2018 ANNUAL REPORT

TIGNISH CREDIT UNION

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2018 HIGHLIGHTS

$186M
ASSETS

$170M
DEPOSITS

7,374
MEMBERS

$156M
LOANS

$1.25M
PAID TO MEMBERS

2.1%
GROWTH IN MEMBER SAVINGS

OUR MISSION

The mission of Tignish Credit Union is to provide competitive financial services tailored to meet the needs of our member-owners and their communities.

We pride ourselves in directing the organization we control and in the equality of services provided.

Tignish Credit Union is a community-minded co-operative that helps build through its involvement, its leadership, and the retention of financial resources in the community.

HONEST

INCLUSIVE

PASSIONATE

HOLISTIC

SPIRITUAL

SIMPLISTIC

EVOLUTIONARY

OUR VALUES

BOARD OF DIRECTORS

CLIFFORD DOUCETTE
President

KAREN GAUDET-GAVIN
1st Vice Chair

TRISH SHEA
2nd Vice Chair

MONA JEFFERY
Secretary

WENDY PROFIT

VICTOR HOGAN

GAIL SHEA

CLETUS DUNN

DALE HUSTLER

STAFF


TED PAHL


ARLENE HACKETT


JOHN MCARTHUR


CORALEE STEWART


LAURA PERRY


JENNY BERNARD


IRENE GALLANT


SUZANNE MURPHY


JODY KENNY


JULIE DESROCHES


DANIELLE MCRAE


BONNIE ARSENAULT


RUSS NEUFELD


NADINE GAUDETTE


CAROL-ANN ARSENAULT


TINA SKERRY


CINDY GAUDET


JENNIFER PERRY


JENNIFER COLLICUTT


JENNY K BERNARD


NANCY MACLEOD


JAIME LECLAIR


DENISE FORSYTH


MARLENE HANDRAHAN


SHERRY HORNE


JESSIE THIBODEAU


LEANNE MEGGISON


MACKAYLA GALLANT


KATIE OLIVER

$1.25 MILLION REASONS TO DO MORE WITH YOUR MONEY

IN 2018,
TIGNISH CREDIT UNION
SHARED
$1.25 MILLION
IN PROFITS WITH OUR MEMBERS
THROUGH THE
MEMBER REBATE
PROGRAM.

PRESIDENT'S REPORT

It is my pleasure to be able to report out to you on behalf of the Board of Directors for the Tignish Credit Union, for the year ending December 31, 2018. In 2018 Tignish credit union; thanks to the support of our membership had another successful financial year. Assets growth for 2018 was down from previous years at $186 million which represents growth of 1% over 2018. Our General Manager will address this in his report.

The board is pleased to announce a 1% share dividend rate which equates to just under $500,000 in share dividend payouts back to our members. In addition we are also declaring a rebate on loans, deposits and service fees of totaling $750,000. This represents a total member rebate in 2018 of $1,250,000.

As a financial services cooperative Tignish credit union operates under the common philosophy of democratic structure, service to members and social responsibility; this is what makes credit unions different from many of our banking competitors. It is the goal of Tignish credit union to contribute our time and financial resources back into our local communities. We strive to be the best place to bank and work in the communities we serve.

This board remains ultimately responsible to you the membership of Tignish credit union; we strive to make sound decisions and provide governance to the best of our abilities. The goal of the board is to ensure this credit union remains a solid corporate citizen, and good employer, and a strong community partner.

The board holds regular board meetings monthly, in addition each month one of the 4 board committees meet prior to each monthly board meeting. In addition every three years the board

works with senior management to set out the strategic direction with the creation of a 3 year strategic plan; the board meets annually with management to review the progress to date on this plan.

The general manager is the only employee that reports directly to the board, he is tasked with managing the operations of the credit union and ensuring that our credit union is aligned with the strategic plan for the credit union. The general manager keeps the board informed through regular board meetings and monthly board reports. No one person can run a credit union and Tignish is fortunate to have a management team and a staff that ensures this operation runs smoothly. The staff of the Tignish credit union and the staff in our Credential Securities office in Alberton take great pride in serving our members and although the staff does not report directly to the board we are well informed of their activities and how they are serving our members.

On behalf of the board I want to extend my sincere thanks to each and every employee of Tignish credit union. We appreciate all that you do on a daily basis for our members.

In addition to monthly meetings, each year representatives of the Tignish board of directors attend meetings hosted by Atlantic Central consisting of a spring AGM and a fall conference. All credit unions in the four Atlantic provinces gather together and discuss how we can work together to improve the credit union system for all Atlantic credit union members.

Types of topics discussed are types of technology that will impact credit unions, and how we can share services across the larger credit union system to reduce the end costs to credit unions and their members.

Tignish credit union continues to be active in our support of local organizations in the West Prince area. I would like to thank our staff for giving their time to support to various local organizations. Our staff believes we live in the best place on earth and they support activities that impact where we all live and work. The community report will outline some of these activities and financial support given in more detail.

You will see below in the Manager's Report from our general manager Ted Pahl as he breaks down the operations and financial results for 2018. Once again Tignish credit union had a successful year. This is due completely to the ongoing support of all our members; we could not do this without you. This credit union exists because of the owners; it is successful because our members continue to support it. Take pride in owning this great organization. Thank you for your continued support.

Respectfully submitted,

CLIFFORD DOUCETTE
Board President

MANAGER'S REPORT

As General Manager of Tignish credit union it is my pleasure to review the operational and financial results for the fiscal year 2018.

2018 financial results were very good seeing a total asset growth of 1% and exceptional loan growth of 9% over our previous year end 2017.

This year Tignish credit union is again working closely with the credit unions of PEI and of Atlantic Canada to improve the delivery of our products and services to our members. Working with the other credit unions allows us to leverage the size of the system for purchasing and marketing power and allows us to remain competitive in a highly competitive marketplace. In addition working as a system allows us greater access to the latest technology and trends impacting and influencing the banking industry.

The credit unions of PEI work together on various initiatives from sharing services to marketing and joint sponsorships to bring higher levels of service and reduced costs to all PEI credit union members.

I would like to take the next few minutes and review the financial statements and results for 2018. You as owners should be proud of the strong financial position and continued growth of your credit union this past year.

THE STATEMENT OF FINANCIAL POSITION OR BALANCE SHEET YOU WILL SEE:

- Assets have reached $186 million which represents growth of 1% up from $184 million at the end of 2017.
- 2018 assets grew by $2 million. Though asset growth is slower than in previous years the financial position of Tignish remained financially strong.
- Cash and equivalents which is mainly our deposits with Atlantic central ended the year at $9,761,137, this amount was slightly above the budgeted amounts set for 2018.
- Total loans ended the year at $156,239,556 which represents loan growth of $16.8 million in 2018.

- Investments ended 2018 at $18,172,414 which is a reduction of $14,478,819 from 2017. This is directly related to the increase in loan growth. Tignish credit union funds the loan growth directly from the cash investments held with Atlantic Central. Moving investment money into loans helps those in our community who need those loans and well as improves the credit union's bottom line revenues with additional loan interest.

- All other assets have remained close to 2017 totals.

- Member deposits stayed roughly the same in 2018 as compared to 2017. Deposits will be a focus of our credit union going forward to ensure we maintain sufficient deposit levels to keep up with the demand for lending.

  (Between our in house investment options and the wealth management services provided by Sharon Gallant in our Credential Securities office in Alberton; Tignish credit union can provide the right investment options for all our members)

- Undistributed income increased in 2018 to $12,788,613. This is the income remaining after member dividends, rebates and taxes for the year. Given the growth in 2018 a total of $1.3 million was put back into retained earnings. This increase was to offset our growth and keep the credit union in a strong equity position of 6.8% well above regulatory requirement of 5% equity. It is the strategic goal of Tignish credit union to maintain an equity position of 7% of assets to ensure our credit union is financially strong today and well into the future.

INCOME STATEMENT:

- Loan interest income is up $1.7 million over this time last year; this is due to the increase in loan growth.

- Remaining income categories remained in line with 2017 numbers.

