

2020



TIGNISH CREDIT UNION
ANNUAL REPORT

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2020 highlights

\$245M
assets

▲ 14.7%

\$227M
deposits

▲ 15.3%

7K
members

\$171M
loans

▲ 3.9%

11.49%

growth in avg. member savings

\$488K
paid to members

Our Vision

To be the top employer and the best provider of financial services in the communities we serve.

Our Mission

Working together to strengthen our communities and to improve the financial lives of our members.

Our Values

Integrity

Community

Efficient

Responsible

Teamwork

Leadership

Board of Directors



Karen Gaudet-Gavin
President



Mona Jeffery
Vice President



Joan Martin



Wendy Profit



Victor Hogan



Gail Shea



Tish Shea



Clifford Doucette

Karen Gaudet - Gavin
President



President's Report

It is my pleasure to be able to report to you on behalf of the Board of Directors of the Tignish Credit Union for the year ending December 31, 2020.

In 2020, Tignish Credit Union, thanks to the support of its members, had a good year even though the Credit Union had to make Covid-19 changes in its operation. The new norm for 2020 to keep our members and staff safe was a challenge for all.

Due to COVID-19 and lower interest rates, our rebate has been affected. Therefore, The Board is announcing a .5% share dividend rebate which equates to \$238,600 in share dividend payments to our members. In addition, we are declaring a rebate on loans, deposits and service fees of \$250,000 for the year end 2020.

The Tignish Credit Union is a financial service cooperative and operates under a member owned structure. We strive to offer excellent service to our members. It is the goal of the Tignish Credit Union to contribute time and financial resources back to our communities.

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

Throughout the year, the Board held regular monthly meetings in addition to committee meetings. But, when COVID hit in March your Board held their first meeting by audio, then went virtual. I have to say that was a challenge for me to chair the meeting and to continue the flow moving in getting the business done. We did it and once again we were able to have our meetings on site. Also, because of COVID, we were not able to attend the Spring AGM and the fall conference hosted by Atlantic Central.

This past year, the Board explored the option of amalgamation. The Board appointed Mona Jeffery, Cletus Dunn, and myself to sit on the Joint Board Committee to see if this is the right direction for our Credit Union. This committee also has representation from Evangeline, Malpeque Bay and Provincial Credit Unions. The Committee met virtually every month and on two occasions, the full board from all four credit unions met to discuss the merger.

On behalf of the Board, we would like to thank Arlene Hackett once again in doing a fine job as acting CEO. The Board would also like to thank the Staff for their continued hard work and professionalism during 2020 COVID year. Most importantly, the Board would like to extend our appreciation to the members for their support and understanding in this trying year.

The year 2020 has been a very interesting plus challenging year for everyone and also in the credit union world. At this time, I would like to thank the Board for their continued support in my role as Chair of the Board. Once again, our Credit Union thrives to stay strong and work together to maintain our values. Because of you, the members, and your ongoing support, Tignish Credit Union had a successful, yet challenging year. We thank you once again.

Respectively Submitted,

Karen Gaudet - Gavin
President



Arlene Hackett
General Manager

Manager's Report

As the interim manager of the Tignish Credit Union it is my pleasure to provide an overview of the financial results for the fiscal year ending December 31, 2020.

2020 was another good year for Tignish Credit Union with asset growth of 14.5%. Year end assets were \$245 million up from \$214 million the end 2019.

In February, our Credit Union received the "Business of the Year Excellence Award" at the annual Business Awards Gala held at the Mill River Resort. This award was voted on by members of the West Prince Business Association and we are extremely proud to be the recipient.

While 2020 started off as any other normal year, COVID quickly changed that in early March. As a credit union, we are an essential service which required keeping our doors open to serve our members while keeping them and our staff as safe as possible. I would like to acknowledge our staff, in particular, our front-line staff, who adapted very quickly to any changes required. It was not something that management took lightly and even though we took all the precautions that were advised, there was so much uncertainty, especially in the early days of COVID, that it was a very stressful time for staff and their families. I would also like to thank our members for their role in doing what was asked even though it wasn't always the most convenient method of doing their banking. No one likes change but it was necessary to keep everyone safe.

In our community report you will see the highlights of our involvement in 2020 which was certainly different than in previous years with most large events being cancelled but we kept our total dollar value for community donations on par with the previous year. We were able to donate over \$65,000.00 to our communities we serve and also paid member rebates and dividends of almost \$500,000. Our loan interest rebate was down from \$550,000 to \$100,000 and it's explained in more detail in the notes below.

In February, we hired an IT Manager who brings over 20 years experience of working in the credit union system. While the expertise is required in our environment, we aren't large enough to utilize a full time resource so in keeping with our ability to share services with the other PEI Credit Unions, we were able to contract his service to Evangeline Central CU and Malpeque Bay CU to make it more feasible. The regulations concerning Cyber-security have increased and that will continue. It's very costly but certainly worth it to ensure that our banking systems and other programs are secure.

I would like to highlight some of the financial achievements of 2020:

Cash & equivalents which is mainly our deposits held with Atlantic Central have decreased by \$4,776,561; this amount varies on a daily basis.

Investments have increased by \$29,791,489 – this more than offsets the decrease noted above and is a direct result of strong deposit growth. Our

investment income also increased by \$110,898 which reflects the much larger balances this year. This positive variance would have been much higher post COVID but the investment rates dropped significantly with prime in early 2020.

Loans increased by \$6,474,622 or 3.9%. A significant portion of our loan portfolio is tied to prime so when the Bank of Canada rate dropped by 1.5% in a matter of weeks, it meant a large reduction to our loan revenue. We are down almost 1.3 million in loan interest revenue compared to 2019. This was good news for our members as they paid a lot less interest on their loans in 2020. This is also why we paid \$100,000 in loan rebates in comparison to the \$550,000 in 2019.

Net earnings for the year decreased slightly in 2020 to \$1,829,570 from \$1,842,387 in 2019. This is the income remaining after member dividends, rebates and taxes for the year are paid. This gets put back into our retained earnings which keeps our credit union in a good equity position of 6.7% down slightly from 6.8% in 2019 but well above the regulatory requirement of 5%.

