Valley Credit Union Limited

Consolidated Financial Statements
December 31, 2020

Independent auditor's report

To the Members of Valley Credit Union Limited

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Valley Credit Union Limited and its subsidiary (together, the Company) as at December 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2020;
- the consolidated statement of income and comprehensive income for the year then ended;
- the consolidated statement of changes in members' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated 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 Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Company'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 Company'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 consolidated 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
March 23, 2021

Valley Credit Union Limited

Consolidated Statement of Financial Position

As at December 31, 2020

	2020 $	2019 $
Assets		
Cash and cash equivalents (note 5)	45,781,444	28,658,710
Other assets (note 6)	242,162	929,453
Members' loans (note 7)	176,800,346	162,592,359
Long-term investments (note 8)	6,301,442	3,561,226
Property and equipment (note 9)	3,331,063	3,583,066
	232,456,457	199,324,814
Liabilities		
Payables and accruals	1,354,312	1,627,237
Income taxes payable	59,934	124,353
Members' deposits (note 11)	215,622,128	183,689,911
Lease liabilities	217,815	284,690
Deferred income taxes (note 12)	89,778	4,885
	217,343,967	185,731,076
Members' Equity		
Equity shares (note 14)	43,130	42,305
Retained earnings and restricted surplus	15,069,360	13,551,433
	15,112,490	13,593,738
	232,456,457	199,324,814

Commitments and contingencies (note 18)

Approved by the Board of Directors

________________________________ Director ________________________________ Director

The accompanying notes are an integral part of these consolidated financial statements.

Valley Credit Union Limited

Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2020

	2020 $	2019 $
Financial income		
Members' loans	7,151,974	7,250,192
Cash and cash equivalents	341,470	418,112
Dividend income	139,975	143,514
	7,633,419	7,811,818
Financial expense		
Members' deposits	1,301,354	1,660,123
Other	12,634	15,384
Patronage rebate	-	443,588
	1,313,988	2,119,095
Net financial income	6,319,431	5,692,723
Fee and commission income (note 15)	2,170,564	2,371,251
Provision for impaired loans (note 7)	(74,317)	(204,544)
Gain on disposal of investments	-	65,190
Net interest and other income	8,415,678	7,924,620
Operating expenses		
Personnel	3,459,696	3,477,391
General business (note 21)	2,314,490	2,364,759
Occupancy costs (note 21)	711,972	681,929
Members' security (note 21)	309,747	261,924
	6,795,905	6,786,003
Income before the following	1,619,773	1,138,617
Gain on sale of assets	403,042	-
Loss on disposal of property and equipment	-	(8,948)
Income before income taxes	2,022,815	1,129,669
Income tax expense (note 12)		
Current	419,995	226,597
Deferred	84,893	40,025
	504,888	266,622
Net income and comprehensive income for the year	1,517,927	863,047
Net income and comprehensive income attributable to members	1,517,927	863,047

The accompanying notes are an integral part of these consolidated financial statements.

Valley Credit Union Limited

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2020

	Equity shares $	Restricted Surplus (note 13) $	Retained earnings $	Total members' equity $
Balance at December 31, 2018	42,190	390,271	12,298,115	12,730,576
Net income and comprehensive income	-	-	863,047	863,047
Issuance of members' shares, net of redemption	115	-	-	115
Balance at December 31, 2019	42,305	390,271	13,161,162	13,593,738
Net income and comprehensive income	-	-	1,517,927	1,517,927
Issuance of members' shares, net of redemption	825	-	-	825
Balance – December 31, 2020	43,130	390,271	14,679,089	15,112,490

The accompanying notes are an integral part of these consolidated financial statements.