- The cost of capital and dividends under expenses stayed closely aligned to 2017 numbers.

- The only other significant change you will see here is the provision for loan loss. This number was increased in 2018 by $427,431 over 2017. This is money the credit union sets aside in the event a member loan is unrecoverable. In addition in 2018 a new set of accounting standards called IRFS 9 put requirements on all credit unions to make changes to the calculations required for setting aside loan loss provisions, which contributed to an increase in provisions.

In 2017 the credit union was able to payout $498,000 in share dividends and $750,000 in combined loan, deposit and service fee rebates totaling $1.250 million paid back in 2018 to our members.

Included in the Tignish Credit Union financials are the revenues received by our Credit Asset Management office in Alberton.

Sharon Gallant offers retirement planning, and a full range of investment and insurance options.
Thank you to Sharon and Yvette for your commitment to our members investment and insurance needs.

At Tignish credit union we are committed to helping members with finding the right financial solutions and providing them with just the right advice to fit their individual needs. Whether it's helping out our local farmers or fisherman with the right loan products or providing you with the right advice at any of our offices. All the staff at Tignish credit union and Credential Securities are here working for you. We invite you at any time to seek out any member of our staff to assist you with whatever your financial needs are; we are here to partner with you to help you achieve your financial goals.

I would be remiss if I did not acknowledge the exceptional efforts of all our staff. Without this team I could not bring forward this report. We have the best staff on PEI from their positive attitudes to the tireless hours they put in to ensuring this credit union is supporting our communities and making sure our members feel welcome and at home within our walls. These folks put in the effort required to ensure Tignish credit union is the very best place for our members to conduct their financial affairs. My sincerest thank you to each and every one of you for all you do to make our credit union great.

To the board of directors who provide direction and governance to myself and the management team here I thank you for your wisdom and willingness to roll up your sleeves and get things done. These fine people up here do an amazing job representing all of you. I thank each of you for your time and contributions over the year.

Respectfully Submitted,

TED PAHL
General Manager

COMMUNITY INVOLVEMENT REPORT

Tignish Credit Union continued to be a strong supporter of our communities this past year and this report will cover a few of the highlights of that involvement so our members know how much of an impact your credit union continues to have in our communities.

Corporate donations of $82,600.00 were made during the year. Our decisions are still based on how many members are benefiting from the donation and whether this event will bring people to the area, which in turn benefits local businesses. The Credit Union was a major sponsor for the Red Clay Blue Grass Festival, The Tuna Cup Challenge and the Parade Sponsor of the Prince County Exhibition. It also contributed to the St. Louis Bluegrass Festival, West Prince Music Festival & the Irish Moss Festival.

The Credit Union continues to help local organizations such as minor hockey programs, volleyball, golf, curling, & winter carnivals. Donations were made to the following: Huntington Society, Parkinson's, Children's Wish, Diabetes Assn., Special Olympics, Jr. Achiever, Bowl for Kids Sake and Big Brothers-Big Sisters to name a few.

We continued our partnership with Evangeline-Central Credit Union to fund the Amateur Sport Fund. This fund was designed by the West Prince Sports Council to provide funding to local athletes who compete at a National Level.

The island Credit Unions are still in partnership with Ronald McDonald House which provides accommodations for families that have a sick child at the IWK Hospital. PEI Credit Unions pay the cost of staying at Ronald McDonald house for all its members. This past year Tignish Credit Union paid for 28 nights of accommodations for our members. We also continued our partnership with the 3 other Prince County Credit Unions as the main sponsor for the Prince County Hospital Festival of Lights Campaign.

Staff continued with our own fundraising efforts that have been ongoing for many years. From our casual day Friday's fund, in conjunction with West Prince Caring Cupboard, this year we donated $1500 to provide gifts for needy families in our area. We also raised $1842.50 for the IWK Telethon.

Staff at both locations participated in their community's annual parades – the Irish Moss Festival and The Prince County Exhibition.

Our weekly 50-50 draw is our largest fundraiser and continues to be a huge success. In keeping with the credit union philosophy, again, this money is given back to the communities in areas that benefit a large number of people. In April, we sponsored a reception for our local businesses that benefit from the 50-50 and donations totaling $50,000 were presented to the following organizations:

TIGNISH FIRE DEPARTMENT
ALBERTON FIRE DEPARTMENT
TIGNISH MINOR HOCKEY
JACQUES CARTIER ARENA
TIGNISH FIGURE STAKING CLUB
ALBERTON FIGURE SKATING CLUB
WEST PRINCE CARING CUPBOARD
MIMINEGASH FIRE DEPARTMENT
ASSOCIATION FOR COMMUNITY LIVING
ALBERTON MINOR HOCKEY
CREDIT UNION ARENA

We also donated to our local school's breakfast programs in the amount of $9,000, $1,000 to Victoria's Quilts Canada, $1,000 for the IWK & $2,500 to Kids West for their Healthy Snack Program. Throughout the year over $63,5000 was donated from our 50-50. To date, over $700,000 has been donated back to our communities. A big THANK YOU to all those who support these efforts.

We continue to offer the school credit union program. The schools involved are Tignish, Alberton and St. Louis Elementary and the French School. Our annual fundraiser for the local Home and School organizations which includes St. Louis, Alberton & Tignish Elementary Schools and M E Callaghan Jr. High was a great success with over $10,000 raised.

The credit union presented 4 x $1,000 bursaries at Westisle again this year. Congratulations to this year's recipients; Charissa McNeill, Cassidy Smith, Aydan Kinch & Hannah Hackett. Founder awards were presented to graduating students from Tignish, St. Louis, Alberton Elementary and the French schools and M.E. Callaghan Jr. High in addition to prize money given for other grades.

From our I-Care program we donated over $10,000 to the Western Hospital Equipment Fund and the Tignish Health Co-op.

This year we successfully partnered with our local Co-Op for many events and sponsorships. In September, we jointly sponsored the Fall Fest at the Credit Union Arena – some of the highlights were the inflatables for kids, pony rides, a BBQ, entertainment and a farmers market. We also partnered with the Co-op to purchase a Gazebo for the Western Hospital outdoor area. Also with that partnership, we purchased materials for benches & tables that were built by Westisle's Carpentry students for the Alberton Community Garden & Walking Track. Both the Co-op and Credit Union partnered with the Tignish Legion to purchase Banners for our veterans which will be displayed around our town the weeks leading up to Remembrance Day 2019.

One donation that we are really excited about is the recently installed digital sign at the entrance to our Credit Union arena. The Credit Union purchased the sign and the intent is for the rink and the town to use it to advertise any events happening at the rink and around the community.

Together with Malpeque Bay CU & Consolidated CU we were Title Sponsor for the PEI Sports Hall of Fame 50th Anniversary Golf Tournament held at Mill River Resort in August.

In lieu of our Credit Union Volunteer of the Year Award, we partnered with the Irish Moss Festival and sponsored the Credit Union Citizen of the Year. The recipient this year was Rae Ann Kinch.

We were the major Sponsor for the St. Louis Gymnos Provincial Gymnastic Championship that was held at the Credit Union arena in April.

These are a few of the highlights of our donations and sponsorships and as you can see, your credit union takes its role as a major contributor to our communities very seriously.

IN OUR COMMUNITY

THIS YEAR, WE SPENT OVER

$84,600

TO MAKE OUR COMMUNITY EVEN BETTER.

THIS CONTRIBUTED TO THE

$600,000

TOTAL THAT CREDIT UNIONS IN PEI SPEND EACH YEAR.

CREDIT UNION PLACE

350K
VISITORS

150K
TICKETS SOLD

$75K
MEMBERS SAVED IN FEES

15
FREE EVENTS

A STRONG PART OF OUR ISLAND COMMUNITY

In 2018, Credit Union Place in Summerside continued to be a strong partnership for the credit union system on PEI. Working on enhancing our presence within the building, 2018 marked the announcement that a new branch concept would be opening in Credit Union Place giving our members a new and convenient location to bank at.