The cost of capital represents the interest costs paid to members deposits. Even though we had an increase in deposits of over 30 million, our cost of capital only increased by \$5,000 because of the drop in the Bank of Canada Prime rate.

The other significant change you will see is the Provision for Loan Losses. In 2020 we were able to collect funds on a loan that had been classified as impaired over the past number of years; this meant that funds were set aside or expensed in previous years in the event that the credit union had to take a loss on specific loans. This is a regulatory requirement and we make quarterly adjustments to ensure that the credit union wouldn't sustain any large losses that could affect the financial stability of the credit union. This year we were able to reverse the loan loss we had set aside over the years in the amount of a net gain

of \$449,404 in 2020 from a loss of \$228,085 in 2019. This certainly helped offset the loss of loan interest revenue.

I want to thank our staff for their support and hard work this past year – with COVID and also our CEO resigning, it meant everyone stepping up and doing whatever was required and that's exactly what our staff did and I can't thank them enough for that.

In closing, I would like to personally thank the Board for their support, especially since July when they entrusted the interim CEO position to me – I had so much support from them, our staff and the management from the other PEI Credit Unions. I would like to recognize our president, Karen Gaudet-Gavin and Vice-Chair, Mona Jeffery, who sat on the Joint Partnership Committee representing our board in the merger negotiations. It's been a busy year for our board as the merger required many extra meetings. This was all over and above the regular monthly board meetings and special meetings. They were required to make many difficult decisions, the least of which was approving the merger of Tignish, Evangeline Central, Provincial and Malpeque Bay Credit Unions – the biggest decision ever having to be made in the history of Tignish Credit Union. We are hopeful that our members will support their efforts when the voting takes place in April.

Respectfully Submitted,

Arlene Hackett

General Manager

Investing in You Womens Conference



In 2020, we hosted our first-ever Investing in You Women's Conference: a free event that inspired guests to do more with their money through interactive panel discussions on women's financial wellness, budgeting, work-life balance, fitness, and nutrition.

Two Investing in You events – one in the west and the other in the east, were held to ensure those who wanted to attend were able to do so close to home. Over the two events, close to 300 Island women attended, and were able to gain knowledge and resources to support their financial, physical, and emotional wellness.



Staff



Arlene Hackett



Coralee Stewart



John McArthur



Corey Colwell



Carol-Anne Arsenault



Jenny Bernard



Irene Gallant



Suzanne Murphy



Jody Kenny



Julie DesRoches



Cherissa Arsenault



Donna MacKay



MacKayla Gallant



Nadine Gaudette



Leanne Meggison



Tina Skerry



Cindy Gaudet



Jennifer Perry



Erica LeClair



Jenny K Bernard



Jessie Thibodeau



Jaime LeClair



Denise Forsyth



Marlene Handrahan



Jenna Laviolette



Megan Perry



Stacey Perry



Nancy MacLeod



Katie Oliver



Desirea Doucette

Thank you

to all our staff and to all the front line workers.

It's been said that since the arrival of COVID-19 on Prince Edward Island a day feels like a week, and a week feels like a year. Looking back, those first few days of the pandemic now feel like a world away – and throughout the past year, we've been working hard to rise to the challenge. As a result, we have had to change the way we service our members, but one thing has remained the same – that we're here to help. We know that these changes may have caused some challenges for our members, but we want to thank each and every one of you, who have been supportive in our decisions, and understanding of these changes.

Additionally, COVID-19 has really shone a spotlight on the importance of our front-line staff and essential workers. For the front-line staff across all credit unions, the pandemic brought on a lot of changes to policies and procedures, as well as day-to-day operations. A sincere thank you is extended to everyone at the credit unions for continuing to operate, and pivot whenever needed. We couldn't have done it without you!

Helping our members during COVID-19

In times of crisis, it's important to come together as a community to support one another. During the COVID-19 pandemic, we provided the support our members needed through a number of targeted relief and support programs.

No two situations were the same, especially during the early days of the pandemic. We worked with our members to build relief packages specifically for them to get through any hardships they were faced with.

Saved members money when it counted most.

We waived key service fees for all members during the height of the pandemic so that they could send money more frequently to loved ones or in support of their favorite local businesses without paying any extra fees. We also introduced low rate financing options for those who needed access to funds quickly.

Kept our members safe at home with new enhanced ways to bank remotely.

We knew not everyone was comfortable going online for their banking, so we increased our services available over the phone so that members could perform most of their banking from the comfort and safety of their own home.

Helped our members manage their finances during the hard times.

We responded quickly to our members' when they needed access to funds with a number of support options. From loan and mortgage payment deferrals to special emergency loan programs for both personal and business members who didn't qualify for any of the government programs, we offered our members the tools to help with their finances.

Tablets for Seniors



When the first wave of COVID-19 hit our province, we partnered with the Community Foundation of Prince Edward Island to provide tablets to almost 40 long-term and community care facilities across the Island.

We worked together to flatten the curve and stop the spread of COVID-19 while keeping our community physically distanced, while staying socially connected. With the tablets donated by the credit unions, residents didn't have to feel alone; with the touch of a button they were able to video chat with family and friends, browse the web, play games, or even set up online banking.

COVID-19 brought a lot of financial uncertainty for many Islanders, and for some, it was tough to know how to navigate their finances during COVID-19. To answer our most commonly asked questions, we gathered credit union experts who were able to share guidance and resources to support members during the pandemic.

In total, we hosted three Financial Live Q&A sessions, covering topics such as: Credit Union COVID-19 relief measures, government programming, investing, and how to adapt and pivot your business during a global pandemic.

Working Together: Financial Live Q&A

Loyal 2 Local Challenge

In June, we challenged our employees to support their favorite local business by participating in the Loyal 2 Local movement – a challenge to support our local organizations during an incredibly challenging year.

The economic impact of this initiative was significant, and it created a real and meaningful difference to the businesses that help make our communities great places to live and work.



Helping our members during COVID-19

A black and white photograph of a woman with her hair in a ponytail, wearing a white t-shirt, lying on a mat and stretching her right arm upwards. A dumbbell is visible on the mat next to her. The background shows a potted plant and a wall.