Valley Credit Union Limited

Consolidated Statement of Cash Flows

For the year ended December 31, 2020

	2020 $	2019 $
Operating activities		
Net income and comprehensive income for the year	1,517,927	863,047
Charges (credits to income not involving cash)		
Depreciation of property and equipment	437,638	407,620
Provision for impaired loans	74,317	204,544
Loans written off during the year, net of recoveries	(122,343)	(90,886)
Deferred income taxes	84,893	40,025
Non-cash dividend distribution	-	(66,349)
Gain on sale of assets	(403,042)	-
Gain on disposal of investments	-	(65,190)
Loss on disposal of property and equipment	-	8,948
	1,589,390	1,301,759
Net change in non-cash working capital balances related to operations		
Decrease (increase) in other assets	687,291	(798,841)
Decrease (increase) in accrued interest receivable	(46,959)	(34,057)
Increase (decrease) in payables and accruals	(272,925)	115,695
Increase (decrease) in income tax payable	(64,419	99,697
Increase (decrease) in accrued interest payable	(198,377)	194,345
	1,694,001	878,598
Financing activities		
Payments on lease liabilities	(66,875)	(63,783)
Net increase in members' deposits	32,130,594	21,071,051
Net increase in equity shares	825	115
	32,064,544	21,007,383
Investing activities		
Net increase in members' loans	(14,113,002)	(9,356,533)
Net (increase) decrease in investments	(2,337,174)	82,740
Proceeds on disposition of investments	-	65,190
Additions to property and equipment	(185,635)	(229,716)
	(16,635,811)	(9,438,319)
Net change in cash and cash equivalents during the year	17,122,734	12,447,662
Cash and cash equivalents – Beginning of year	28,658,710	16,211,048
Cash and cash equivalents – End of year	45,781,444	28,658,710

The accompanying notes are an integral part of these consolidated financial statements.

1 General information

Valley Credit Union Limited (the "credit union") is incorporated under the Nova Scotia Credit Union's Act, and the operation of the credit union is subject to the Financial Institution Act. The credit union provides a full range of bank services to its members in 7 branches located throughout western Nova Scotia. The credit union's head office is located in Waterville, Nova Scotia, Canada.

These consolidated financial statements have been authorized for issue by the Board of Directors on March 23, 2021.

2 Changes in accounting standards

There were no changes in accounting standards during the year that had a significant impact on the credit union.

Future changes in accounting standards

There are no changes in accounting standards that have been issued but are not yet effective that are expected to have a significant impact on the credit union.

3 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

The credit union presents its consolidated statement of financial position on a non-classified basis in order of liquidity. The following balances are generally classified as current: cash and cash equivalents, loans outstanding due within one year, members' deposits due on demand or within one year and payables and accruals.

The credit union classifies its expenses by the nature of expenses method.

The preparation of consolidated financial statements in accordance 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 period the assumptions changed. The areas involving a higher degree of judgment or complexity, where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Basis of consolidation

These consolidated financial statements include the amounts of the credit union's wholly-owned subsidiary, 3100522 Nova Scotia Ltd. Intercompany transactions and balances have been eliminated from the consolidated accounts.

Basis of measurement

The consolidated 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 and loss ("FVTPL").

3 Summary of significant accounting policies (continued)

Financial instruments

Financial assets and liabilities

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

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.

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 ("ECL"s) 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 and expense

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

Initial recognition and measurement

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

At initial recognition, the credit union measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in net income. 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 when an asset is newly originated.

3 Summary of significant accounting policies (continued)

Measurement methods (continued)

Initial recognition and measurement (continued)

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.

Classification and subsequent measurement

Financial assets are subsequently classified using the following measurement categories:

- FVTPL;
- FVOCI; 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 instruments are below:

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

- 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 presented in the consolidated statement of income and comprehensive income within "Investment income" in the period in which it arises.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest ("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 impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost, which are recognized in net income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income.

3 Summary of significant accounting policies (continued)

Classification and subsequent measurement (continued)

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 (i.e. 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.

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 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 clasified and measured at FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

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 period following the change. Such changes are expected to be very infrequent and none have occurred during the period.

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 includes 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 the 'investment income' line in the consolidated statement of income and comprehensive income.

3 Summary of significant accounting policies (continued)

Investment in associates

Associates are entities over which the credit union exercises significant influence, but not control. The credit union accounts for its investments in associates using the equity method. The credit union's share of profits or losses of associates is recognized in the consolidated statement of income in financial income.