A new credit union ding-free ATM will be incorporated into the new branch as well as a contemporary meeting space and re-vamped seating area, complete with electronic charging stations. We are excited to expand into this premiere venue as Credit Union Place continues to be one of the top entertainment destinations in the Maritimes.

In 2019 not only will our members experience a more convenient location to visit with us at Credit Union Place but they will also continue to enjoy the many discounts offered to them through our partnership. To date we have seen a yearly savings of $75,000 for our members through discounts on gym memberships, pool use, bowling and other services offered at the multipurpose facility. We look forward to serving you in a more convenient location in 2019!

GET ACTIVE

2018 marked the second year of our social cause across Island credit unions – where we are committed to more physically active communities on PEI. This initiative was conceptualized around the 2016 Public Health Officer's Report which reported that over half of Islanders consider themselves physically inactive. Physical inactivity leads to a staggering decrease in overall health resulting in a higher risk factor for the development of health conditions including stroke, heart disease, obesity and type 2 diabetes. This decrease in health can negatively impacts a household's finances, especially in the retirement stages where income is fixed.

1.4K

ISLAND STORM

A returning sponsorship for the credit union system in 2018 was our continued involvement with the Island Storm – our local professional NBL team. Through the Storm we have been able to give added value to our local communities through the offering of free events such as the popular Under 25 Free games, where anyone aged twenty-five or younger could see the game for free. Over 1,400 free tickets were used last year.

Also in partnership with the Storm we were able to bring you the Cancer Awareness game with proceeds going to the Canadian Cancer Society PEI Division. This game was unique as we were able to auction off custom purple jerseys worn by the players during the game, resulting in over $3,000 raised for CCS. We continue to enjoy our partnership with the Storm and the added value it brings to our communities!

$6K

GYM REBATE PROGRAM

The Get Active Gym Program offered $50 cash back to any of our members who paid some sort of gym membership fees in 2018 returned for its second year. This resulted in close to $6,250 being rebated to our members across PEI. We're so proud to be able to assist these members and in turn, encouraging more Islanders to get physically active.

$4K

SCHOLARSHIPS

We are pleased to announce 4 Tignish Credit Union Scholarship Recipients for 2018. Each scholarship recipient received $1,000 towards furthering their education. In total, Tignish Credit Union distributed $4,000.

We wish all students the best in their studies and future endeavors.

AYDAN KINCH

CASSIDY SMITH

CHARISSA MCNEILL

HANNAH HACKETT

3.6K

JUNIOR ACHIEVEMENT

Since 2016, credit unions on the Island have built a valuable partnership with JA PEI.

Working off JA's already well-received programming, we teamed up to enhance their Economics for Success program with the additional knowledge of a financial expert. Economics for Success focuses on the importance of financial literacy and teaches students budgeting skills which they'll need for the future.

Through the growing popularity of the program we have currently been able to instruct over 3,600 students at 14 different Island high-schools.

CREDENTIAL FINANCIAL STRATEGIES

Tignish Credit Union is constantly seeking ways to add quality products, services and convenience to Members' lives. In partnership with Credential Financial Strategies, Tignish Credit Union is very pleased to continue to offer the services of Credential Financial Strategies to our Credit Union Members.

Sharon Gallant, who is our Representative of Credential Financial Strategies, is available to assist members of Tignish Credit Union with all of your Financial Planning needs. Sharon has over 24 years of experience in the Financial Planning Industry and specializes in the following areas:

ESTATE PLANNING - RETIREMENT PLANNING
LIFE INSURANCE - EDUCATION SAVINGS PLAN
MUTUAL FUNDS - DISABILITY SAVINGS PLAN
INVESTMENT PLANNING - RRSP/RRIF
GROUP RRSP'S FOR BUSINESSES - GROUP HEALTH PLANS FOR BUSINESSES

Sharon will work with our Members of Tignish Credit Union, and provide this service at no cost to the member. You can reach Sharon at the Alberton Branch of the Tignish Credit Union, at 902 853 6020. We would also like to welcome Yvette Gaudet to the Credential team. Yvette is the Co-ordinator/Assistant for Sharon with Credential, and Yvette brings years of Credit Union experience.

FILL THE YUMOB

In December our sixth Annual #FilltheYuMob took place outside of Toys'R'Us.

As a direct result of the general public's generosity, we filled our new, much larger YuMob to the top in under 4 hours. The generosity was so great that we had to use an additional pick-up truck to transport all the toys.

A huge thank you to the Pownal Peewee AA team 2 who volunteered to be our elves and help us out this year, as well as Santa and Geoffrey the Giraffe who both made an appearance.

Of course, this wouldn't have been possible without the support from the Toys'R'Us Charlottetown store and staff, thank you for being amazing every year.

All the toys were delivered to Santa's Angels, a volunteer group that delivers the toys on Christmas Day to over 300 local families in need. Thank you to everyone who participated in this incredible cause.

RONALD MCDONALD HOUSE CHARITIES ATLANTIC

13
FAMILIES

246
NIGHTS

FAMILY COMES FIRST

We are proud of our ongoing partnership with Ronald McDonald House Charities Atlantic in many different capacities for 2018. With our Members Stay Free program, credit union members are able to stay at the Ronald McDonald House in Halifax for free while their child is being treated at the IWK. During 2018, this program was able to help 13 families on PEI totaling 246 nights spent at the Ronald McDonald House.

Alongside our member program, 2018 marked the first year we were involved with the annual PJ Walk – a major fundraiser for the RMHC Atlantic held in three cities across the Maritimes. The PJ Walk raised $230,000 in total, with the event on PEI raising more than $63,000 of that amount.

We look forward to continuing our support for our members who have to visit Halifax for their child's treatment into 2019. We're proud to help ease a small portion of the inevitable stress.

50/50 PROGRAM

$63.6K
DONATED

15
COMMUNITY GROUPS

Our weekly 50-50 draw is our largest fundraiser and continues to be a huge success. In keeping with the credit union philosophy, this money is given back to our communities in areas that benefit a large number of people.

A BIG THANK YOU TO ALL THOSE WHO SUPPORT THESE EFFORTS.

TO DATE, OVER $700,000 HAS BEEN DONATED TO OUR COMMUNITIES THROUGH THE 50/50 PROGRAM

THE FOLLOWING COMMUNITY GROUPS HAVE BENEFITED FROM THE 50/50 PROGRAM IN 2018:

TIGNISH FIRE DEPARTMENT
ALBERTON FIRE DEPARTMENT
TIGNISH MINOR HOCKEY
JACQUES CARTIER ARENA
TIGNISH FIGURE STAKING CLUB
ALBERTON FIGURE SKATING CLUB
WEST PRINCE CARING CUPBOARD
MIMINEGASH FIRE DEPARTMENT
ASSOCIATION FOR COMMUNITY LIVING
ALBERTON MINOR HOCKEY
CREDIT UNION ARENA
LOCAL SCHOOL'S BREAKFAST PROGRAMS
VICTORIA'S QUILTS CANADA
IWK
KIDS WEST FOR THEIR HEALTHY SNACK PROGRAM

NOW POWERED BY 100% RENEWABLE ELECTRICITY WITH BULLFROG POWER

IN 2018, Tignish Credit Union entered into a partnership with Bullfrog Power, in a concerted effort to reduce our carbon footprint. Simply put, it's an offset program. By choosing renewable electricity with Bullfrog Power, we began offsetting our electricity use with green energy. For every kWh of electricity used by Tignish Credit Union, a kWh from a renewable source is put on the grid on our behalf. Tignish Credit Union pays a premium on the electricity we use, and no special equipment is required. Any home or business can be bullfrog powered.

Here on Prince Edward Island, The West Cape Wind Farm has partnered with Bullfrog Power. Located near O'Leary, the Island's largest wind farm has a total of 55 turbines, capable of powering nearly 25,000 homes annually. Thinking about renewable energy for your home or business? Here's an added incentive. For every new sign up, Bullfrog helps to fund new green energy products all across the country

bullfrogpowered® business | WE PROUDLY CHOOSE RENEWABLE ENERGY.