\$4K

Get Active Program

in gym rebates paid to members.

We believe that an active lifestyle leads to a better, happier, and healthier life. This is why we make it our mission to support Islanders in living a more physically active lifestyle.

In the fall, we offered our Get Active Gym Rebate Program to our members for the fourth year in a row. The Get Active Program rewards members who are active at any gym during the year with a \$50 rebate on their gym membership fees.

In 2020, we were able to put \$50 back in the wallets of 84 of our members from across PEI. It really does pay to be active with the credit unions.



In December, we continued our annual #FilltheYuMob toy drive for the seventh consecutive year with our friends at Toys'R'Us.

While Fill the YuMob looked a little different this year due to COVID-19 restrictions, we were still able to donate over a thousand dollars' worth of toys to Santa's Angels, a volunteer group that delivers the toys on Christmas Day to over 300 families all across PEI.

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!

7th Annual Fill the YuMob

Community Involvement Report

In 2020, Tignish Credit Union continued its commitment of supporting our communities by monetary donations as well as volunteered time. Corporate donations of \$70,000.00 were made during the year. Our decisions are still based on how our communities are benefiting from the donation.

With 2020 being a very different year for everyone with the COVID pandemic, we as staff were unable to participate in some of the annual events. These included our community parades as well as our free Family Day event at the Credit Union arena and Autumn Fest event which we partnered with our local Co-op last year. We hope that 2021 will allow us to be able to participate in and hold events such as these again.

In hopes to help seniors in our community who were unable to visit families due to the COVID restrictions, we purchased laptops for the Tignish Seniors home as well as donated towards their new gazebo. We also purchased a generator for the Community Inclusions home in Tignish.

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, Big Brothers-Big Sisters, Young Millionaires Program, Western Community Curling Club, and Tignish & Cascumpec Watersheds to name a few. We also donated to Credit Union Arena our annual commitment and to the Tignish Health Centre expansion plan.

The Credit Union was a major sponsor for the Red Clay Blue Grass Festival and the West Prince Chamber Business Gala. It also contributed to St. Louis Bluegrass Festival, Irish Moss Festival, Palmer Road Parish & St.Simon & St.Jude Parish picnics, as well as the Stompin Tom Centre Festival Series.

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 continued its partnership with Ronald McDonald House to provide accommodations for families that have a sick child at the IWK Hospital. 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.

From our casual day Friday's fund, in conjunction with the West Prince Caring Cupboard, we donated \$1500 to provide Xmas gifts for needy families in our area.

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 the communities in areas that benefit a large number of people. We donated \$50,000 to the following organizations in 2020.

- **Tignish Fire Department**
- **Alberton Fire Department**
- **Miminegash Fire Department**
- **Tignish Minor Hockey**
- **Alberton Minor Hockey**

- West Prince Caring Cupboard
- Tignish Figure Staking Club
- Alberton Figure Skating Club
- Association for Community Living
- Credit Union Arena
- Jacques Cartier Arena

We also donated \$9,000 to our local school's breakfast programs and \$1,000 to Victoria's Quilts Canada. Throughout the year \$60,000.00 was donated from our 50-50. To date, over \$795,000.00 has been donated 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 Ecole Pierre Chaisson French School.

The credit union presented 4 x \$1000 bursaries at Westisle again this year. Congratulations to this year's recipients;

Emma Lee Lyon, Santana Wedge, Gracie Thibodeau, and Ethan Shea. Founder awards were presented to graduating students from Tignish, St. Louis, Alberton Elementary, Ecole Pierre Chaisson French School and M.E. Callaghan Jr. High. In addition, prize money was given to students in other grades.

For the 3rd year we partnered with the Irish Moss Festival and sponsored the Credit Union Citizen of the Year and the recipient this year was Paulette Arsenault. Congratulations Paulette.

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.

\$4,000 in scholarships

We are pleased to announce the four Tignish Credit Union Scholarship Recipients for 2020. Each Recipient received \$1,000 towards furthering their education. In total, Tignish Credit Union distributed \$4,000 to make post-secondary education more affordable for Island students.