Unrealized gains on transactions between the credit union and its associates are eliminated to the extent of the credit union's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests of the credit union in associates are recognized in the consolidated statement of income.

For investments in associates, a significant or prolonged decline in fair value of the investment below its carrying value is evidence that the investment is impaired. The impairment loss is the difference between the carrying value and its recoverable amount at the measurement date. The recoverable amount is the higher of an investment's fair value less costs of disposal and its value in use.

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 17 provides more detail of how the ECL is measured.

Modification of loans

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

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

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

3 Summary of significant accounting policies (continued)

Modification of loans (continued)

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).

Derecognition

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the credit union transfers substantially all the risks and rewards of ownership, or (ii) the credit union neither transfers nor retains substantially all the risks and rewards of ownership and the credit union has not retained control.

The credit union enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as ‘pass through’ transfers that result in derecognition if the credit union:

- has no obligation to make payments unless it collects equivalent amounts from the assets;
- is prohibited from selling or pledging the assets; and
- has an obligation to remit any cash it collects from the assets without material delay.

Financial liabilities

The credit union designates members’ deposits, payables and accruals and secured borrowing as financial liabilities. In both the current and prior period, financial liabilities are initially recognized at fair value and subsequently measured at amortized cost.

Derecognition

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, held in current accounts, interest bearing liquidity deposits held at Atlantic Central and bank overdrafts.

Foreclosed assets

Foreclosed assets, if any, are recorded at the lower of the amortized cost of the loan or mortgage foreclosed, adjusted for revenues received and costs incurred subsequent to foreclosure, and estimated net proceeds from the sale of the assets.

3 Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized using the following methods and rates:

Buildings	5% declining-balance
Furniture and equipment	20% declining-balance
Vault, security equipment and paving	10% declining-balance
Leasehold improvements	straight-line over the term of the lease
Computer equipment	3 years straight-line
Automated banking machine and cash dispensing unit	5 years straight-line

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

Leases

Leases are recognized as a right-of-use-asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

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

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

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

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

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of the value in use and fair value less costs to sell, the asset is written down accordingly.

Impairment charges are included in net income and comprehensive income.

3 Summary of significant accounting policies (continued)

Members' deposits

All members' deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Members' deposits are subsequently measured at amortized cost, using the effective interest rate method.

Patronage rebates

The credit union policy is to accrue patronage rebates when approved by the Board of Directors. These rebates are recorded in the consolidated statement of income and comprehensive income in the year to which they relate.

Other income

Fee and commissions are recognized when earned, specifically when amounts are fixed or can be determined and the ability collect is reasonably assured. Income from profit sharing arrangements is recognized when received.

Income taxes

i) Current income tax

Income tax payable is calculated on the basis of current Canadian tax law and is recognized as an expense for the period except to the extent that it relates to items that are recognized in other comprehensive income or directly in equity.

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

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

The credit union does not offset income tax liabilities and current income tax assets.

ii) Deferred income tax

Deferred income tax is 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 consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the reporting date and are expected to apply when the related deferred income tax asset or liability is realized or settled. The principal temporary differences arise from depreciation of property and equipment and specific provisions 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.

3 Summary of significant accounting policies (continued)

Foreign exchange

The functional currency of the credit union is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies (US dollars) are translated into Canadian dollars at rates prevailing at the year end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in income and comprehensive income for the year.

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 period the assumptions changed.

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The breadth and depth of the impact of COVID-19 on the global economy and financial market has continued to evolve with disruptive effects, while also contributing to the increased market volatility and changes in the macroeconomic environment. The COVID-19 pandemic continues to evolve and the economic environment in which the credit union operates could be subject to sustained volatility, which could continue to negatively impact the credit union's financial results, as the duration of the pandemic, including the possibility of subsequent waves, and the effectiveness of steps undertaken by the governments and central banks in response to the pandemic remains uncertain. The current environment required particularly complex judgments and estimates, and the credit union closely monitors the changing conditions and their impact to the ECL estimates.