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

The integrity, relevance and comparability of the data in the accompanying financial statements are the responsibility of management.

The financial statements are prepared by management in accordance with International Financial Reporting Standards established by the International Accounting Standards Board. A summary of the significant accounting policies is disclosed in note 3 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current period cannot be finalized with a certainty until future periods.

To meet its responsibility, management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

Management is accountable to the Board of Directors of Tignish Credit Union Ltd. on matters of financial reporting and internal control. Management provides the Board of Directors with externally audited financial statements annually. The Board also discusses any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by Arsenault Best Cameron Ellis, independent external auditors appointed by the Board. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the financial statements.

On behalf of Tignish Credit Union Ltd.

TED PAHL
General Manager

ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS
Member of The AC Group of Independent Accounting Firms

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March 5, 2019

Independent Auditor's Report

To the Members of
Tignish Credit Union Ltd.

Opinion
We have audited the accompanying financial statements of Tignish Credit Union Ltd., which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Tignish Credit Union Ltd. as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with International Reporting Standards.

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 Financial Statements* section of our report. We are independent of Tignish Credit Union Ltd. in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 International Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing Tignish Credit Union Ltd.'s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonable 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 Tignish Credit Union Ltd.'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 Tignish Credit Union Ltd.'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 Tignish Credit Union Ltd. 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.

Chartered Professional Accountants

TIGNISH CREDIT UNION

STATEMENT OF FINANCIAL POSITION

December 31, 2018

	2018 $	2017 $
Assets		
Cash and cash equivalents (note 14)	9,761,137	9,465,373
Accounts receivable	52,634	209,633
Loans and mortgages (notes 6 and 17)	156,239,556	139,419,271
Prepaid expenses and other (note 7)	134,816	156,373
Property and equipment (note 8)	1,785,413	1,770,543
Investments (note 9)	18,172,414	32,820,233
Deferred income taxes (note 13)	84,000	79,000
	186,229,970	183,920,426
Liabilities		
Member deposits (notes 6, 10 and 12)	170,660,560	170,041,017
Accrued liabilities	1,789,061	1,559,949
Other liabilities	696,380	660,928
Income taxes payable	304,316	149,007
	173,450,317	172,410,901
Members' Equity		
Undistributed income	12,779,653	11,509,525
	186,229,970	183,920,426

Approved by the Board of Directors

_____ Director

_____ Director

TIGNISH CREDIT UNION

STATEMENT OF CHANGES IN MEMBERS' EQUITY

Year Ended December 31, 2018

	2018 $	2017 $
Undistributed income - Beginning of year	11,509,525	10,850,333
Cumulative effect of adopting IFRS 9 (note 20)	(51,808)	-
Balance as restated	11,457,717	10,850,333
Net earnings for the year	1,321,936	659,192
Undistributed income - End of year	12,779,653	11,509,525

TIGNISH CREDIT UNION

STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2018

	2018 $	2017 $
Revenue		
Loan interest (note 17)	7,276,336	5,611,503
Investment	544,002	554,219
Service fees	876,104	826,783
Commissions	487,123	467,884
Other income	70,079	57,066
	9,253,644	7,517,455
Expenses		
Staff (notes 15 and 16)	2,417,915	2,190,163
Premises	166,424	152,227
Insurance	274,304	255,485
Office	143,285	126,052
Service fees	1,181,733	1,082,266
General	517,539	447,161
Cost of capital	950,360	855,892
Amortization	101,510	96,095
	5,753,070	5,205,341
Operating earnings	3,500,574	2,312,114
Other expense		
Share dividends	497,855	528,125
Provision for loan losses (note 6)	427,431	366,972
Loan interest rebate	550,000	450,000
Interest bonus on savings	150,000	100,000
Service charge rebate	50,000	50,000
	1,675,286	1,495,097
	1,825,288	817,017
Provision for (recovery of) income taxes		
Current (note 13)	508,352	132,825
Deferred (note 13)	(5,000)	25,000
	503,352	157,825
Net earnings for the year	1,321,936	659,192

TIGNISH CREDIT UNION

STATEMENT OF CASH FLOW

Year Ended December 31, 2018

	2018 $	2017 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	1,321,936	659,192
Items not affecting cash		
Amortization	101,510	96,095
Cumulative effect of adopting IFRS 9	51,808	-
Deferred income taxes (recovery)	(5,000)	25,000
Provision for loan losses	427,431	366,972
	1,897,685	1,147,259
Net change in non-cash working capital items		
Increase in loans and mortgages	(17,351,332)	(25,032,413)
Decrease (increase) in accounts receivable	156,999	(41,037)
Decrease (increase) in prepaid expenses and other	21,557	(53,717)
Increase in member deposits	619,543	19,124,378
Increase (decrease) in accrued liabilities	229,112	(191,138)
Increase (decrease) in other liabilities	35,452	(149,811)
Increase in income taxes payable	155,309	22,773
	(14,235,675)	(5,173,706)
Investing activities		
Purchase of property and equipment	(116,380)	(109,530)
Decrease (increase) in investments	14,647,819	(7,656,662)
	14,531,439	(7,766,192)
Increase (decrease) in cash and cash equivalents	295,764	(12,939,898)
Cash and cash equivalents - Beginning of year	9,465,373	22,405,271
Cash and cash equivalents - End of year	9,761,137	9,465,373
Supplementary disclosure		
Interest received	7,329,343	5,772,099
Interest paid	876,981	886,062
Dividends received	104,623	-
Dividends paid	497,855	528,125
Income taxes paid	353,043	110,052

1 General

The Tignish Credit Union Ltd. (the "Credit Union") is incorporated under the Prince Edward Island Credit Unions Act. Its principal business activities include financial and banking services for credit union members.

The Credit Union's head office is located in Tignish, Prince Edward Island.

2 Basis of presentation

(a) Statement of compliance

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

These financial statements have been approved for issue by the Board of Directors on March 5, 2019.

(b) Basis of measurement

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in note 3.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency.

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments that have the most significant effect on the amounts recognized in the financial statements are detailed in note 4.

3 Summary of significant accounting policies

(a) Change in accounting policies

The Credit Union has adopted IFRS 9 as issued by the IASB with a date of transition of January 1, 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognized in the financial statements. The Credit Union did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Credit Union elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening undistributed income of the current period.

Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our 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 Financial Instruments: Disclosures.

Refer to Note 20, Transition to IFRS 9, for the impact on the opening statement of financial position at January 1, 2018.

(b) Financial instruments

i) *Classification and measurement of financial assets*

From January 1, 2018, the Credit Union has applied IFRS 9 and classifies its financial assets into one of the following measurement categories:

- Amortized cost;
- Fair value through profit or loss (FVTPL); or
- Fair value through other comprehensive income (FVOCI).

Financial assets include both debt and equity instruments.

<u>Debt instruments</u>

Classification and subsequent measurement of debt instruments depend on:

i) the Credit Union's business model for managing the asset; and
ii) the cash flow characteristics of the asset.

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Credit Union's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

The Credit Union assesses the business model at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective.

- How the performance of assets in a portfolio is evaluated and reported to group heads and other key decision makers within the Credit Union's business lines;
- Whether the assets are held for trading purposes (ie. assets that the Credit Union acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking;
- The risks that affect the performance of assets held within a business model and how those risks are managed; and
- The frequency and volume of sales in prior periods and expectations about future sales activity.

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the Credit Union identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Based on these factors, the Credit Union classifies its debt instruments into one of the following three measurement categories:

Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 6. Interest income form these financial assets is included in 'Loan interest' using the effective interest rate method.

Fair value through profit or loss

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Investment revenue' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Investment revenue". Interest income from these financial assets is included in 'Investment revenue' using the effective interest method.

Fair value through other comprehensive income (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, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are recognized through OCI, expect 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 profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified form equity to profit or loss and recognized in 'Investment revenue'. Interest income from these financial assets is included in "Investment revenue" using the effective interest rate method.

