

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

Financial Statements  
**December 31, 2018**



## *Independent auditor's report*

To the Members of Community Credit Union of Cumberland Colchester Limited

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### *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, 2018 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, 2018;
  - the statement of changes in members' equity for the year then ended;
  - the statement of income and comprehensive income for the year then ended;
  - the statement of cash flows for the year then ended; and
  - the notes to the financial statements, which include a summary of significant accounting policies.
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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### **Independence**

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

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### *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.

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### *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, Licensed Public Accountants**

Halifax, Nova Scotia

April 16, 2019

# Community Credit Union of Cumberland Colchester Limited

## Statement of Financial Position

As at December 31, 2018

(expressed in Canadian dollars)

	2018 \$	2017 \$
<b>Assets</b> (note 10)		
<b>Cash resources</b>	825,793	1,012,864
<b>Interest bearing deposits</b>	14,703,786	8,130,586
<b>Other assets and prepaid expenses</b> (note 5)	463,595	1,554,660
<b>Members' loans</b>		
Mortgage	45,568,224	48,898,464
Personal	11,664,845	12,588,927
Commercial loans and mortgages	19,660,770	18,840,537
Accrued interest	107,728	118,395
	<u>77,001,567</u>	<u>80,446,323</u>
<b>Allowance for credit losses</b> (note 6)	<u>(159,287)</u>	<u>(150,062)</u>
	<u>76,842,280</u>	<u>80,296,261</u>
<b>Long-term investments</b> (note 7)	1,836,709	1,807,489
<b>Intangible assets subject to amortization</b> (note 8)	515,509	533,845
<b>Property and equipment</b> (note 9)	2,970,214	2,975,834
<b>Deferred income tax asset</b> (note 20)	23,000	18,000
	<u>98,180,886</u>	<u>96,329,539</u>
<b>Liabilities</b>		
<b>Bank indebtedness</b> (note 10)	741,997	-
<b>Accounts payable and accrued liabilities</b>	501,419	817,900
<b>Members' deposits</b>		
Savings and chequing	68,443,055	69,281,129
Term deposits	22,284,650	20,132,007
Accrued interest	194,125	146,466
	<u>90,921,830</u>	<u>89,559,602</u>
<b>Members' shares</b> (note 11)	<u>31,380</u>	<u>32,265</u>
<b>Members' Equity</b>	<u>5,984,260</u>	<u>5,919,772</u>
	<u>98,180,886</u>	<u>96,329,539</u>
<b>Commitments and contingencies</b> (note 14)		

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, 2018

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(expressed in Canadian dollars)

	Retained earnings \$	Surplus shares \$ (note 12)	Total equity \$
<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>
Net income and comprehensive income for the year	100,239	-	100,239
Decrease in surplus shares	-	(35,751)	(35,751)
<b>Balance – December 31, 2018</b>	<u>5,238,045</u>	<u>746,215</u>	<u>5,984,260</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, 2018

(expressed in Canadian dollars)

	2018 \$	2017 \$
<b>Interest income</b>		
Members' loans	3,348,285	3,185,039
Investments and deposits	179,697	227,222
	<u>3,527,982</u>	<u>3,412,261</u>
<b>Interest expense</b>		
Members' deposits	<u>548,888</u>	<u>528,052</u>
<b>Net interest income</b>	2,979,094	2,884,209
Fees and commission income (note 15)	1,325,770	1,505,433
Provision for loan losses (note 6)	(7,874)	(44,712)
Provision for foreclosed properties (note 5)	-	(37,762)
	<u>4,296,990</u>	<u>4,307,168</u>
<b>Net interest and other income</b>		
<b>Operating expenses</b>		
Salary and employee benefits	1,706,457	1,698,350
General and administrative (note 16)	1,795,744	1,686,896
Occupancy (note 16)	272,112	251,333
Members' security (note 16)	116,933	116,633
Depreciation	285,273	278,842
	<u>4,176,519</u>	<u>4,032,054</u>
<b>Income before income taxes</b>	<u>120,471</u>	<u>275,114</u>
<b>Provision for (recovery of) income taxes</b> (note 20)		
Current	25,232	44,122
Deferred	(5,000)	15,000
	<u>20,232</u>	<u>59,122</u>
<b>Net income and comprehensive income for the year</b>	<u>100,239</u>	<u>215,992</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, 2018

