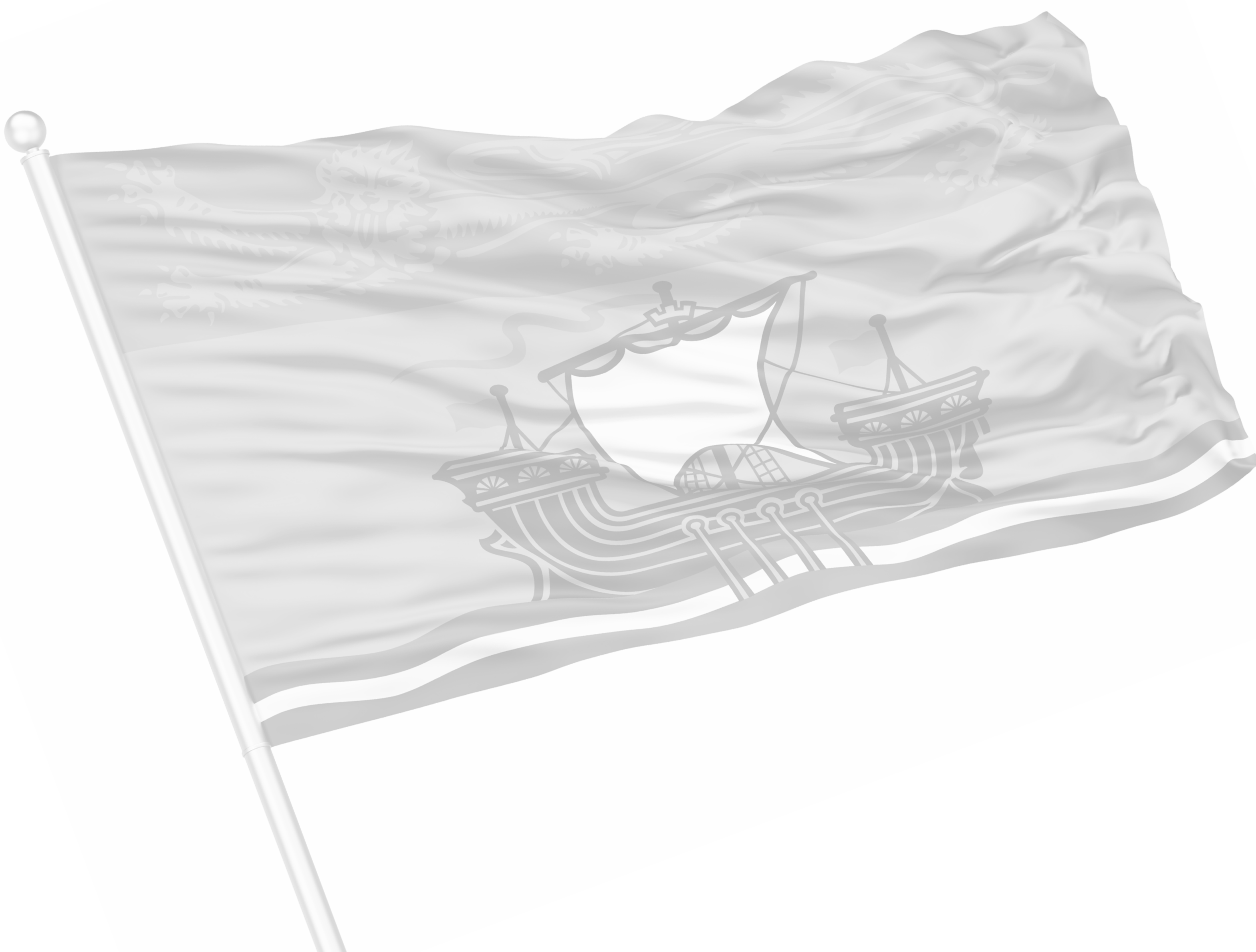
CREDIT UNION
BEAUBEAR

Annual REPORT

2019

CREDIT UNION

BEAUBEAR



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AGENDA – September 15, 2020

1. Call to order:

   a. Approval of Agenda

   b. Moment of silence

   c. Establish a quorum present

   d. Introductions

2. Reading and approval of the minutes of the last meeting

3. Reports:

   a. Auditor

   b. President and Chief Executive Officer’s Message

   c. Audit Committee

   d. Governance Committee

4. Recommendations of the Board of Directors:

   a. Appointment of Auditor

   b. Board of Director Reimbursement of Expenses

   c. Board of Director Remuneration

5. Election of Board of Directors

6. Adjournment

Minutes of the 80th Annual General Meeting – 2018

The eightieth annual meeting of Beaubear Credit Union Limited was held on April 23, 2019 at the Newcastle Kin Centre, Miramichi West.