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

4
Students



**Emma
Lee**



**Ethan
Shea**



**Gracie
Thibodeau**



**Santana
Wedge**

Your Two Cents: Season 2

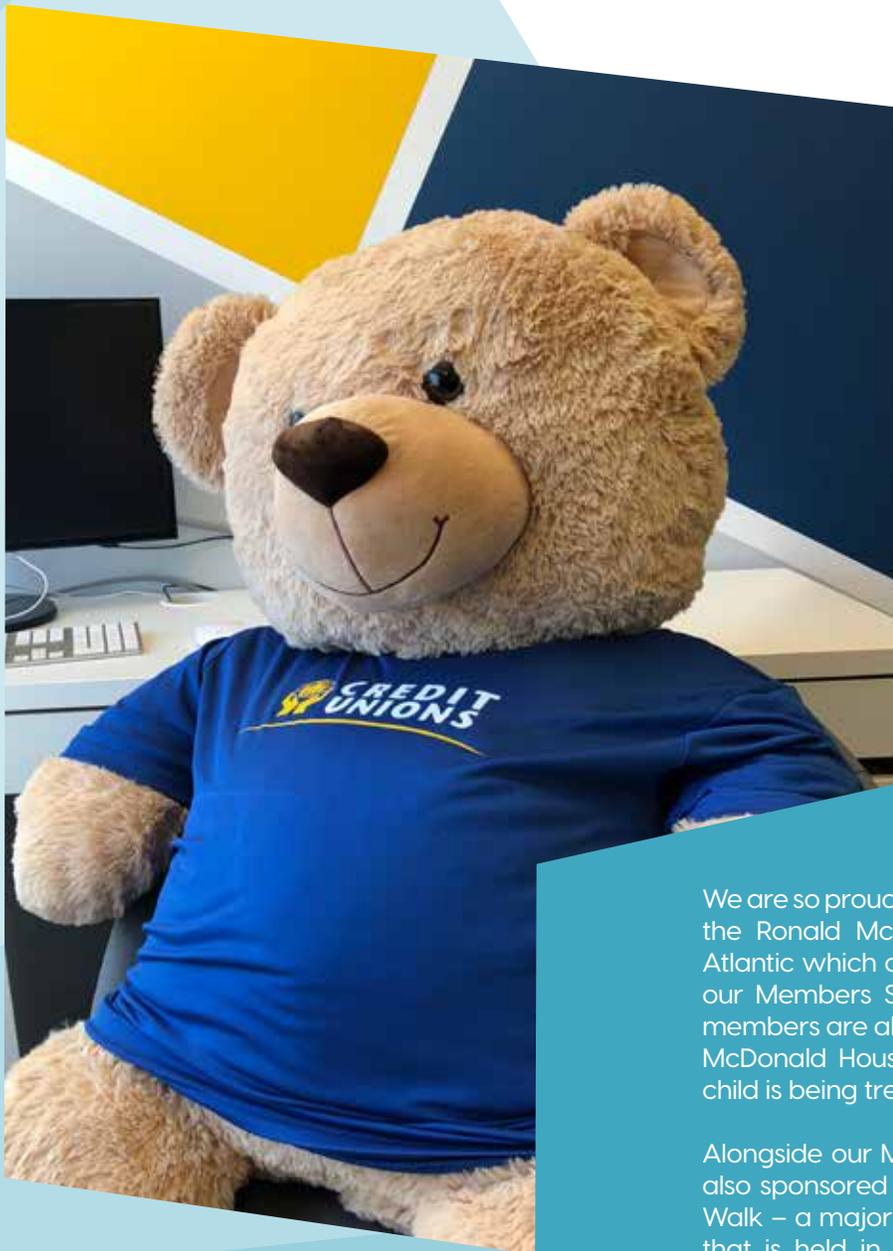
In 2020 we sponsored our second season of Your Two Cents: a web-based series that aims to inform the next generation how to do more with their money through short and engaging videos.

From topics ranging from home renos on a budget, how to have an affordable staycation, to launching your own small business, Your Two Cents' season two spoke directly to our values of providing honest, straight forward financial advice to our members.

Your Two Cents Season 2 launched on social media in the Spring of 2020, and each episode shed light on how financial advice can be entertaining – and even fun.



Ronald McDonald House Charities Atlantic



We are so proud of our on-going partnership with the Ronald McDonald House Charities (RMHC) Atlantic which continued throughout 2020. With our Members Stay Free program, credit union members are able to stay the night at the Ronald McDonald House in Halifax for free while their child is being treated at the IWK Hospital.

Alongside our Members Stay Free program, we also sponsored the annual Ronald McDonald PJ Walk – a major fundraiser for the RMHC Atlantic that is held in five cities across the Maritimes. While COVID may have changed the format this year, the PJ Walk raised over \$164,000, which will directly support the Ronald McDonald House Charities Atlantic and their initiatives.



CU FINANCIAL MANAGEMENT™



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

Sharon Gallant, who is our Representative of CU Financial Management 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 CU Financial Management team. Yvette is the Co-ordinator/Assistant for Sharon with CU Financial Management, and Yvette brings years of Credit Union experience.



8 Episodes



In August, we put spending habit myths to the test and hosted a socially-distanced two-day competition for 30 youth Spenders. They were there for the chance to walk away with \$2,500. We wanted to test how youth really spend their money in real life situations similar to those they would encounter everyday.

We held eight different challenges where we covertly monitored and tested exactly how our Spenders choose to spend their money in different situations. To avoid any biases, we kept our spenders focused on the activities and the prize money. Through our experiments, we were able to gain insights into commonly asked questions such as: do women really spend more than men?

To see how our Spenders did, check out our 30 Spenders mini-series on our social media channels @PEICreditUnions.



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 ArsenaultBestCameronEllis, 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.

Arlene Hackett

General Manager

February 23, 2021

**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, 2020, 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, 2020, and the results of its operations and its cash flows for the year then ended in accordance with International Financial 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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.

ArsenaultBestCameronEllis

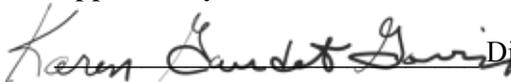
Chartered Professional Accountants

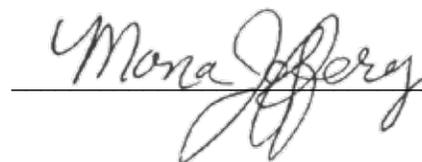
Statement of Financial Position

TIGNISH CREDIT UNION
December 31, 2020

	2020 \$	2019 \$
Assets		
Cash and cash equivalents (note 14)	9,632,654	14,409,215
Accounts receivable (note 17)	250,412	66,989
Loans and mortgages (notes 6 and 17)	171,078,208	164,603,586
Prepaid expenses and other	106,764	95,315
Property and equipment (note 7)	2,763,724	2,908,165
Investments (note 8)	61,632,949	31,841,460
Deferred income taxes (note 13)	160,000	146,000
	<u>245,624,711</u>	<u>214,070,730</u>
Liabilities		
Member deposits (notes 9 and 11)	227,024,787	196,914,499
Accrued liabilities	1,180,397	1,929,932
Other liabilities (note 12)	805,711	493,775
Income taxes payable	162,206	110,484
	<u>229,173,101</u>	<u>199,448,690</u>
Members' Equity		
Undistributed income	<u>16,451,610</u>	<u>14,622,040</u>
	<u>245,624,711</u>	<u>214,070,730</u>

Approved by the Board of Directors

 Director

 Director

Statement of Changes in Member's Equity

TIGNISH CREDIT UNION
Year Ended December 31, 2020

	2020 \$	2019 \$
Undistributed income - Beginning of year	14,622,040	12,779,653
Net earnings for the year	<u>1,829,570</u>	<u>1,842,387</u>
Undistributed income - End of year	<u>16,451,610</u>	<u>14,622,040</u>