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

Measurement of the ECL 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 complex models and significant assumptions about future economic conditions and credit behavior (i.e. 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 17.

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

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

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

4 Critical accounting estimates and judgements (continued)

Derecognition of financial assets

The credit union's securitization activities are complex arrangements which require the credit union to make significant judgments about the extent to which the rights to the cash flows of the transferred receivables and/or the obligation to pay cash flows have been transferred to third parties in order to determine whether the transfers should be accounted for as a sale for accounting purposes. In making such judgment, the credit union needs to assess the extent to which the exposure to the future variability of cash flows was transferred in assessing whether the risks and rewards of the financial assets have been substantially transferred or retained.

Depending on the nature of the transfer arrangements, the credit union may carry out quantitative as well as qualitative tests to support its conclusion as to whether the risks and rewards of a financial asset have been transferred to third parties.

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 Cash and cash equivalents

	2020 $	2019 $
Cash on hand and in current accounts	5,381,622	2,336,291
Atlantic Central interest bearing deposits	40,399,822	26,322,419
	45,781,444	28,658,710

6 Other assets

	2020 $	2019 $
League Data share dividend receivable	2,729	2,729
Mortgage pool receivable	-	781,591
Prepaid expenses and other	239,433	145,133
	242,162	929,453

7 Members' loans

As at December 31, 2020, loans to members are presented net of allowance for ECLs totalling $336,747 (2019 – $384,773). 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 unions maximum exposure to credit risk on these assets.

				2020
	Stage 1 **$**	**Stage 2** **$**	**Stage 3** **$**	**Total** **$**
Personal				
Term loan	17,256,493	317,123	183,937	17,757,553
Line of credit	14,987,569	-	56,535	15,044,104
Mortgage	79,474,236	-	160,768	79,635,004
Business				
Term loan	54,629,912	-	274,430	54,904,342
Line of credit	1,552,296	-	67,687	1,619,983
Mortgage	7,818,132	-	-	7,818,132
Accrued interest	357,975	-	-	357,975
Gross carrying amount	176,076,613	317,123	743,357	177,137,093
Loss allowance	(187,686)	(37,894)	(111,167)	(336,747)
Carrying amount	175,888,927	279,229	632,190	176,800,346

				2019
	Stage 1 **$**	**Stage 2** **$**	**Stage 3** **$**	**Total** **$**
Personal				
Term loan	19,748,659	182,608	161,444	20,092,711
Line of credit	16,586,521	-	19,623	16,606,144
Mortgage	73,195,340	-	660,450	73,855,790
Business				
Term loan	40,980,655	-	274,430	41,255,085
Line of credit	2,459,049	-	62,701	2,521,750
Mortgage	8,334,636	-	-	8,334,636
Accrued interest	311,016	-	-	311,016
Gross carrying amount	161,615,876	182,608	1,178,648	162,977,132
Loss allowance	(129,709)	(10,721)	(244,343)	(384,773)
Carrying amount	161,486,167	171,887	934,305	162,592,359

7 Member's loans (continued)

Loss allowance

The loss allowance recognized in the period 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 period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- 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 period, 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 period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

				2020
Personal	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 month ECL $	**Lifetime ECL $**	**Lifetime ECL $**	**$**
Loss allowance as at January 1, 2020	94,391	10,721	186,381	291,493
Transfers	(205)	29,642	(29,437)	-
Net remeasurement of loss allowance	32,876	(2,470)	3,908	34,314
Write-offs	-	-	(129,762)	(129,762)
Recoveries	-	-	7,302	7,302
Loss allowance as at December 31, 2020	127,062	37,893	38,392	203,347

7 Member's loans (continued)

Business	Stage 1 12 month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	2020 Total $
Loss allowance as at January 1, 2020	35,326	-	57,954	93,280
Transfers	6,713	-	(6,713)	-
Net remeasurement of loss allowance	18,586	-	21,417	40,003
Recoveries	-	-	117	117
Loss allowance as at December 31, 2020	60,625	-	72,775	133,400