(expressed in Canadian dollars)

	2018 \$	2017 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the year	100,239	215,992
Charges (credits) to income not involving cash		
Depreciation of property and equipment	216,937	213,842
Amortization of intangible assets	68,336	65,000
Provision for loan losses	7,874	44,712
Loans written off, net of recoveries	1,351	(48,056)
Provision for (recovery of) foreclosed properties	-	37,762
Provision for (recovery of) deferred income taxes	(5,000)	15,000
	<u>389,737</u>	<u>544,252</u>
Net change in non-cash working capital balances related to operations		
Decrease (increase) in other assets and prepaid expenses	807,677	(135,472)
Decrease (increase) in accrued interest receivable	10,667	(32,097)
Increase (decrease) in accounts payable and accrued liabilities	(316,481)	215,221
Increase (decrease) in income taxes	-	(29,567)
Increase (decrease) in accrued interest payable	47,659	(576)
	<u>939,259</u>	<u>561,761</u>
<b>Financing activities</b>		
Net increase (decrease) in members' deposits		
Savings and chequing	(838,074)	1,746,719
Term deposits	2,152,643	(652,685)
Net decrease in membership shares	(36,636)	(32,646)
	<u>1,277,933</u>	<u>1,061,388</u>
<b>Investing activities</b>		
Net increase in bank indebtedness	741,997	-
Net decrease (increase) in interest bearing deposits	(6,573,200)	(2,008,734)
Net decrease (increase) in members' loans	3,434,089	(3,323,533)
Proceeds on sale of foreclosed properties (note 6)	283,388	-
Decrease in long-term investments	(29,220)	3,087,920
Acquisition of intangible assets	(50,000)	-
Additions to property and equipment	(211,317)	(79,168)
	<u>(2,404,263)</u>	<u>(2,323,515)</u>
<b>Net change in cash resources during the year</b>	(187,071)	(700,366)
<b>Cash resources – Beginning of year</b>	<u>1,012,864</u>	<u>1,713,230</u>
<b>Cash resources – End of year</b>	<u>825,793</u>	<u>1,012,864</u>
<b>Supplemental cash flow information</b>		
Interest received	3,358,952	3,380,164
Interest paid	501,229	528,628
Income taxes paid	27,124	73,689

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, 2018

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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 located at 33 Prince Arthur Street, Amherst, Nova Scotia.

These financial statements have been approved for issue by the Board of Directors on April 16, 2019.

### 2 Changes in accounting policies

The credit union has adopted IFRS 9 *Financial Instruments* with a date of transition of January 1, 2018, which resulted in changes in accounting policies and potential adjustments to the amounts previously recognized in the financial statements. The credit union did not early adopt any of the elements of IFRS 9 in previous years.

As permitted by the transitional provisions of IFRS 9, the credit union elected not to restate comparative figures. There were no adjustments to the carrying amounts of financial assets and liabilities at the date of transition.

The amendments to IFRS 7 *Financial Instruments: Disclosures* have been applied to the current year. The comparative note disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the credit union’s accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the credit union. Further details of the specific IFRS 9 accounting policies applied in the current year (as well as the previous IAS 39 accounting policies applied in the comparative year) are described in note 3.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

### 2 Changes in accounting policies (continued)

#### a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 at January 1, 2018 are compared as follows:

		IAS 39		IFRS 9
	Measurement category	Carrying amount	Measurement category	Carrying amount
Financial assets		\$		\$
Cash and cash equivalents	Amortized cost (Loans and receivables)	1,012,864	Amortized cost	1,012,864
Interest-bearing deposits	Amortized cost (Loans and receivables)	8,130,586	Amortized cost	8,130,586
Members' loans	Amortized cost (Loans and receivables)	80,446,323	Amortized cost	80,446,323
Investments	Available for sale	1,807,489	FVTPL	1,807,489

There were no changes to the classification and measurement of financial liabilities.