Equity instruments

The Credit Union measures all equity investments at FVTPL. The Credit Union's policy is to designate equity investments at FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and reversals of impairment losses are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Credit Union's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in 'Investment revenue' in the statement of comprehensive income.

ii) *Classification and measurement of financial liabilities*

Financial liabilities are classified into one of the following measurement categories:

- Amortized cost;
- Fair value through profit or loss (FVTPL); or
- Designated at FVTPL.

Financial liabilities measured at amortized cost

Member deposits are accounted for at amortized cost. Interest on deposits, calculated using the effective interest rate method, is recognized as interest expense. Interest on subordinated notes and debentures, including capitalized transaction costs, is recognized using the effective interest rate method as interest expense.

Financial liabilities measured at FVTPL

Financial liabilities measured at FVTPL are held principally for the purpose of repurchasing in the near term, or form a part of a portfolio of identified financial liabilities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-making. Financial liabilities are recognized on a trade date and are accounted for at fair value, with changes in fair value and any gains or losses recognized in the Statement of Comprehensive Income as part of the non-interest income. Transaction costs are expensed as incurred.

Financial liabilities designated at FVTPL

Financial liabilities classified in this category are those that have been designated by the Credit Union upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is only available for those financial liabilities for which a reliable estimate of fair value can be obtained.

Financial liabilities are designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- A group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial liabilities designated at FVTPL are recorded in the Statement of Financial Position at fair value and any changes in fair value are recognized in the Statement of Comprehensive Income.

iii) *Determination of fair value*

Fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the Credit Union has access at the measurement date.

The Credit Union values instruments carried at fair value using quoted market prices, where available. The fair value hierarchy is as follows:

- Level 1 - unadjusted quoted market prices for identical instruments.
- Level 2 - use of observable inputs within valuation models.
- Level 3 - significant use of unobservable inputs within valuation models.

iv) *Derecognition of financial assets and liabilities*

The derecognition criteria are applied to the transfer of part of an asset rather than the asset as a whole, only if such part comprises specifically identified cash flows from the asset, a fully proportionate share of the cash flows from the asset, or a fully proportionate share of specifically identified cash flows from the asset.

A financial asset is derecognized when the contractual rights to the cash flows from the asset has expired or the Credit Union transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party, or the Credit Union has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Credit Union has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Credit Union derecognizes the transferred asset only if it has lost control over the asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Credit Union retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the Statement of Comprehensive Income.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognized as a gain/loss in the Statement of Comprehensive Income.

iv) *Impairment*

The Credit Union applied a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 for the financial assets measured at amortized cost.

The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – when a financial instrument experiences a credit risk subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The probability of default (PD), exposure at default (EAD) and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical inputs are as follows:

- PD – the probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life.
- EAD – the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.
- LGD – the loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral and the impact of forward-looking macroeconomic factors. Common assessments for credit risk include management judgment, delinquency and monitoring.

When measuring expected credit loss, the Credit Union considers the maximum contractual period over which the Credit Union is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment and extension and rollover options.

The Credit Union considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- Default or delinquency in interest or principal payments;
- High probability of the borrower entering a phase of bankruptcy or a financial recognition;
- Measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Credit Union considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

The Credit Union writes off an impaired financial asset, either partially or fully, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determine and there is no reasonable expectation of further recover, write-off may be earlier.

Financial instruments effective prior to November 1, 2017:

i) Recognition and measurement

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:

- Financial assets at fair value through profit or loss ("FVTPL")

  Financial assets at FVTPL through the statement of comprehensive income 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, if so designated by management or it is a derivative that is not designated and not effective as a hedging instrument.

Financial assets carried at fair value through the statement of comprehensive income are initially recognized, and subsequently carried at fair value, with changes recognized in the statement of comprehensive income. Transaction costs are expensed.

Assets in this category include cash and cash equivalents and investments in the liquidity reserve deposit.

- Held to maturity investments

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has the positive intent and ability to hold to maturity, and which are not designated as FVTPL or as available for sale.

Held to maturity investments are carried at amortized cost using the effective interest method. A sale or reclassification of a more than an insignificant amount of held to maturity investments would result in the reclassification of all held to maturity investments as available for sale, and would prevent the Credit Union from classifying investment securities as held to maturity for the current and the following two financial years. However sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value

- Sales or reclassifications after the Credit Union has collected substantially all of the asset's original principal

- Sales or reclassifications attributable to non-recurring isolated events beyond the Credit Union's control that could not have been reasonably anticipated.

Assets in this category include investments in term deposits.

- Available for sale ("AFS")

  Available for sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available for sale investments are recognized initially at fair value plus transactions costs, and are subsequently carried at fair value, other than the Credit Union's investment in certain shares as their fair value cannot be reliably measured. Therefore, the Credit Union's investment in certain shares are carried at cost. Upon such time that their fair value can be reliably measured, the carrying amount of these financial assets will be adjusted to fair value. Gains and losses arising from remeasurement are recognized in other comprehensive income. Available for sale investments are classified as non-current unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

  Dividends or distributions on available for sale investments are recognized in the statement of comprehensive income as investment income, when the Credit Union's right to receive payment is established.

  Assets in this category include investments in credit union and co-operative type shares.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recorded at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

  Assets in this category include accounts receivable and loans and mortgages.

- Other financial liabilities

  Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

  Liabilities in this category include member deposits, accrued liabilities, and other liabilities.

ii) Impairment of financial assets

The Credit Union assesses, at each reporting 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 recorded, 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 the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as conditions that correlate with defaults in the group.

- Financial assets classified as loans and receivables

For the purposes of individual evaluation of impairment, the amount of the impairment loss on a loan or receivable is measured as the difference between the asset's carrying amount and the present value of the 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 comprehensive income. The calculation of the carrying value reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are categorized on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off after all the necessary procedures have been completed and the amount of loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in provision for loan loss expense.

Loans that were past due and either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, if the loan becomes past due, this will be disclosed only if renegotiated again.

- Assets classified as available for sale

  At each Statement of Financial Position date, the Credit Union assesses if there is objective evidence that an AFS financial asset or a group of AFS financial assets may be impaired. A significant or prolonged decline in the fair value of an AFS security below its costs is considered objective evidence in determining whether 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 comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed.

(c) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between cost in the functional currency at the beginning of the period, and the cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on the translation are recognized in the statement of comprehensive income.

(d) Cash and cash equivalents

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

(e) Foreclosed properties

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure of loans that are in default. Foreclosed properties are measured at the lower of the carrying amount and the fair value less the costs to sell.

(f) Property and equipment

Property and equipment are stated at cost less accumulated amortization. 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 expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated using the declining balance method at the following annual rates:

Buildings	4%, 5%, 10%
Furniture, equipment and computers	20%, 30%, 45%, 55%
Pavement	8%

Leasehold improvements are amortized using the straight-line method over 16 years.

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.

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 comprehensive income.

(g) Revenue recognition

i) Loan interest

Interest on loans and mortgages is recognized on an amortized cost basis using the effective interest rate method. The effective rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan and mortgage to the net carrying amount of the loan and mortgage. When estimating the future cash flows the credit union considers all contractual terms of the loan and mortgage excluding any 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 premium or discounts. Mortgage prepayment fees are recognized in 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. All interest is recognized on an accrual basis.

ii) Investment and other income

Investment and other income is recognized as revenue on an accrual basis.

iii) Service fees

Service fees are recognized on an accrual basis in accordance with the service agreement.

iv) Commissions

Commissions income is recognized when the event creating the commission takes place.

(h) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly to equity.

i) Current income tax

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

ii) Deferred income tax

Deferred tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Related parties

A related party is a person or an entity that is related to the Credit Union.

A person or a close member of that person's family is related to the Credit Union if that person:

i) Has control or joint control over the Credit Union, with the power to govern the Credit Union's financial and operating policies;

ii) Has significant influence over the Credit Union, participating in financial and operating policy decisions, but not control over these policies; or

iii) Is a member of the key management personnel of the Credit Union. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director of the Credit Union.