President Pat Clancy, as Chair, called the meeting to order at 6:05PM. With 52 members present, a quorum was declared.

Motion to accept the Agenda was made by Terry Williston and SECONDED by Lorie Ann Richard. MOTION CARRIED.

A minute of silence was observed for deceased members of the Credit Union and the four students who were killed in the tragic accident in Nelson.

BOARD OF DIRECTORS PRESENT AND INTRODUCED:

Pat introduced the Board members in attendance:

Joe Kenny, Lynn Estey, Brent Tozer, Fred Holmes, Judy Breau, John Strong, Terry Williston and Nick Lynch

Absent: Mary Clark

Pat introduced Tosha Hamilton, CEO.

READING AND APPROVAL OF MINUTES OF LAST MEETING

Pat read the minutes of the 2017 Annual General Meeting. It was MOVED by Nick Lynch, SECONDED by Joe Kenny that the minutes be accepted as read. MOTION CARRIED.

BUSINESS ARISING FROM THE MINUTES

There was no business arising from the minutes.

AUDITORS REPORT

Alvin Bell, CA of Allen, Paquet & Arseneau LLP presented the Auditors Report including Opinion and Notes to the Financial Statements.

There were no questions from the members.

Minutes of the 80th Annual General Meeting – 2018

It was MOVED by Clyde Hamilton, SECONDED by Toby LeBlanc that the Auditors' Report be accepted as presented. MOTION CARRIED.

PRESIDENT'S AND CHIEF EXECUTIVE OFFICER'S MESSAGE

Tosha Hamilton gave the report on behalf of the CEO and President. She pointed out that although the financial industry has seen many changes over the last 80 years, the Beaubear team takes great pride in providing the same level of service and continues to value our members and their finances. She highlighted advancements to the national credit union system with a the new Collabria credit card and local campaigns offering preferred rates loans for home upgrades in efficiency technology.

Beaubear now has three school credit unions and continues to make an impact locally through donations, sponsorships, scholarships, and other initiatives. In celebration of our 80th Anniversary, we had 80 Acts of Kindness in which members and staff could write down their acts of kindness.

In closing she reminded members that their money stays here and works here and urged everyone to encourage family, friends, and acquaintances to join and enjoy the benefits of membership. We are more than a bank!

Tosha MOVED for the adoption of the report. Colleen Daley SECONDED the motion and the President's/CEO's report was accepted as presented. MOTION CARRIED.

Pat recognized staff and thanked them for their hard work and dedication to Beaubear. He asked staff present to raise their hands to be acknowledged by members present.

AUDIT COMMITTEE REPORT

Fred Holmes gave the report from the Audit Committee and MOVED the adoption of his report; SECONDED by Judy Breau. MOTION CARRIED.

GOVERNANCE COMMITTEE REPORT

John Strong gave the report from the Governance Committee. It was MOVED by Pat Clancy, SECONDED by Terry Williston that the Governance report be adopted as presented. MOTION CARRIED.

Minutes of the 80th Annual General Meeting – 2018

RECOMMENDATIONS OF THE BOARD OF DIRECTORS

APPOINTMENT OF AUDITOR(S)

It was MOVED by Clyde Hamilton, SECONDED by Gerard Regan that the Board of Directors be given the authority to appoint an audit firm for the next financial period ending December 31, 2019. MOTION CARRIED.

BOARD OF DIRECTOR REINBURSEMENT OF EXPENSES

It was MOVED by Colleen Daley, SECONDED by Tosha Hamilton that board members be reimbursed for expenses incurred as a result of conducting credit union business on behalf of Beaubear Credit Union. MOTION CARRIED.

BOARD OF DIRECTOR REMUNERATION

It was MOVED by Marilyn Daley, SECONDED by Gerard Regan that Board members who incur a loss in wages for conducting any credit union business on behalf of Beaubear Credit Union be reimbursed for that loss of wages to a maximum of $200.00 per day. MOTION CARRIED.