#### b) Reconciliation of the statement of financial position balances from IAS 39 to IFRS 9

The credit union performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. There were no reclassifications or remeasurements required upon adoption of IFRS 9 at January 1, 2018 based on this analysis.

#### c) Reconciliation of loan loss allowance balance from IAS 39 to IFRS 9

Further information on the measurement of the loss allowance under IFRS 9 can be found in note 18.

On January 1, 2018, the credit union adopted IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five-step model for revenue recognition to be applied to all contracts with customers. The standard was adopted retrospectively. Based on the credit union's assessment of revenues and costs within the scope of this standard, IFRS 15 did not have a material impact on its financial results.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

### 2 Changes in accounting policies (continued)

#### Standards and interpretations issued but not yet effective

IFRS 16 *Leases* was issued in January 2016 and will replace IAS 17 *Leases*. The new standard is effective for the credit union's fiscal year beginning on January 1, 2019. Under the new standard, all leases will be on the balance sheet of lessees except those that meet limited exception criteria. The credit union is currently evaluating the impact that this standard will have on its financial statements.

### 3 Summary of significant accounting policies

#### a) Basis of presentation

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

The credit union presents its statement of financial position on a non-classified basis in order of liquidity. The following balances are generally 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 the revaluation of certain financial assets and liabilities at fair value through profit or loss ("FVTPL") (in 2017 – available for sale).

#### c) Foreign currency translation

##### i) Functional and presentation currency

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

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### c) Foreign currency translation (continued)

##### 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.

#### 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 – IFRS 9

From January 1, 2018, the credit union has applied IFRS 9 and classifies its financial instruments in the following measurement categories: fair value through profit and loss (FVTPL); fair value through other comprehensive income (FVOCI); or amortized cost. Management determines the classification of its financial instruments at initial recognition. The credit union uses trade date accounting for regular way contracts when recording financial asset transactions.

The accounting policies from January 1, 2018 related to these financial assets and liabilities are as follows:

##### Measurement methods

###### *Amortized cost and effective interest rate*

The 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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### f) Financial instruments (continued)

##### Measurement methods (continued)

###### *Amortized cost and effective interest rate (continued)*

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any loan loss allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses 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 (i.e. net of the expected credit loss (“ECL”) provision).

###### *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 fair value through profit or loss are expensed in net income. 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 FVOCI, 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 day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs or realized through settlement.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### f) Financial instruments (continued)

##### *Classification and subsequent measurement*

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

- FVTPL; or
- Amortized cost

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

#### **Investments**

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

##### *Debt instruments*

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

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

##### *Business model*

The business model reflects how the credit union manages the assets in order to generate cash flows. That is, whether the credit union's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are 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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### f) Financial instruments (continued)

##### Investments (continued)

##### *Solely payments of principal and interest (“SPPI”)*

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

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

- Amortized cost: Financial assets that are held for collection of contractual cash flows, where the assets' cash flows represent SPPI and that are not designated at FVTPL, are measured at amortized cost.
- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated at FVTPL, are measured at FVOCI. Changes in the carrying amount are taken through other comprehensive income (“OCI”), except for the recognition of expected credit losses, 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 FVOCI are measured at FVTPL. A gain or loss on a debt investment 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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### f) Financial instruments (continued)

##### Investments (continued)

###### *Equity instruments*

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

The credit union subsequently measures all equity investments at FVTPL, except where the credit union's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to net income, including on disposal. 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.

##### **Impairment**

The credit union assesses on a forward-looking basis ECL associated with its assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The credit union recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events and current conditions. Note 18 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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### f) Financial instruments (continued)

##### Modification of loans (continued)

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 – IFRS 9

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.

##### *Derecognition*

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

##### Financial assets and liabilities (IAS 39 – until December 31, 2017)

Until December 31, 2017, the credit union applied IAS 39 and classified its financial assets as follows: loans and receivables, FVTPL, held-to-maturity investments and available for sale ("AFS") financial assets. Management determines the classification of its financial instruments at initial recognition. The credit union uses trade date accounting for regular way contracts when recording financial asset transactions.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### f) Financial instruments (continued)

##### Financial assets and liabilities (IAS 39 – until December 31, 2017) (continued)

##### *Financial instruments (IAS 39) (continued)*

The accounting policies until December 31, 2017 related to these financial assets and liabilities were as follows:

##### *Recognition and measurement*

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.