(j) Capital disclosures

The Credit Union considers its capital to be its members' equity. The Credit Union's objectives when managing its capital are to safeguard its ability to continue as a going concern in order to provide services to its members. Capital is under the direction of the Board with the objective of minimizing risk and ensuring adequate liquid investments are on hand to meet the Credit Union's national standards.

(k) Standards issued but not yet effective

The following new standard has been issued but is not effective for the fiscal year ended December 31, 2018 and, accordingly, has not been applied in preparing these financial statements.

IFRS 16 Leases

This standard replaces IAS 17 Leases and introduces a single accounting model for lessees and for all leases with more than 12 months unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a corresponding lease liability, representing its obligation to make lease payments. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. While early adoption is permitted, the Credit Union has chosen not to early adopt this standard.

The Credit Union is currently evaluating the potential impact, if any, of this standard.

4 Critical accounting estimates and judgments

The Credit Union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or area which require significant estimates are described below:

(a) Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. The assessment of a significant increase in credit risk requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

(b) Estimated useful lives of property and equipment

Management estimates the useful lives of property and equipment based on the period during which assets are expected to be available for use. The amounts and timing of recorded depreciation expense of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the Credit Union's property and equipment in the future.

(c) Fair value of financial instruments

Fair value measurement techniques are used to value various financial assets and financial liabilities and are used in impairment testing on certain non-financial assets.

The fair values of the credit union's financial instruments were estimated using the valuation methods and assumptions described below. Since many of the credit union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in interest rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Fair values of floating loans and deposits approximate book value as the interest rates on these instruments automatically re-price to market and the spread remains appropriate. Fixed rate loans are valued by discounting the contractual future cash flows at current market rates for loans with similar credit risks. Fixed rate deposits are valued by discounting the contractual future cash flows using market rates currently being offered for deposits with similar terms. A credit valuation adjustment is applied to the calculated fair value of uninsured deposits to account for the credit union's own risk.

The fair value for the credit union's investments as detailed in Note 5 is determined as follows:

- Membership shares in Atlantic Central, Concentra, League Data, League Savings & Mortgage, Co-operative and CU PEI Investment Corp. do not trade in a public market. Fair market value approximates par value as the shares are subject to regular rebalancing across the membership; and
- Liquidity reserve deposits are fair valued by discounting the contractual future cash flows at current market rates of similar financial instruments with similar terms.

(d) Income taxes

The actual amounts of income tax expense only become final upon filing and acceptance of the tax return by relevant authorities which occur subsequent to the issuance of the financial statements. Estimation of income taxes include evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. The assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

5 Fair value of financial instruments

Fair values versus carrying amounts

Estimated fair values of financial instruments assets and liabilities are described in the following table:

		2018		2017	
	Fair level hierarchy	**Carrying amount $**	**Fair value $**	**Carrying amount $**	**Fair value $**
Financial assets					
Loans and mortgages	Level 2	156,239,556	156,239,556	139,419,271	139,419,271
Liquidity reserve deposit	Level 2	11,353,020	11,353,020	11,212,819	11,212,819
Atlantic Central shares	Level 2	2,059,460	2,059,460	1,851,880	1,851,880
Concentra shares	Level 2	400,000	400,000	400,000	400,000
League Data shares	Level 2	38,010	38,010	38,010	38,010
League Savings & Mortgage shares	Level 2	255,930	255,930	255,930	255,930
Co-operative membership	Level 3	2,530	2,530	2,530	2,530
CU PEI Investment Corp.	Level 3	64	64	64	64
Term deposits	Level 2	4,063,400	4,063,400	19,059,000	19,059,000
		174,411,970	174,411,970	172,239,504	172,239,504
Financial liabilities					
Member deposits	Level 2	170,660,560	170,660,560	170,041,017	170,041,017

The fair value for items that are short-term in nature are equal to book value. These include cash and cash equivalents, accounts receivable, accrued liabilities and other liabilities.

6 Loans and mortgages

(a) Loans at amortized cost

	IFRS 9			IAS 39		
			2018			2017
	Gross loans $	Allowance for credit losses $	Net carrying amount $	Gross loans $	Allowance for credit losses $	Net carrying amount $
Personal loans	29,080,033	192,723	28,887,310	29,021,406	81,107	28,940,299
Personal lines of credit and overdrafts	4,028,208	12,141	4,016,067	4,819,787	-	4,819,787
Mortgages	21,879,439	8,741	21,870,698	17,245,679	191,833	17,053,846
Business loans	23,376,235	1,961,207	21,415,028	19,507,591	1,750,993	17,756,598
Business lines of credit	6,645,859	260,143	6,385,716	7,402,875	-	7,402,875
Farming and fishing	67,869,321	13,861	67,855,460	54,808,318	-	54,808,318
Mortgage pools	5,809,277	-	5,809,277	8,637,548	-	8,637,548
	158,688,372	2,448,816	156,239,556	141,443,204	2,023,933	139,419,271

Mortgages and loans

Mortgage loans are secured by realty mortgages with interest rates of 2.29% - 6.75% (2017 - 3.0% - 6.75%). The remaining loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 2.2% - 18.5% (2017 - 2.7% - 18.7%) on personal, business, farming and fishing loans and 0% - 21% (2017 - 0% - 21%) on lines of credit and overdrafts. These loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities.

The Credit Union's prime lending rate

The Credit Union's prime lending rate is set by the Board based on the prime interest rate of chartered banks in Canada. The rate as at December 31, 2018 was 3.95% (2017 - 3.2%).

(b) Impaired loans

	IFRS 9			IAS 39		
			2018			2017
	Gross impaired loans $	Allowance for credit losses $	Net carrying amount $	Gross impaired loans $	Allowance for credit losses $	Net carrying amount $
Personal loans	543,560	181,308	362,252	96,407	81,107	15,300
Personal lines of credit and overdrafts	49,062	10,305	38,757	19,038	-	19,038
Mortgages	55,461	11	55,450	553,641	191,833	361,808
Business loans	3,034,786	1,953,070	1,081,716	3,177,935	1,750,993	1,426,942
Business lines of credit	291,606	257,601	34,005	-	-	-
Farming and fishing	744,575	74	744,501	-	-	-
	4,719,050	2,402,369	2,316,681	3,847,021	2,023,933	1,823,088

(c) Allowance for credit losses

	IFRS 9			
				2018
	Balance as at January 1, 2018 $	Provision for credit losses $	Net write-offs $	Net $
Personal loans	225,745	(33,022)	-	192,723
Personal lines of credit and overdrafts	33,607	(21,466)	-	12,141
Mortgages	6,898	1,843	-	8,741
Business loans	1,290,068	594,501	(76,638)	1,961,207
Business lines of credit	506,848	(246,705)	-	260,143
Farming and fishing	11,225	2,636	-	13,861
Mortgage pools	1,350	(1,350)	-	-
	2,075,741	296,437	(76,638)	2,448,816

	IFRS 9			
As at December 31, 2018	**Stage 1 $**	**Stage 2 $**	**Stage 3 $**	**Total $**
Personal loans	11,415	6,038	175,270	192,723
Personal lines of credit and overdrafts	1,836	19	10,286	12,141
Mortgages	8,730	11	-	8,741
Business loans	8,137	-	1,953,070	1,961,207
Business lines of credit	2,542	-	257,601	260,143
Farming and fishing	13,787	74	-	13,861
Mortgage pools	-	-	-	-
	46,447	6,142	2,396,227	2,448,816

	IAS 39 2017 $
Balance - Beginning of year	1,843,738
Increase in allowance	366,980
Amounts written off during the year	(256,116)
Recoveries of previous write offs	69,331
Balance - End of year	2,023,933

(d) Loans past due but not impaired

	2018			**2017**		
	31 - 90 days $	**90+ days $**	**Total $**	**31 - 90 day $**	**90+ days $**	**Total $**
Personal loans	26,790	17,776	44,566	57,640	6,990	64,630
Mortgages	-	-	-	430,330	90,966	521,296
	26,790	17,776	44,566	487,970	97,956	585,926