Statement of Comprehensive Income

TIGNISH CREDIT UNION
Year Ended December 31, 2020

	2020 \$	2019 \$
Revenue		
Loan interest (note 17)	6,883,841	8,179,541
Investment (note 17)	652,747	541,849
Service fees	799,428	838,659
Commissions	492,389	428,234
Other income	93,464	81,672
	<u>8,921,869</u>	<u>10,069,955</u>
Expenses		
Staff (notes 15 and 16)	2,647,194	2,385,101
Premises	162,393	190,081
Insurance	314,360	280,167
Office	119,185	76,355
Service fees (note 12)	1,241,522	1,266,737
General	347,343	565,081
Cost of capital	1,274,479	1,268,822
Amortization (note 7)	179,496	139,035
	<u>6,285,972</u>	<u>6,171,379</u>
Operating earnings	<u>2,635,897</u>	<u>3,898,576</u>
Other expense (income)		
Share dividends	238,609	521,268
Provision for (recovery of) loan losses (note 6)	(449,404)	228,085
Loan interest rebate	100,000	550,000
Interest bonus on savings	100,000	150,000
Service charge rebate	50,000	50,000
	<u>39,205</u>	<u>1,499,353</u>
	<u>2,596,692</u>	<u>2,399,223</u>
Provision for (recovery of) income taxes		
Current (note 13)	781,122	618,836
Deferred (note 13)	(14,000)	(62,000)
	<u>767,122</u>	<u>556,836</u>
Net earnings for the year	<u>1,829,570</u>	<u>1,842,387</u>

Statement of Cash Flow

TIGNISH CREDIT UNION
Year Ended December 31, 2020

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the year	1,829,570	1,842,387
Items not affecting cash		
Amortization	179,496	139,035
Deferred income taxes recovery	(14,000)	(62,000)
Provision for (recovery of) loan losses	(449,404)	228,085
	<u>1,545,662</u>	<u>2,147,507</u>
Net change in non-cash working capital items		
Increase in loans and mortgages	(6,025,218)	(8,592,115)
Increase in accounts receivable	(183,423)	(14,355)
Decrease (increase) in prepaid expenses and other	(11,449)	39,501
Increase in member deposits	30,110,288	26,253,939
Increase (decrease) in accrued liabilities	(749,535)	140,871
Increase (decrease) in other liabilities (note 12)	313,451	(211,239)
Increase (decrease) in income taxes payable	51,722	(193,832)
	<u>25,051,498</u>	<u>19,570,277</u>
Financing activity		
Repayment of other liabilities - lease liability (note 12)	<u>(1,515)</u>	<u>(744)</u>
Investing activities		
Purchase of property and equipment (note 7)	(35,055)	(1,252,409)
Increase in investments	<u>(29,791,489)</u>	<u>(13,669,046)</u>
	<u>(29,826,544)</u>	<u>(14,921,455)</u>
Increase (decrease) in cash and cash equivalents	(4,776,561)	4,648,078
Cash and cash equivalents - Beginning of year	<u>14,409,215</u>	<u>9,761,137</u>
Cash and cash equivalents - End of year	<u>9,632,654</u>	<u>14,409,215</u>
Supplementary disclosure		
Interest received	8,278,851	8,403,747
Interest paid	1,280,748	1,115,896
Dividends received	125,000	-
Dividends paid	238,609	521,268
Income taxes paid	729,400	812,668

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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 February 23, 2021.

(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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

3 Summary of significant accounting policies

(a) Financial instruments

i) *Classification and measurement of financial assets*

The Credit Union classifies its financial assets into one of the following measurement categories:

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

Financial assets include both debt and equity instruments.

Debt instruments

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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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.

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 from these financial assets is included in 'Loan interest' using the effective interest rate method.

Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortized cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL, and is not part of a hedging relationship, is recognized in comprehensive income and presented in the comprehensive income statement within 'Investment revenue' in the period in which it arises. Interest income from these financial assets is included in 'Investment revenue' using the effective interest method.

Equity instruments

The Credit Union measures all equity investments at FVTPL. 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 (SCI).

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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 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 SCI 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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

iii) *Determination of fair value*

Fair value of a financial asset or liability is the price that would be received on the sale of 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 SCI.

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 SCI.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

v) *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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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 determined and there is no reasonable expectation of further recovery, write-off may be earlier.

(b) 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.

(c) 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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

(d) 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.

(e) 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. Leasehold improvements and right-of-use assets depreciation are calculated on a straight-line basis over 16 years and 6 years, respectively. All other property and equipment is depreciated using the straight-line method over their estimated useful lives, as follows:

Buildings	20 to 25 years
Furniture, equipment and computers	2 to 5 years
Pavement	10 years

Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Credit Union will obtain ownership by the end of the lease term, in which case they are depreciated to the end of the useful life of the underlying asset. Right-of-use assets are recognized for contracts that are, or contain, leases.

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, 2020.

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.

(f) Leased assets

For any new contracts entered into on or after January 1, 2019, the Credit Union considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Credit Union assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Credit Union;

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

- the Credit Union has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Credit Union has the right to direct the use of the identified asset throughout the period of use. The Credit Union assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Credit Union recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Credit Union, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Credit Union has elected to account for short-term leases and leases of low-value assets using the practical expedients option. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included in other liabilities.

(g) Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

(h) Employee benefits

The Credit Union records annually the estimated liabilities for retirement benefit obligations which are payable to its employees in subsequent years under the Credit Union's policy.

Liabilities for wage and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in the Statement of Comprehensive Income in respect of the employees service up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The liabilities are included in other liabilities in the statement of financial position.

(i) 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.

(j) 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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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.

(k) 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.

(l) 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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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, Central 1, 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.

(e) Extension options for leases

When the Credit Union has an option to extend a lease, management uses its judgment to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practices and any cost that will be incurred if an option to extend is not taken, to help them determine the lease term.

(f) COVID-19

Since January 31, 2020, the outbreak of COVID-19 (coronavirus) has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally resulting in an economic slowdown, and global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the outcome of government and central bank interventions.