##### 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 comprehensive income and are included in "other operating expenses".

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

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### f) Financial instruments (continued)

##### *Recognition and measurement (continued)*

##### 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 year 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 method.

#### **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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### f) Financial instruments (continued)

##### 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.

#### g) Provision for impairment (IAS 39 – until December 31, 2017)

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 6.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### h) Impairment of financial assets (IAS 39 – until December 31, 2017)

##### 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 and comprehensive 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.

The following accounting policies were applicable for the years ended December 31, 2018 and December 31, 2017:

#### i) 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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### j) 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

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, 2018 (2017 - \$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 and comprehensive income.

#### k) 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.

#### l) 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, 2018.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

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

#### m) 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 income in the period of the borrowings on an effective interest basis.

#### n) Revenue recognition

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

#### o) 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 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 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.

##### 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 tax is 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 profit will be available against which these temporary differences can be utilized.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

### 4 Critical accounting estimates and judgments

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

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

#### Measurement of the expected credit loss allowance

The credit union reviews its loan portfolio to assess the ECL allowance for loans at least on a quarterly basis. The measurement of the ECL allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of members defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 18.

A number of significant judgements 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 judgements, inputs, methodology and assumptions used for estimating the ECL allowance are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### Fair value of equity investments

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

### 5 Other assets and prepaid expenses

	2018	2017
	\$	\$
Prepaid expenses	83,212	69,778
Accrued interest receivable	1,815	1,834
Rebates and other receivables	16,495	114,485
Concentra mortgage pool receivable	359,993	1,068,375
Foreclosed properties, net of provision of \$nil (2017 - \$42,762)	-	300,000
Income taxes receivable	2,080	188
	<hr/>	<hr/>
	463,595	1,554,660
	<hr/>	<hr/>

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

(expressed in Canadian dollars)

### 6 Members' loans

At December 31, 2018, loans to members are presented net of allowances for ECLs totalling \$159,287. 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.

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>2018</b>
	\$	\$	\$	Total
				\$
Personal				
Term loan	10,576,653	6,121	7,148	10,589,922
Line of credit	956,125	18,959	99,839	1,074,923
Mortgage	44,554,501	622,360	391,363	45,568,224
Business				
Term loan	8,775,775	130,067	119,431	9,025,273
Line of credit	2,352,271	39,418	20,332	2,412,021
Business	8,223,476	-	-	8,223,476
Accrued interest	107,728	-	-	107,728
Gross carrying amount	75,546,529	816,925	638,113	77,001,567
Loss allowance	(48,844)	(3,643)	(106,800)	(159,287)
Carrying amount	75,497,685	813,282	531,313	76,842,280

### 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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

(expressed in Canadian dollars)

### 6 Members' loans (continued)

#### Loss allowance (continued)

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

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

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

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

(expressed in Canadian dollars)

### 6 Members' loans (continued)

#### Loss allowance (continued)

##### *Foreclosed collateral*

During the year, there were \$nil (2017 - \$363,152) 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, 2018, the credit union had \$nil in foreclosed properties held for resale (2017 - \$300,000), which are included in other assets on the statement of financial position.

Disclosures relating to the year ended December 31, 2017 are as follows:

#### 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>	<u>76,317</u>	<u>73,745</u>	<u>150,062</u>

#### b) Members' loans individually impaired:

	2017 \$
<b>Members' loans individually impaired or past due with specific allowance</b>	
Mortgage	182,650
Personal	37,087
Commercial loans and mortgages	<u>65,703</u>
<b>Net impaired loans with specific allowance</b>	<u>285,440</u>
<b>Allowance for impairment</b>	<u>76,317</u>

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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

(expressed in Canadian dollars)

### 6 Members' loans (continued)

#### Loss allowance (continued)

##### 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 \$
As at December 31, 2017	500,338	59,437	16,144	575,919

### 7 Long-term investments

	2018 \$	2017 \$
Securities at FVTPL (2017: available-for-sale)		
Atlantic Central	892,880	863,660
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>1,836,709</u>	<u>1,807,489</u>

For the year ended December 31, 2018, investments in debt and equity securities have been classified as FVTPL.