Personal	Stage 1 12 month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	2019 Total $
Loss allowance as at January 1, 2019	91,301	12,310	115,801	219,412
Transfers	(154,583)	(299)	154,882	-
Net remeasurement of loss allowance	157,672	(1,289)	6,528	162,911
Write-offs	-	-	(99,131)	(99,131)
Recoveries	-	-	8,301	8,301
Loss allowance as at December 31, 2019	94,390	10,722	186,381	291,493

Business	Stage 1 12 month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	2019 Total $
Loss allowance as at January 1, 2019	30,042	-	21,661	51,703
Transfers	(16,047)	-	16,047	-
Net remeasurement of loss allowance	21,331	-	20,302	41,633
Write-offs	-	-	(323)	(323)
Recoveries	-	-	267	267
Loss allowance as at December 31, 2019	35,326	-	57,954	93,280

Foreclosed collateral

During the year, there were $101,430 in foreclosed loans (2019 – $nil). Foreclosed properties are sold as soon as is practicable and when, in management's opinion, it is the most advantageous time to mitigate the risk of additional loss. As at December 31, 2020, the credit union had $nil (2019 – $nil) in foreclosed properties held for resale.

8 Long-term investments

	2020 $	2019 $
Shares		
Atlantic Central	3,343,510	3,006,336
Concentra Financial	500,000	500,000
League Data Limited	54,580	54,580
Other	310	310
Long-term deposit		
Concentra Financial	2,000,000	-
Investment in associate		
CU Financial Management Limited	403,042	-
	6,301,442	3,561,226

Investments in debt and equity securities have been classified as FVTPL. Investments in associates are accounted for using the equity method.

During the year, the credit union sold its wealth management business to CU Financial Management Limited in exchange for 43 common shares of CU Financial Management Limited valued at $452,856. A gain of $403,042, being the proceeds less the deferred gain of $53,814, which represents the 11% of the business that the Credit Union continues to own through its investment, was recorded on this disposal.

9 Property and equipment

	Land $	Buildings $	Furniture and equipment $	Vault, security equipment and paving $	Leasehold improvements $	Computer equipment $	Right-of-use assets $	Total $
Year ended December 31, 2019								
Opening net book value	841,538	1,264,084	382,430	476,506	368,385	103,156	333,819	3,769,918
Additions	-	-	58,484	105,738	3,687	61,806	-	229,715
Depreciation	-	(60,804)	(81,585)	(79,255)	(63,293)	(53,969)	(68,714)	(407,620)
Disposals	-	-	(53,500)	(342,218)	(12,800)	(198,285)	-	(606,803)
Depreciation of disposals	-	-	49,726	337,458	12,387	198,285	-	597,856
Closing net book value	841,538	1,203,280	355,555	498,229	308,366	110,993	265,105	3,583,066
At December 31, 2019								
Cost	841,538	2,268,095	1,620,211	1,024,249	706,564	1,007,125	333,819	7,801,601
Accumulated depreciation	-	(1,064,815)	(1,264,656)	(526,020)	(398,198)	(896,132)	(68,714)	(4,218,535)
Net book value	841,538	1,203,280	355,555	498,229	308,366	110,993	265,105	3,583,066
Year ended December 31, 2020								
Opening net book value	841,538	1,203,280	355,555	498,229	308,366	110,993	265,105	3,583,066
Additions	-	42,312	22,353	55,095	-	65,875	-	185,635
Depreciation	-	(60,165)	(72,693)	(103,413)	(61,293)	(71,360)	(68,714)	(437,638)
Disposals	-	-	-	(78)	-	(1,357)	-	(1,435)
Depreciation of disposals	-	-	-	78		1,357	-	1,435
Closing net book value	841,538	1,185,427	305,215	449,911	247,073	105,508	196,391	3,331,063
At December 31, 2020								
Cost	841,538	2,310,407	1,642,564	1,079,266	706,564	1,071,643	333,819	7,985,801
Accumulated depreciation	-	(1,124,980)	(1,337,349)	(629,355)	(459,491)	(966,135)	(137,428)	(4,654,738)
Net book value	841,538	1,185,427	305,215	449,911	247,073	105,508	196,391	3,331,063

10 Line of credit

The credit union has an operating line of credit with Atlantic Central of $4,989,000 (2019 – $4,417,000); of this amount, $4,989,000 was available at December 31, 2020 (2019 – $4,417,000). The interest rate on the line of credit is prime, which was 1.95% at December 31, 2020 (2019 – 3.45%). The credit union has pledged all of its assets as security for their line of credit.