In management's estimation, these events have not had a material impact on the carrying value of assets and liabilities reported in these financial statements as at December 31, 2020. The duration and impact of the COVID-19 pandemic remains unclear at this time. Therefore, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Credit Union for future periods.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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:

	Fair level hierarchy	2020		2019	
		Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Financial assets					
Loans and mortgages	Level 2	171,078,208	171,078,208	164,603,586	164,603,586
Liquidity reserve deposit	Level 2	14,630,952	14,630,952	12,686,181	12,686,181
Atlantic Central shares	Level 2	2,274,770	2,274,770	1,942,110	1,942,110
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	286,504	286,504	272,565	272,565
Central 1 shares	Level 2	100	100	-	-
Co-operative membership	Level 3	2,530	2,530	2,530	2,530
CU PEI Investment Corp.	Level 3	64	64	64	64
CU Financial Management Limited	Level 3	19	19	-	-
Term deposits	Level 2	44,000,000	44,000,000	16,500,000	16,500,000
		<u>232,711,157</u>	<u>232,711,138</u>	<u>196,445,046</u>	<u>196,445,046</u>
Financial liabilities					
Member deposits	Level 2	<u>227,024,787</u>	<u>227,024,787</u>	<u>196,914,499</u>	<u>196,914,499</u>

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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

6 Loans and mortgages

(a) Loans at amortized cost

	Gross loans \$	Allowance for credit losses \$	2020 Net carrying amount \$	Gross loans \$	Allowance for credit losses \$	2019 Net carrying amount \$
Personal loans	26,861,437	142,856	26,718,581	28,490,199	213,612	28,276,587
Personal lines of credit and overdrafts	640,848	21,611	619,237	576,702	15,473	561,229
Mortgages	31,814,999	122,455	31,692,544	22,910,182	9,270	22,900,912
Business loans	20,395,983	173,512	20,222,471	20,172,682	2,231,874	17,940,808
Business lines of credit	7,437,047	1,487	7,435,560	10,580,967	17,833	10,563,134
Farming and fishing	81,074,144	6,062	81,068,082	79,892,186	40,037	79,852,149
Mortgage pools	3,321,733	-	3,321,733	4,508,767	-	4,508,767
	171,546,191	467,983	171,078,208	167,131,685	2,528,099	164,603,586

Mortgages and loans

Mortgage loans (including mortgage pools) are secured by realty mortgages with interest rates of 2.00% - 6.89% (2019 - 1.95% - 6.89%). The remaining loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 0% - 18.0% (2019 - 2.45% - 21.0%) on personal, business, farming and fishing loans and 0% - 21.0% (2019 - 0% - 21.5%) 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, 2020 was 2.45% (2019 - 3.95%).

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

(b) Impaired loans

	2020			2019		
	Gross impaired loans	Allowance for credit losses	Net carrying amount	Gross impaired loans	Allowance for credit losses	Net carrying amount
	\$	\$	\$	\$	\$	\$
Personal loans	447,921	116,444	331,477	583,651	202,448	381,203
Personal lines of credit and overdrafts	5,792	5,777	15	16,772	14,808	1,964
Mortgages	311,768	119,133	192,635	177,023	177	176,846
Business loans	249,483	169,483	80,000	3,019,013	2,225,013	794,000
Business lines of credit	-	-	-	21,106	13,609	7,497
Farming and fishing	678,770	4,079	674,691	116,897	23,379	93,518
	<u>1,693,734</u>	<u>414,916</u>	<u>1,278,818</u>	<u>3,934,462</u>	<u>2,479,434</u>	<u>1,455,028</u>

(c) Allowance for credit losses

	2020			Net
	Balance as at January 1, 2020	Provision for credit losses	Net write-offs	
	\$	\$	\$	\$
Personal loans	213,612	(57,138)	13,618	142,856
Personal lines of credit and overdrafts	15,473	12,335	6,197	21,611
Mortgages	9,270	117,749	4,564	122,455
Business loans	2,231,874	(467,047)	1,591,315	173,512
Business lines of credit	17,833	(16,346)	-	1,487
Farming and fishing	40,037	(33,975)	-	6,062
	<u>2,528,099</u>	<u>(444,422)</u>	<u>1,615,694</u>	<u>467,983</u>

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

As at December 31, 2020	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Personal loans	26,412	6,177	110,267	142,856
Personal lines of credit and overdrafts	15,834	-	5,777	21,611
Mortgages	3,322	541	118,592	122,455
Business loans	4,029	-	169,483	173,512
Business lines of credit	1,487	-	-	1,487
Farming and fishing	1,983	4,079	-	6,062
	<u>53,067</u>	<u>10,797</u>	<u>404,119</u>	<u>467,983</u>

As at December 31, 2019	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Personal loans	11,165	777	201,670	213,612
Personal lines of credit and overdrafts	664	40	14,769	15,473
Mortgages	9,093	177	-	9,270
Business loans	6,861	-	2,225,013	2,231,874
Business lines of credit	4,224	-	13,609	17,833
Farming and fishing	16,658	-	23,379	40,037
	<u>48,665</u>	<u>994</u>	<u>2,478,440</u>	<u>2,528,099</u>

(d) Loans past due but not impaired

At December 31, 2020, all loans that were past due have been considered impaired by the Credit Union.

(e) Provision for loan losses

	2020 \$	2019 \$
Increase (decrease) in allowance	(2,060,116)	79,284
Loans directly written off	1,615,694	204,185
Recoveries of loans previously written off	(4,982)	(55,384)
	<u>(449,404)</u>	<u>228,085</u>

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

7 Property and equipment

	Land \$	Buildings \$	Furniture, equipment and computers \$	Pavement \$	Leasehold improvements \$	Total \$
Cost						
Balance - Beginning of year	231,058	3,267,504	1,123,679	136,656	40,388	4,799,285
Additions	-	-	35,055	-	-	35,055
Disposals	-	-	-	-	(40,388)	(40,388)
Balance - End of year	231,058	3,267,504	1,158,734	136,656	-	4,793,952
Accumulated amortization						
Balance - Beginning of year	-	939,839	827,529	83,364	40,388	1,891,120
Current year amortization	-	96,165	78,011	5,320	-	179,496
Disposals	-	-	-	-	(40,388)	(40,388)
Balance - End of year	-	1,036,004	905,540	88,684	-	2,030,228
Carrying value						
December 31, 2019	231,058	2,327,665	296,150	53,292	-	2,908,165
December 31, 2020	231,058	2,231,500	253,194	47,972	-	2,763,724

As at December 31, 2020, furniture, equipment and computers includes a non-cash transaction for a right-of-use assets with a cost of \$9,378, accumulated amortization of \$2,529 (2019 - \$848), and carrying amount of \$6,849 (2019 - \$8,530). For the year ended December 31, 2020, amortization expense includes \$1,681 related to the right-of-use assets (2019 - \$848).