For the year ended December 31, 2017, long-term investments were classified as either held-to-maturity or available-for-sale.

The securities held in Atlantic Central, including NS Provincial and Class LSM shares, League Data Limited and Concentra Financial are classified as FVTPL (2017: available-for-sale) and held at fair value which approximates their redemption value. Other investments consist of shares held in private companies and co-operatives which are classified as FVTPL (2017: held at cost less any impairment which approximates fair value).

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

(expressed in Canadian dollars)

### 8 Intangible assets

	Customer lists \$
Cost	
<b>Balance at January 1, 2018</b>	650,000
Additions	50,000
<b>Balance at December 31, 2018</b>	<u>700,000</u>
Accumulated amortization	
<b>Balance at January 1, 2018</b>	116,155
Amortization	68,336
<b>Balance at December 31, 2018</b>	<u>184,491</u>
Net book value	<u>515,509</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 as consideration for the purchase. The credit union is amortizing the intangible asset on a straight-line basis over 10 years.

### 9 Property and equipment

	Land \$	Buildings \$	Furniture and equipment \$	Paving \$	Total \$
<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	<u>468,817</u>	<u>1,900,074</u>	<u>368,129</u>	<u>238,814</u>	<u>2,975,834</u>
<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	<u>468,817</u>	<u>1,900,074</u>	<u>368,129</u>	<u>238,814</u>	<u>2,975,834</u>
<b>Year ended December 31, 2018</b>					
Opening net book value	468,817	1,900,074	368,129	238,814	2,975,834
Additions	-	96,161	115,156	-	211,317
Depreciation	-	(116,338)	(86,654)	(13,945)	(216,937)
Closing net book value	<u>468,817</u>	<u>1,879,897</u>	<u>396,631</u>	<u>224,869</u>	<u>2,970,214</u>
<b>At December 31, 2018</b>					
Cost	468,817	2,560,639	1,706,176	317,762	5,053,394
Accumulated depreciation	-	(680,742)	(1,309,545)	(92,893)	(2,083,180)
Net book value	<u>468,817</u>	<u>1,879,897</u>	<u>396,631</u>	<u>224,869</u>	<u>2,970,214</u>

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

### 10 Assets pledged as security

The credit union has pledged all of its assets as security for a \$2,375,000 (2017 - \$2,375,000) line of credit with Atlantic Central. As at December 31, 2018, \$1,633,003 (2017 - \$2,375,000) was available under the line of credit. When utilized, the line of credit bears interest at the prime rate as set by Atlantic Central.

### 11 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 6,090 (2017 - 6,248).

### 12 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.

Continuity of surplus shares:

	2018		2017	
	#	\$	#	\$
Balance – January 1	6,160	781,966	6,314	814,007
Net redeemed	(100)	(35,751)	(154)	(32,041)
Balance – December 31	6,060	746,215	6,160	781,966

### 13 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, and Branch Managers. Compensation awarded to key management included:

- a) Key management, excluding directors

	2018	2017
	\$	\$
Salaries and short-term employee benefits	581,305	432,602

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

(expressed in Canadian dollars)

### 13 Compensation of key management (continued)

#### b) Directors remuneration

	2018 \$	2017 \$
Honorarium	40,917	18,910
Reimbursement for expenses incurred while on credit union business, meetings and training	8,206	11,330
	<u>49,123</u>	<u>30,240</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.