11 Members' deposits

	2020 $	2019 $
Savings	63,417,151	51,107,544
Chequing	95,723,558	69,982,068
Term deposits	22,264,944	27,247,053
Registered savings and retirement plans	12,349,928	13,040,325
Tax free savings accounts	21,498,538	21,746,535
Accrued deposit interest	368,009	566,386
	215,622,128	183,689,911

12 Income taxes

i) Tax rate reconciliation

	2020 $	2019 $
Income before income taxes	2,022,815	1,129,669
Taxes at statutory rates	596,730	350,197
Impact of income taxable at preferred rate	(84,395)	(90,000)
Permanent differences and other	(7,447)	6,425
	504,888	266,622

ii) Deferred taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 29% (2019 – 31%) which is calculated as follows:

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

	2020 $	2019 $
Balance, January 1	(4,885)	35,140
Deferred income tax expense	(84,893)	(40,025)
Balance, December 31	(89,778)	(4,885)

12 Income taxes (continued)

ii) Deferred taxes (continued)

Deferred income tax asset (liability) is attributable to the following items:

	2020 $	2019 $
Deferred income tax asset (liability)		
Allowance for impaired loans	58,752	48,114
Property and equipment	85,685	72,425
Atlantic Central shares	(119,770)	(128,030)
Investment in CU Financial Management Limited	(116,882)	-
Other	2,437	2,606
	(89,778)	(4,885)

13 Capital requirements and management

Capital management

The credit union's capital consists of retained earnings, restricted surplus and equity shares.

The credit union's strategic plan dictates management's approach to growth; loan mix, credit quality, fixed assets, profitability objectives and dividend/patronage rebate policy and assume a significant influence on customer-owner service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the credit union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the credit union's strategic objectives.

In accordance with the Credit Union Act, the credit union shall maintain a level of equity that is not less than 5% of its assets. As at December 31, 2020, members' equity was 6.50% (2019 – 6.82%).

Management will continue to develop business plans targeting a capital adequacy ratio which exceeds the minimum ratio established by legislation or regulations.

Restricted surplus

In 2011, the credit union received a non-cash stock dividend from Atlantic Central of $520,000 in the form of 5,200 Class NS shares having a redemption value of $100 per share. This amount was included in income for 2011 with a corresponding current and deferred tax liability of $129,729, resulting in net income of $390,271 from this transaction.

Pursuant to a directive issued by CUDIC, the $390,271 net income and retained earnings resulting from this stock dividend transaction cannot be distributed until such time as total equity of the credit union is equal to or greater than 8% of total assets and retained earnings are equal to or greater than 4% of total assets.

14 Equity shares

The credit union is authorized to issue an unlimited number of common shares. Common shares can only be withdrawn with the approval of the Board of Directors. The shares have a par value of $5 per share and each member is required to hold one share. During 2020, the net increase in common shares was 165 (2019 – net increase of 35) for cash consideration of $825 (2019 – $175). Also, during the year, adjustments were made to the minimum $5 balance in the amount of $nil (2019 – $60). The total number of shares issued at the end of the year was 9,030 (2019 – 8,862).

15 Fee and commission income

	2020 $	2019 $
Interac fees	21,149	22,835
Service charges	1,713,574	1,781,850
Commissions	168,504	386,614
Rebates	122,666	1,968
Rental income	76,039	80,819
Mortgage penalties	55,668	74,965
Other	12,964	22,200
	2,170,564	2,371,251

16 Fair value of financial assets and liabilities

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 and cash equivalents, demand deposits and payables and accruals, due to their short-term nature.