(e) Provision for loan losses

	2018 $	**2017 $**
Increase in allowance	373,073	366,980
Loans directly written off	76,638	69,323
Recoveries of loans previously written off	(22,280)	(69,331)
	427,431	366,972

7 Prepaid expenses and other

	2018 $	2017 $
Prepaid expenses	114,816	136,373
Inventory	20,000	20,000
	134,816	156,373

8 Property and equipment

	Land $	Buildings $	Furniture, equipment and computers $	Pavement $	Leasehold improvements $	Total $
Cost						
Balance - Beginning of year	231,058	2,119,659	909,719	120,294	40,388	3,421,118
Additions	-	87,730	17,808	10,842	-	116,380
Balance - End of year	231,058	2,207,389	927,527	131,136	40,388	3,537,498
Accumulated amortization						
Balance - Beginning of year	-	803,906	731,269	75,012	40,388	1,650,575
Current year amortization	-	57,712	39,742	4,056	-	101,510
Balance - End of year	-	861,618	771,011	79,068	40,388	1,752,085
Carrying value						
December 31, 2017	231,058	1,315,753	178,450	45,282	-	1,770,543
December 31, 2018	231,058	1,345,771	156,516	52,068	-	1,785,413

9 Investments

	IFRS 9 2018 $	IAS 39 2017 $
Measured at fair value through profit or loss		
Liquidity reserve	11,353,020	11,212,819
Atlantic Central shares	2,059,460	-
Concentra shares	400,000	-
League Data shares	38,010	-
League Savings of Mortgage shares	255,930	-
Co-operative membership shares	2,530	-
CU PEI Investment Corp. shares	64	-
Total fair value measured through profit or loss	14,109,014	11,212,819
Measured at amortized cost		
Term deposits	4,063,400	-
Held to maturity investments	-	19,059,000
Available for sale investments	-	2,548,414
	18,172,414	32,820,233

Liquidity reserve deposit

In order to meet Credit Union national standards, the Credit Union is required to maintain on deposit in Atlantic Central an amount equal to 6% of the prior quarter's assets (see note 18b). The deposit bears interest at a variable rate.

Term deposits

Term deposits are invested with the League Savings & Mortgage Company and Atlantic Central, and are carried at cost which approximates fair value. These term deposits have the following maturity dates and rates of return:

	Amount $	Rate of Return	Maturity
	2,035,000	1.75%	October 7, 2019
	2,028,400	1.42%	January 30, 2019
Total	4,063,400		

10 Member deposits

	2018 $	2017 $
Ownership shares and share accounts (note 12)	56,389,299	60,390,538
Savings	13,804,172	14,404,933
Chequing accounts	49,756,206	49,534,477
Term deposits	21,921,813	17,001,365
RRSP and RRIF	28,789,070	28,709,704
	170,660,560	170,041,017

Ownership shares and share accounts include the $5 membership share plus individual members' deposits.

Share accounts pay members a dividend at the discretion of the Board. Privileges of the shares are under the authority of the Board. The dividend rate declared and paid for 2018 was 1.0% (2017 - 1.0%) based on the average minimum monthly share account balance throughout the year.

*Saving*s are deposits on a call basis that pay the account holders a variable rate of interest ranging from 0% - 1.20% (2017 - 0.15% - 1.25%).

Chequing accounts are held on a call basis and pay the account holders interest at the Credit Union's stated rates.

Term deposits are for periods of one to five years generally may not be withdrawn prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Fixed *term deposits* bear interest at various rates and ranging from 0% - 3.35% (2017 - 0% - 3.25%)

RRSP and RRIF

Concentra Financial is the trustee for the registered savings plans offered to members. Under an agreement with the trust company, member's contributions to the plans, as well as income earned on them, are deposited in the credit union. On withdrawal, payment of the plan proceeds is made to members, or the parties designed by them, by the credit union, on behalf of the trust company. RRSP and RRIF term deposits bear interest at various rates.

Withdrawal privileges on all member deposit accounts are subject to the overriding right of the Board to impose a waiting period.

11 Contingent liability

	2018 $	2017 $
Outstanding guarantees on behalf of members	200,000	200,000

This guarantee is on behalf of one member to their franchisor for the purchase of inventory. This guarantee has never been drawn down on since its inception.

12 Share accounts

Unlimited membership shares are available for issuance with a par value of $5 per share. These shares are non-transferable, redeemable by the Credit Union, retractable by shareholders subject to the Credit Union's right to suspend redemption, if the redemption would impair the financial stability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Insurance Corporation. Dividends on membership shares are payable at the discretion of the Board.

Share accounts are included with Member Deposits on the Statement of Financial Position.

13 Income taxes

(a) Tax rate reconciliation

	2018 $	2017 $
Income before income taxes	1,825,288	817,017
Taxes at statutory rates - 31% (2017 - 31%)	565,839	253,275
Impact of the 17% (2017 - 16%) small business deduction - current tax	(53,561)	(57,543)
Temporary difference regarding provision for loan losses	26,133	5,585
Permanent differences and other	2,374	2,716
Reversal of prior year over accrual	-	(71,208)
Tax free dividends	(32,433)	-
	508,352	132,825

(b) Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 14% (2017 - 15%), as follows:

	2018 $	2017 $
Balance - Beginning of period	79,000	104,000
Comprehensive income statement expense (recovery)	5,000	(25,000)
Balance - End of period	84,000	79,000

Deferred income tax assets are attributable to the following items:

	2018 $	2017 $
Deferred income tax assets		
Property and equipment	9,000	10,200
Allowance for impaired loans	41,000	30,300
Retirement allowance	34,000	38,500
	84,000	79,000

14 Line of credit availability

In 2018, the Credit Union had an approved line of credit with Atlantic Central of $4,100,000. As of December 31, 2018, the line of credit had a balance of $276,116 (2017 - nil).

15 Pension plan

The Credit Union provides employees with a voluntary defined contribution pension plan in which the Credit Union matches employee contributions to the plan, within specified limits. During the year, the Credit Union expensed $113,326 (2017 - $74,900) in contributions to the plan. This expense is included with staff expenses on the Statement of Comprehensive Income.

16 Composition of key management

Key management includes the board of directors, general manager, manager of operations, manager of financial service and branch manager - Alberton. Compensation awarded to key management included:

(a) Key management, excluding directors

	2018 $	2017 $
Salaries and short-term employee benefits	510,256	621,903
Accrued retirement benefit obligations	74,939	28,026

(b) Directors' remuneration

	2018 $	2017 $
Honorariums	15,650	8,650
Payment for expenses while on credit union business	3,446	4,020

(c) Loans to directors and key management personnel

	2018 $	2017 $
Loans outstanding - Beginning of period	656,985	368,560
Add: loans issued during the period	1,191,781	424,470
new director balances on appointment	16,447	94,432
Less: loan repayments during the period	(396,053)	(227,113)
transfers out of Directors	-	(3,364)
Loans outstanding - End of period	1,469,160	656,985
Interest income earned	53,152	18,705

No provisions have been recognized in respect of loans to key management (2017 - nil). The loans issued to directors and existing loans to new directors and key management personnel and close family members during the year of $1,191,781 (2017 - $424,470) are repayable over 1 - 20 years and have interest rates ranging from 2.25% to 7.95% (2017 - 2.95% to 7.45%).

The Credit Union has approved lines of credit for key management and directors as at December 31, 2018 amounting to $288,300 (2017 - $156,800). The balance of the lines of credit included above is $149,976 (2017 - $123,605).

17 Related party transactions

The Credit Union provides financial services to members. These members hold the loans and mortgages and member deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

The loans and mortgages balance includes $2,724,487 (2017 - $2,649,487) in loans to CU PEI Investment Corp. The loans to CU PEI Investment Corp. bear interest at 1% with no set terms of repayment.

Included in loan interest is $26,982 (2017 - $24,254) of interest income and $104,623 (2017 - nil) of dividend income received from CU PEI Investment Corp.

The Credit Union is a shareholder in CU PEI Investment Corp.

18 Risk management

The Credit Union's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market and operational risk. Authority for all risk-taking activities rests with the Board, which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Credit Union manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

(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. Credit risk arises primarily from the Credit Union's commercial and consumer loans and advances, and loan commitments arising from such lending activities.

