$5,768,691).

As at December 31, 2017, the credit union's equity as a percent of assets was 6.20% (2016 - 6.08%) both meeting the 5% minimum requirement.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2017

(expressed in Canadian dollars)

### 18 Income taxes

#### i) Tax rate reconciliation

	2017 \$	2016 \$
Income before income taxes	275,114	357,040
Taxes at statutory rates 13.5% (2016 - 27%)	37,140	96,401
Reduction of small business rate	17,259	(43,063)
Permanent differences and other	4,723	51,418
	<u>59,122</u>	<u>104,756</u>

#### ii) Deferred taxes

Deferred income taxes are calculated on all temporary differences under the liability method using the future statutory tax rate for 2017 of 13.5% (2016 - 27%).

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

	2017 \$	2016 \$
Balance, December 31	33,000	92,000
Deferred income tax expense	<u>(15,000)</u>	<u>(59,000)</u>
Balance, December 31	<u>18,000</u>	<u>33,000</u>

Deferred income tax assets are attributable to the following items:

	2017 \$	2016 \$
<b>Deferred income tax assets (liabilities)</b>		
Property and equipment	48,000	96,000
Allowance for impaired loans	10,000	28,000
Atlantic Central shares	(33,000)	(69,000)
Capital loss carryforward	-	-
Goodwill and intangibles	<u>(7,000)</u>	<u>(22,000)</u>
	<u>18,000</u>	<u>33,000</u>