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

8 Investments

	2020	2019
	\$	\$
<i>Measured at fair value through profit or loss</i>		
Liquidity reserve	14,630,952	12,686,181
Atlantic Central shares	2,274,770	1,942,110
Concentra shares	400,000	400,000
League Data shares	38,010	38,010
League Savings of Mortgage shares	286,504	272,565
Tignish Co-operative membership shares	2,530	2,530
Central 1 shares	100	-
CU PEI Investment Corp. shares	64	64
CU Financial Management Limited shares	19	-
	<hr/>	<hr/>
Total fair value measured through profit or loss	17,632,949	15,341,460
<i>Measured at amortized cost</i>		
Term deposits	44,000,000	16,500,000
	<hr/>	<hr/>
	61,632,949	31,841,460
	<hr/>	<hr/>

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 that averaged 1.43% in 2020 (2019 - 1.82%).

Term deposits

Term deposits 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
Atlantic Central	38,000,000	0.40 - 1.21%	January-November 2021
Concentra	1,500,000	1.23 - 1.81%	September 2022-September 2025
League Savings & Mortgage	2,000,000	0.42 - 0.53%	June - July 2021
Central 1	1,000,000	1.05%	May 25, 2021
CIBC	1,000,000	1.20%	June 8, 2021
The Co-operators	500,000	1.25%	September 5, 2021
	<hr/>		
Total	44,000,000		
	<hr/>		

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

9 Member deposits

	2020 \$	2019 \$
Ownership shares and share accounts (note 11)	65,351,005	61,682,820
Savings	13,595,363	13,661,469
Chequing accounts	86,505,627	62,380,445
Term deposits	30,715,544	28,721,359
RRSP and RRIF	30,857,248	30,468,406
	<u>227,024,787</u>	<u>196,914,499</u>

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 2020 was 0.50% (2019 - 1.0%) based on the average minimum monthly share account balance throughout the year.

Savings are deposits on a call basis that pay the account holders a variable rate of interest ranging from 0% - 1.2% (2019 - 0% - 1.20%).

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% (2019 - 0% - 3.35%)

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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

10 Contingent liability

	2020 \$	2019 \$
Outstanding guarantees on behalf of members	482,500	200,000

The Credit Union holds outstanding guarantees on behalf of 26 members (2019 - 1). The value of these guarantees range from \$500 - \$200,000.

11 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.

12 Other liabilities

	2020 \$	2019 \$
Trade liabilities	49,084	15,000
Accrued liabilities	262,251	263,723
Retirement accrual	487,257	206,418
Lease liability	7,119	8,634
	<u>805,711</u>	<u>493,775</u>

The initial recognition of the present value of the lease liability of \$9,378 is a non-cash transaction. During the year, payments of \$1,813 (2019 - \$906) were made of which \$1,515 (2019 - \$744) was a reduction to the lease liability and \$298 (2019 - \$162) was recorded as a service fee expense.

Tignish Credit Union Ltd. has entered into an equipment lease agreement which expires January 1, 2025. Undiscounted contractual cash flows are as follows:

	\$
Year ending December 31, 2021	1,813
2022	1,813
2023	1,813
2024	1,813

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

13 Income taxes

(a) Tax rate reconciliation

	2020 \$	2019 \$
Income before income taxes	2,596,692	2,399,223
Taxes at statutory rates - 31% (2019 - 31%)	804,975	743,759
Impact of the 19% (2019 - 19%) small business deduction - current tax	-	(37,033)
Temporary difference regarding provision for loan losses	(62,635)	3,074
Permanent differences and other	38,782	(90,964)
	<u>781,122</u>	<u>618,836</u>

(b) Deferred income taxes

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

	2020 \$	2019 \$
Balance - Beginning of period	146,000	84,000
Comprehensive income statement recovery	14,000	62,000
Balance - End of period	<u>160,000</u>	<u>146,000</u>

Deferred income tax assets are attributable to the following items:

	2020 \$	2019 \$
Deferred income tax assets (liabilities)		
Property and equipment	(7,802)	(10,379)
Allowance for impaired loans	29,313	91,948
Retirement allowance	138,489	64,431
	<u>160,000</u>	<u>146,000</u>

14 Line of credit availability

In 2020, the Credit Union had an approved line of credit with Atlantic Central of \$5,350,000 with an interest rate of 1.95%. As of December 31, 2020, the line of credit had a balance of nil (2019 - nil).

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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 \$130,588 (2019 - \$128,921) 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

	2020	2019
	\$	\$
Salaries and short-term employee benefits	516,329	529,618
Accrued retirement benefit obligations	9,709	7,885

(b) Directors' remuneration

	2020	2019
	\$	\$
Honorariums	17,688	15,325
Payment for expenses while on credit union business	2,378	6,633

(c) Loans to directors and key management personnel

	2020	2019
	\$	\$
Loans outstanding - Beginning of period	1,224,793	1,469,160
Add: loans issued during the period	746,447	476,662
new director balances on appointment	-	91,859
Less: loan repayments during the period	(289,920)	(423,012)
transfers out	(297,893)	(389,876)
Loans outstanding - End of period	<u>1,383,427</u>	<u>1,224,793</u>
Interest income earned	40,969	53,993

No provisions have been recognized in respect of loans to key management (2019 - nil). The loans issued to directors and existing loans to new directors and key management personnel during the year of \$746,447 (2019 - \$476,662) are repayable over 1 - 22 years and have interest rates ranging from 2.00% to 13.50% (2019 - 2.25% to 15.0%).