16 Fair value of financial assets and liabilities (continued)

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 performing 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 performing loans, changes in interest rates have minimal impact on the fair value since loans reprice to market. On that basis, fair value is assumed to equal carrying value.
- The total value of loans determined using the above assumptions is reduced by the allowance for impaired loans to determine the fair value of the credit union's loan portfolio.

Deposits

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

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

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

	2020		2019	
	Carrying value $	**Fair value $**	**Carrying value $**	**Fair value $**
Assets				
Cash and cash equivalents	45,781,444	45,781,444	28,658,710	28,658,710
Members' loans	176,779,118	174,740,741	162,666,116	161,346,722
Long-term investments	6,301,442	6,301,442	3,561,226	3,561,226
Liabilities				
Members' deposits	215,254,119	216,182,447	183,123,525	184,079,942
Payables and accruals	1,354,312	1,354,312	1,627,237	1,627,237

16 Fair value of financial assets and liabilities (continued)

Fair value hierarchy

Financial instruments recorded at fair value on the consolidated 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.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

	2020			2019		
	Level 1 $	Level 2 $	Level 3 $	Level 1 $	Level 2 $	Level 3 $
Investments	-	5,898,400	403,042	-	3,561,226	-

17 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.

i) 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 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 applicable guidance. The approach taken for 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.

17 Risk management (continued)

i) Credit risk (continued)

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

Credit risk exposure:

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

	2020 $	2019 $
Atlantic Central interest bearing deposits	40,399,822	26,322,419
Members' loans		
Personal	112,436,661	110,554,645
Business	64,342,457	52,111,471
Investments	6,301,442	3,561,226
	223,480,382	192,549,761

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 18 (a).

See note 7 for further disclosure on credit risk.

Short-term deposits and cash at banks 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.

17 Risk management (continued)

ECL measurement

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

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

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

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

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 personal 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 (i.e. using internal watch lists for monitoring the credit risk of borrowers).

For business 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 (i.e. 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).

The credit union has not used the low credit risk exemption for any financial instruments in the year ended December 31, 2020.

17 Risk management (continued)

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.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The ECL is 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.

17 Risk management (continued)

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

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 as follows:

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

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

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

Collateral and other credit enhancements

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

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

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

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

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.

17 Risk management (continued)

ii) 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.

Exposure to liquidity risk:

The credit union is required to maintain 9% (2019 – 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, 2020.

	2020 $	2019 $
Required liquidity	19,395,531	18,336,165
Liquid assets	47,450,949	30,539,939
Excess liquidity	28,055,418	12,203,774
Liquid assets comprise		
Cash on hand	2,373,516	1,567,659
Current accounts, short-term investments and liquidity deposits	45,077,433	28,972,280
	47,450,949	30,539,939

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

				2020
	On demand $	Under 1 year $	1 - 3 years $	Over 3 years $
Members' deposits	172,701,279	28,850,580	11,744,160	1,958,100
Trade and other payables	-	1,354,312	-	-
Undrawn lines of credit	17,540,487	-	-	-
	190,241,766	30,204,892	11,744,160	1,958,100

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

				2019
	On demand $	Under 1 year $	1 - 3 years $	Over 3 years $
Members' deposits	132,939,125	29,741,200	17,158,200	3,285,000
Trade and other payables	-	1,627,237	-	-
Undrawn lines of credit	15,648,416	-	-	-
	148,587,541	31,368,437	17,158,200	3,285,000

17 Risk management (continued)

iii) Market and interest rate risk

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

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

Interest rate risk policies and processes:

The credit union meets its objectives for interest rate risk management by structuring the consolidated 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 to a 1% movement in rates. As at December 31, 2020, the credit union's risk related to a 1% movement in rates was 14 basis points or $330,000.

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 of each year. 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.