	2018 \$	2017 \$
Loans outstanding at January 1	1,028,076	1,102,938
Loans issued during the year	136,069	212,102
Loan repayments during the year	(314,408)	(286,964)
Changes to board and key management	3,483	-
	<u>853,220</u>	<u>1,028,076</u>
Loans outstanding at December 31	853,220	1,028,076
Interest income earned	<u>32,169</u>	<u>29,580</u>

Included in the above loans is \$63,700 of unsecured loans in stage 3. No specific provisions have been recognized in respect of the above loans (2017 - \$nil). The loans issued during the year to Directors, key management personnel and close family members of \$136,069 (2017 - \$212,102) are repayable over 1-20 years and have interest rates of 4% - 5% (2017 - 3.19% - 4.00%).

### 14 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.

	2018 \$
Undrawn lines of credit	<u>5,951,024</u>
Commitments to extend credit	<u>3,370,960</u>
Letters of credit	<u>74,600</u>

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

### 14 Commitments and contingencies (continued)

#### 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.

	<b>2018</b>
	<b>\$</b>
No later than one year	13,455
Later than one year and no later than five years	26,910

#### 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.

### 15 Fees and commission income

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Account service fees	866,100	868,376
Credit cards	25,033	36,277
Foreign exchange	94,902	182,092
Commissions and fees	275,645	350,339
Other	64,090	68,349
	<hr/>	<hr/>
	1,325,770	1,505,433
	<hr/>	<hr/>

### 16 Operating expenses

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>General and administrative</b>		
Advertising	252,758	202,926
Banking fees	457,715	528,966
Board and committee costs	102,940	106,951
Computer costs	301,168	293,788
Courier and postage	7,552	4,387
Credit Union Central	97,028	98,062
Office	386,672	310,313
Other	48,485	41,694
Professional fees	136,394	69,404
Staff training	5,032	30,405
	<hr/>	<hr/>
	1,795,744	1,686,896
	<hr/>	<hr/>

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

(expressed in Canadian dollars)

### 16 Operating expenses (continued)

	2018 \$	2017 \$
<b>Occupancy</b>		
Property insurance	18,635	18,327
Property taxes	84,850	85,590
Rent	4,012	3,618
Repairs and maintenance	95,639	79,651
Utilities	68,976	64,147
	<hr/> 272,112	<hr/> 251,333
<b>Members' security</b>		
CUDIC	96,448	95,518
Insurance and other	20,485	21,115
	<hr/> 116,933	<hr/> 116,633

### 17 Fair value of financial assets and liabilities

#### 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 that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of the credit union's financial instruments. The carrying value is a reasonable approximation of fair value for the credit union's cash resources, demand deposits, certain other assets and certain other liabilities, due to their short-term nature.

The fair values of financial instruments are as follows:

#### Loans

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

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

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

(expressed in Canadian dollars)

### 17 Fair value of financial assets and liabilities (continued)

#### Deposits

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

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

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

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

	2018		2017	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
<b>Financial assets</b>				
Members' loans	76,893,839	75,868,805	80,327,928	79,842,759
<b>Financial liabilities</b>				
Members' deposits	90,727,705	90,953,738	89,413,136	89,654,382

#### 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, 2018

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(expressed in Canadian dollars)

### 17 Fair value of financial assets and liabilities (continued)

#### Fair value hierarchy (continued)

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

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

### 18 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 ECL 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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

### 18 Risk management (continued)

#### a) Credit risk (continued)

##### *Credit risk exposure*

Beyond the credit risk associated with the above financial assets, the credit union is also exposed to credit risk associated with undrawn lines of credit and undisbursed commitments to members for loans at year-end as disclosed in note 14.

See note 6 for further disclosure on credit risk.

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

##### *Expected credit loss 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 judgements and assumptions adopted by the credit union in addressing the requirements of the standard are discussed below:

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

### 18 Risk management (continued)

#### a) Credit risk (continued)

##### *Significant increase in credit risk*

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 are monitored and reviewed periodically for appropriateness by management.

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

For consumer loans:

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

For commercial loans:

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

##### *Definition of default and credit-impaired assets*

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

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

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

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

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

### 18 Risk management (continued)

#### a) Credit risk (continued)

##### *Measuring ECL – Explanation of inputs, assumptions and estimation techniques*

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

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

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

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

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

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

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

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

### 18 Risk management (continued)

#### a) Credit risk (continued)

##### *Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)*

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

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

##### *Collateral and other credit enhancements*

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

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

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

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

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

#### b) Liquidity risk

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

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

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

(expressed in Canadian dollars)

### 18 Risk management (continued)

#### b) Liquidity risk (continued)

The credit union is required to maintain 10% of members' deposits in liquid investments of which 90% must be held with Atlantic Central. The credit union was in compliance with this requirement at December 31, 2018.