The Credit Union has approved lines of credit for key management and directors as at December 31, 2020 amounting to \$245,800 (2019 - \$234,300). The balance of the lines of credit included above is \$29,052 (2019 - \$118,953).

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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 \$1,524,487 (2019 - \$2,249,487) in loans and the accounts receivable balance includes \$12,973 (2019 - \$16,292) in accrued interest receivable from 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 \$21,499 (2019 - \$26,627) of interest income, and included in investment income is \$125,000 (2019 - nil) in 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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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

	2020	2019
	\$	\$
Cash and cash equivalents	9,632,654	14,409,215
Accounts receivable	250,412	66,989
Loans and mortgages	171,078,208	164,603,586
Investments	61,632,849	31,841,460
	<u>242,594,123</u>	<u>210,921,250</u>

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:

	2020	2019
	\$	\$
Cash and cash equivalents	<u>9,632,654</u>	<u>14,409,215</u>

Credit Union bylaws require Tignish Credit Union Ltd. to maintain sufficient liquid assets and a line of credit to meet its normal cash flow requirements. Consistent with other Prince Edward Island Credit Unions, Tignish Credit Union Ltd. is required by the Credit Union Deposit Insurance Corporation to maintain a minimum liquid asset level of 10% of total assets to ensure ongoing cash flow requirements are met. The Credit Union was in compliance with this requirement at December 31, 2020.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	2020 Total \$
Member deposits	132,125,847	29,547,935	-	161,673,782
Share accounts	65,351,005	-	-	65,351,005
Accrued interest payable	1,180,397	-	-	1,180,397
Other liabilities	805,711	-	-	805,711
	<u>199,462,960</u>	<u>29,547,935</u>	<u>-</u>	<u>229,010,895</u>

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	2019 Total \$
Member deposits	108,330,579	26,901,100	-	135,231,679
Share accounts	61,682,820	-	-	61,682,820
Accrued interest payable	1,929,932	-	-	1,929,932
Other liabilities	493,775	-	-	493,775
	<u>172,437,106</u>	<u>26,901,100</u>	<u>-</u>	<u>199,338,206</u>

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.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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 2020	Net interest income change 2019
	\$	\$
Before tax impact of		
1% increase in interest rates	1,387,300	1,324,700
1% decrease in interest rates	(1,296,600)	(1,387,800)

(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.

Consistent with other Prince Edward Island Credit Unions, Tignish Credit Union Ltd. is required by the Credit Union Deposit Insurance Corporation to maintain an equity level of 5% of the Credit Union's total assets.

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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, 2020, the equity level for regulatory purposes is as follows:

	2020	2019
	\$	\$
Ownership shares (note 11)	36,635	36,460
Members' equity	<u>16,451,610</u>	<u>14,622,040</u>
Total regulatory equity	<u>16,488,245</u>	<u>14,658,500</u>
Total assets	<u>245,624,711</u>	<u>214,070,730</u>
Equity level	<u>6.7%</u>	<u>6.8%</u>
	#	2020
		\$
Opening, January 1, 2020	7,292	36,460
Net increase	<u>35</u>	<u>175</u>
Closing, December 31, 2020	<u>7,327</u>	<u>36,635</u>

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

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	2020 Total
	\$	\$	\$	\$	\$
Assets					
Cash and cash equivalents	9,138,979	-	-	493,675	9,632,654
Effective interest rate	.07%				
Accounts receivable	-	-	-	250,412	250,412
Investments	22,904,505	728,444	-	38,000,000	61,632,949
Effective interest rate	0.88%	2.49%			
Loans and mortgages	131,350,290	38,736,802	355,644	635,472	171,078,208
Effective interest rate	3.9%	3.38%	2.73%		
Prepaid expenses and other	-	-	-	106,764	106,764
Property and equipment	-	-	-	2,763,724	2,763,724
Deferred income tax	-	-	-	160,000	160,000
Total assets	163,393,774	39,465,246	355,644	42,410,047	245,624,711
Liabilities and surplus					
Member deposits	112,219,124	29,547,935	-	85,257,728	227,024,787
Effective interest rate	0.71%	2.24%			
Accrued liabilities	-	-	-	1,180,397	1,180,397
Other liabilities	-	-	-	805,711	805,711
Income taxes payable	-	-	-	162,206	162,206
Undistributed earnings	-	-	-	16,451,610	16,451,610
Total liabilities and surplus	112,219,124	29,547,935	-	103,857,652	245,624,711
Interest rate sensitivity gap	51,174,650	9,917,311	355,644	(61,447,605)	-

Notes to the Financial Statements

TIGNISH CREDIT UNION
Year Ended December 31, 2020

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	2019 Total \$
Assets					
Cash and equivalents	13,961,405	-	-	447,810	14,409,215
Effective interest rate	1.05%				
Accounts receivable	-	-	-	66,989	66,989
Investments	31,528,291	40,540	-	272,629	31,841,460
Effective interest rate	1.57%	4.69%			
Loans and mortgages	138,573,664	25,424,302	1,163,000	(557,380)	164,603,586
Effective interest rate	5.29%	3.65%	3.69%		
Prepaid expenses and other	-	-	-	95,315	95,315
Property and equipment	-	-	-	2,908,165	2,908,165
Deferred income tax	-	-	-	146,000	146,000
Total assets	184,063,360	25,464,842	1,163,000	3,379,528	214,070,730
Liabilities and surplus					
Member deposits	114,291,199	26,901,100	-	55,722,200	196,914,499
Effective interest rate	1.14%	2.33%			
Accrued liabilities	-	-	-	1,929,932	1,929,932
Other liabilities	-	-	-	493,775	493,775
Income taxes payable	-	-	-	110,484	110,484
Undistributed earnings	-	-	-	14,622,040	14,622,040
Total liabilities and surplus	114,291,199	26,901,100	-	72,878,431	214,070,730
Interest rate sensitivity gap	69,772,161	(1,436,258)	1,163,000	(69,498,903)	-

As at December 31, 2020, the Credit Union's net interest spread was 2.74% (2019 - 3.76%). 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.



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