Credit risk is the single largest risk for the Credit Union's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is done by management who report to the Board.

The Credit Union's maximum exposure to credit risk at the reporting date in relation to each class of recognized financial asset 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 or 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 an assignment of 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 and when a specific review of that exposure is undertaken in accordance with policy.

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

	2018	**2017**
	$	**$**
Cash and cash equivalents	9,761,137	9,465,373
Accounts receivable	52,634	209,633
Loans and mortgages	156,239,556	139,419,271
Investments	18,172,414	32,820,233
	184,225,741	181,914,510

Cash and cash equivalents and investments have 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 modelling 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 risk.

(b) Liquidity risk

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

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

Exposure to liquidity risk:

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to deposits. For this purpose, liquid assets may comprise of the following:

	2018 $	2017 $
Cash and cash equivalents	9,761,137	9,465,373

The Credit Union is required to maintain 6% of the prior quarter's assets in liquid investments of which 100% must be held by Atlantic Central. The Credit Union was in compliance with this requirement at December 31, 2018.

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

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	2018 Total $
Member deposits	66,645,051	47,626,210	-	114,271,261
Share accounts	56,389,299	-	-	56,389,299
Accrued interest payable	1,789,061	-	-	1,789,061
Other liabilities	696,380	-	-	696,380
	125,519,791	47,626,210	-	173,146,001

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	2017 Total $
Member deposits	87,438,569	22,211,910	-	109,650,479
Share accounts	60,390,538	-	-	60,390,538
Accrued interest payable	1,559,949	-	-	1,559,949
Other liabilities	660,928	-	-	660,928
	150,049,984	22,211,910	-	172,261,894

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 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. The objective of market rate risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(d) 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 balances 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.

The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming no further hedging is undertaken. These measures are based on assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's management initiatives.

	Net interest income change 2018 $	**Net interest income change 2017 $**
Before tax impact of		
1% increase in interest rates	569,096	115,434
1% decrease in interest rates	(924,057)	(770,686)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

(f) Capital management

The primary objective of the Credit Union's capital management is to ensure that it maintains a healthy financial position in order to support its business. The Credit Union manages its capital structure and makes changes to it in light of changes in economic conditions.

The Credit Union has agreed to maintain an equity level at least equal to 5% of the total assets.

In accordance with the recommendations of the Canadian Chartered Professional Accountants Handbook related to the financial statement presentation of financial instruments, the ownership shares are presented in the balance sheet as financial liabilities. At December 31, 2018, the equity level for regulatory purposes is as follows:

	2018	**2017**
	$	**$**
Ownership shares (note 12)	36,140	36,625
Members' equity	12,779,653	11,509,525
Total regulatory equity	12,815,793	11,546,150
Total assets	186,229,970	183,920,426
Equity level	6.9%	6.3%

		2018
	#	**$**
Opening, January 1, 2017	7,325	36,625
Net decrease	(97)	(485)
Closing, December 31, 2017	7,228	36,140

19 Interest rate sensitivity

The following table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the company's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	Not interest rate sensitive $	2018 Total $
Assets					
Cash and cash equivalents	9,761,137	-	-	-	9,761,137
Effective interest rate	0.44%				
Accounts receivable	-	-	-	52,634	52,634
Investments	17,875,944	40,540	-	255,930	18,172,414
Effective interest rate	1.45%	4.69%			
Loans and mortgages	134,404,508	21,835,048	-	-	156,239,556
Effective interest rate	5.42%	4.03%			
Prepaid expenses and other	-	-	-	134,816	134,816
Property and equipment	-	-	-	1,785,413	1,785,413
Deferred income tax	-	-	-	84,000	84,000
Total assets	162,041,589	21,875,588	-	2,312,793	186,229,970
Liabilities and surplus					
Member deposits	123,034,350	47,626,210	-	-	170,660,560
Effective interest rate	0.48%	1.51%			
Accrued liabilities	-	-	-	1,789,061	1,789,061
Income taxes payable	-	-	-	304,316	304,316
Other liabilities	-	-	-	696,380	696,380
Undistributed earnings	-	-	-	12,779,653	12,779,653
Total liabilities and surplus	123,034,350	47,626,210	-	15,569,410	186,229,970
Interest rate sensitivity gap	39,007,239	(25,750,622)	-	(13,256,617)	-

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	Not interest rate sensitive $	2017 Total $
Assets					
Cash and equivalents	9,080,565	-	-	384,808	9,465,373
Effective interest rate	0.44%				
Accounts receivable	-	-	-	209,633	209,633
Investments	19,816,659	13,003,574	-	-	32,820,233
Effective interest rate	1.46%	1.43%			
Loans and mortgages	114,291,606	25,127,665	-	-	139,419,271
Effective interest rate	4.89%	3.33%			
Prepaid expenses and other	-	-	-	156,373	156,373
Property and equipment	-	-	-	1,770,543	1,770,543
Deferred income tax	-	-	-	79,000	79,000
Total assets	143,188,830	38,131,239	-	2,600,357	183,920,426
Liabilities and surplus					
Member deposits	147,829,107	22,211,910	-	-	170,041,017
Effective interest rate	1.06%	1.55%			
Accrued liabilities	-	-	-	1,559,949	1,559,949
Income taxes payable	-	-	-	149,007	149,007
Other liabilities	-	-	-	660,928	660,928
Undistributed earnings	-	-	-	11,509,525	11,509,525
Total liabilities and surplus	147,829,107	22,211,910	-	13,879,409	183,920,426
Interest rate sensitivity gap	(4,640,277)	15,919,329	-	(11,279,052)	-

As at December 31, 2018, the Credit Union's net interest spread was 3.76% (2017 - 3.07%). The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year-end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year-end interest bearing liabilities.

20 Transition to IFRS 9

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 period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 3.

i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 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)	9,465,373	Amortized cost	9,465,373
Accounts receivable	Amortized cost (loans and receivables)	209,633	Amortized cost	209,633
Loans and mortgages	Amortized cost (loans and receivables)	139,419,271	Amortized cost	139,419,271
Investments	FVTPL (held for trading)	11,212,819	FVTPL	13,761,233
	Amortized cost (held to maturity	19,059,000	Amortized cost	19,059,000
	Amortized cost (available for sale)	2,548,414	Amortized cost	-

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

ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9:

The following table reconciles the carrying amounts of financial assets from their previous measurement category in accordance with IAS 39 to their new management categories upon transition to IFRS 9 on January 1, 2018:

	IAS 39 carrying amount December 31, 2017 $	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018 $
Amortized cost				
Cash and cash equivalents				
Opening balance under IAS 39 and closing balance under IFRS 9	9,465,373	-	-	9,465,373
Accounts receivable				
Opening balance under IAS 39 and closing balance under IFRS 9	209,633	-	-	209,633
Loans and mortgages				
Opening balance under IAS 39	139,419,271			
Remeasurement: ECL allowance			(51,809)	
Closing balance under IFRS 9				139,367,462
Investments				
Opening balance under IAS 39 and closing balance under IFRS 9	21,607,414			21,607,414
Total financial assets measured at amortized cost	170,701,691	-	(51,809)	170,649,882
Fair value through profit or loss (FVTPL)				
Investments				
Opening balance under IAS 39	19,059,000			
Add: from available for sale (IAS 39)		2,548,414		
Closing balance under IFRS 9	19,059,000	2,548,414	-	21,607,414

Available for sale				
Investments				
Opening balance under IAS 39	2,548,414			
Less: to FVTPL (IFRS 9)		(2,548,414)		
Closing balance under IFRS 9	2,548,414	(2,548,414)	-	-

Notes:

- Total remeasurement of $51,809 was recognized in opening undistributed income at January 1, 2018.

- The Credit Union holds investments in certain shares that are not traded in an open market so originally it has been determined that their fair value could not be reliably measured. Therefore, under IAS 39 these investments were measured at amortized cost. Under IFRS 9, these investments are now measured at FVTPL.

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