	2018 \$	2017 \$
Required liquidity	9,109,041	8,941,314
Liquid assets	15,937,451	10,264,100
Excess liquidity	6,828,410	1,322,786

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

	2018			
	On demand \$	Under 1 year \$	1 - 3 years \$	Over 3 years \$
Members' deposits	69,326,705	11,021,500	9,856,600	522,900
Trade accounts payable and accrued liabilities	-	501,419	-	-
Credit commitments	5,951,024	3,445,560	-	-
	75,277,729	14,968,479	9,856,600	522,900

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

#### c) Market and interest rate risk

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

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.

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

### 18 Risk management (continued)

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

##### *Interest rate risk policies and processes*

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

##### *Interest rate risk measurement techniques*

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the credit union's net interest revenue and a 1% movement in rates. At December 31, 2018, the credit union's risk related to a 1% decrease in rates was approximately \$99,000 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, 2018. 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, 2018 were as follows:

##### Assets

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

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

(expressed in Canadian dollars)

### 18 Risk management (continued)

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

##### *Interest rate risk measurement techniques (continued)*

##### Liabilities

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

##### Rates

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

	<b>2018</b>							
	Demand principal \$	Rate %	Under 1 year principal \$	Rate %	1-3 years principal \$	Rate %	Over 3 years principal \$	Rate %
<b>Assets</b>								
Cash and investments	83,802	-	14,703,780	1.70	300,000	4.60	1,536,709	3.19
Members' loans	15,731,939	6.35	15,902,700	4.06	20,664,500	3.62	24,594,700	4.02
	<u>15,815,741</u>	<u>6.32</u>	<u>30,606,480</u>	<u>2.92</u>	<u>20,964,500</u>	<u>3.64</u>	<u>26,131,409</u>	<u>3.97</u>
<b>Liabilities</b>								
Members' deposits	69,326,705	0.46	11,021,500	1.72	9,856,600	2.32	522,900	1.88
Asset (liability) gap	<u>(53,510,964)</u>		<u>19,584,980</u>		<u>11,107,900</u>		<u>25,608,509</u>	
	<b>2017</b>							
	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, 2018

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(expressed in Canadian dollars)

### 19 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 equity that is not less than 5% of its assets. Capital is comprised of members' equity plus members' shares which amounts to \$6,015,640 as at December 31, 2018 (2017 - \$5,952,037).

As at December 31, 2018, the credit union's equity as a percent of assets was 6.13% (2017 - 6.18%) meeting the 5% minimum requirement.

### 20 Income taxes

#### i) Tax rate reconciliation

	2018 \$	2017 \$
Income before income taxes	120,471	275,114
Taxes at statutory rates 13% (2017 - 13.5%)	15,661	37,140
Reduction of small business rate	-	17,259
Permanent differences and other	4,571	4,723
	<u>20,232</u>	<u>59,122</u>

#### ii) Deferred taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate for 2018 of 13% (2017 - 13.5%).

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

	2018 \$	2017 \$
Balance, December 31	18,000	33,000
Deferred income tax recovery (expense)	5,000	(15,000)
Balance, December 31	<u>23,000</u>	<u>18,000</u>

# Community Credit Union of Cumberland Colchester Limited

## Notes to Financial Statements

For the year ended December 31, 2018

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(expressed in Canadian dollars)

### 20 Income taxes (continued)

#### ii) Deferred taxes (continued)

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

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Deferred income tax assets (liabilities)</b>		
Property and equipment	50,000	48,000
Allowance for impaired loans	8,000	10,000
Atlantic Central shares	(33,000)	(33,000)
Goodwill and intangibles	(2,000)	(7,000)
	<hr/>	<hr/>
	23,000	18,000
	<hr/>	<hr/>