17 Risk management (continued)

iii) Market and interest rate risk (continued)

The assumptions on December 31, were as follows:

Assets

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

Liabilities

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

Rates

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

December 31, 2020

	Demand principal $	Rate %	Under 1 year principal $	Rate %	1 - 3 years principal $	Rate %	Over 3 years principal $	Rate %
Assets								
Cash and investments	5,381,626	-	42,899,820	0.48	-	-	3,851,254	3.56
Members' loans	36,170,290	5.32	23,992,330	3.51	49,941,620	3.87	66,674,878	3.88
	41,551,916	4.63	66,892,150	1.57	49,941,620	3.87	70,526,132	3.86
Liabilities								
Members' deposits	172,701,270	0.28	28,850,580	1.09	11,744,160	2.22	1,958,109	2.46
Asset/liability gap	(131,149,354)		38,041,570		38,197,480		68,568,023	

December 31, 2019

	Demand principal $	Rate %	Under 1 year principal $	Rate %	1 - 3 years principal $	Rate %	Over 3 years principal $	Rate %
Assets								
Cash and investments	2,336,310	-	26,822,400	1.74	-	-	3,061,226	3.56
Members' loans	40,724,016	6.63	23,681,400	3.85	49,160,500	3.62	49,100,200	4.30
	43,060,326	6.63	50,503,800	2.73	49,160,500	3.62	52,161,426	4.25
Liabilities								
Members' deposits	132,939,125	0.69	29,741,200	1.87	17,158,200	2.20	3,285,000	2.35
Asset/liability gap	(89,878,799)		20,762,600		32,002,300		48,876,426	

18 Commitments and contingencies

a) Credit commitments

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

	$
Undrawn lines of credit	17,540,487

b) Contingencies

In the ordinary course of business, the credit union has legal proceedings brought against it and provisions have been included in liabilities where appropriate. As at December 31, 2020, $nil (2019 - $nil) provisions have been recorded.

19 Related party transactions

The credit union entered into the following transactions with key management personnel, which are defined by IAS 24, *"Related Party Disclosures"*, as those persons having authority and responsibility for planning, direction and controlling the activities of the credit union.

a) Key management

	2020 $	2019 $
Salaries	883,876	911,531
Post-employment benefits	42,874	53,385
	926,750	964,916

b) Directors' remuneration

	2020 $	2019 $
Honorarium	12,600	12,548
Payment for expenses incurred while on credit union business or training	2,975	13,096
	15,575	25,644

c) Loans to directors, key management personnel and their families

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

	2020 $	2019 $
Loans outstanding at January 1	700,831	1,116,831
Loans issued during the year	209,018	10,574
Changes in key management during the year	(125,600)	(411,579)
Loan repayments during the year	(99,007)	(14,995)
Loans outstanding at December 31	685,242	700,831
Interest income earned	21,013	34,125

19 Related party transactions (continued)

No provisions have been recognized in respect of loans given to key management. The loans issued to directors, key management personnel and close family members during the year of $209,018 (2019 – $10,574) are repayable over 0 – 25 years and have interest rates of 2.95% – 5.45%, (2019 – 2.59% – 4.25%).

20 Company pension plan

The credit union provides its employees with an RPP matching pension plan. As at December 31, 2020, there were no required future contributions in respect of past service and all contributions required under the plan had been funded.

During the fiscal year, the credit union contributed $129,806 (2019 – $132,899) towards the pension plan.

21 Operating expenses

	2020 $	2019 $
General business		
Advertising and promotion	95,381	110,571
Banking fees	704,099	675,039
Board expenses	26,364	40,553
Computer costs	437,852	411,754
Courier and postage	26,695	28,324
Credit Union Central	204,103	262,281
Depreciation – equipment and computer	136,581	116,458
Donations	-	750
Equipment maintenance and rent	50,850	56,203
Meetings	5,653	19,251
Membership	52,702	104,143
Office	178,128	147,251
Other	276,518	195,720
Professional fees	103,761	146,993
Staff travel	15,803	49,468
	2,314,490	2,364,759
Occupancy costs		
Depreciation	301,057	291,162
Rent	30,470	29,503
Repairs and maintenance	119,857	127,801
Taxes	89,007	87,601
Utilities	171,581	145,862
	711,972	681,929
Members' security		
CUDIC	188,271	150,458
Insurance and other	121,476	111,466
	309,747	261,924