ELECTION OF BOARD OF DIRECTORS

Pat Clancy gave the report of the Nominating Committee. He advised that there were three board members whose terms were up; two of them have agreed to return to the Board for another three (3) year term. Fred Holmes and Brent Tozer will be reoffering while Joe Kenny will not be returning.

With one (1) remaining vacancy on the Board, the committee submitted Dane Gunnlaugson as a nominee.

Pat called for nominations from the floor. There being no further nominations, Fred Holmes, Brent Tozer and Dane Gunnlaugson were declared elected. It was MOVED by Yolande Rogers, SECONDED by Lorie Ann Richard that the three (3) individuals be accepted to the Board. MOTION CARRIED.

ADJOURNMENT

The meeting adjourned at 6:41PM.

CEO and President’s Joint Message

The Beaubear team takes great pride in providing exceptional member experience, we value our members and their finances.

Change in the financial industry has been slower than originally predicted however, members are expecting more from their financial institutions and Credit Unions, need to step up our game! In 2019, the Atlantic Canada Credit Union system started a journey to reshape the national credit union system with more innovation and more transformation. In order to increase the profile of credit unions, they partnered with Jonathan Torren’s Canadianity Content Studios to launch Your Two Cents, a financial literacy and consumer awareness digital series.

Throughout this year, Beaubear took part in the Atlantic Central Mortgage Campaign, Collabria Visa and MasterCard as well as our Greener Home Campaign where Beaubear Credit Union is currently offering preferred rates on loans (Prime +1.75%) to qualifying individuals who are upgrading their homes to more efficient technology. Energy upgrades such as: **heat pumps / geothermal systems, window improvements, more efficient heating and cooling systems, insulation improvements, solar technology, high efficiency appliances ...and more.**

In February 2019, Beaubear Credit Union was excited to announce that we started the school credit union every three (3) months at North and South Esk Elementary School (NSEE). To date, the school credit union operates at Nelson Rural School, Max Aitken Academy and North and South Esk Elementary School. A representative from the credit union attends the school once a month to take deposits. We are excited to give back to the students and teach all students about financial literacy!

Over the past year, Beaubear has made a local impact as we donated to the Miramichi in the form of donations, sponsorships, scholarships, as well as our staff and board volunteer hours among other initiatives. As part of our local our community outreach we partnered with Miramichi Transit on International Credit Union Day to provide free

CEO and President's Joint Message

transit for all Miramichiers. We are more than a Bank and we are enormously proud and humbled to say that "Your money stays here and works here!"

Beaubear Credit Union will remain competitive and bring continued success to our community!

The Board, Management and Staff of Beaubear Credit Union wish to thank you for choosing us as your Financial Institution and wish you all the best in 2020. We look forward to working with our members to provide the guidance and advice you need in making the best financial decisions for your unique circumstances.

Tosha Hamilton

Tosha Hamilton,

Chief Executive Officer, Beaubear Credit Union

Patrick Clancy,

President, Beaubear Credit Union Board of Directors

Audit Committee Report

It is a requirement of the Credit Union Act (the Act) Section 94 and the Regulations Section 13.1 that each Credit Union shall establish an audit committee, which shall have the following authority:

- To conduct or authorize investigations within its scope of responsibility;
- To retain outside independent counsel, accountants, auditors, or others as it determines necessary to carry out its duties;
- To seek any information, it requires from employees and external parties and meet as necessary;
- To meet with any executive; the Risk Management Agency (RMA), the external auditors and/or the regulators without management being included if the committee so desires or at the request of any of these parties; and
- To set and pay the compensation for any advisors employed by the Audit Committee.

The Audit Committee's principal role is to ensure that the appropriate level of due diligence has been directed towards ensuring an effective risk management and control framework has been implemented by management. **This framework provides reasonable assurance that:**

- The financial, operational, and regulatory objectives of the Credit Union are achieved.
- That the governance and accountability of board and management are met and
- That there is oversight of risk management, internal control, financial reporting, and compliance with regulatory matters.

The Committee met monthly with the CEO to review the financial progress of the Credit Union. The monthly meetings also included the Branch Operations Manager, Commercial Account Manager, and the Finance Officer.

During the past year, your Credit Union approved loans, mortgages and commercial requests totalling $12,052,546. There were also 34 lines of credit limits (personal & commercial) for $2,397,598. The table below is a detailed breakdown of the loans processed and declined/cancelled for the past year.

There was an external audit/inspection performed by RMA (Risk Management Agency). They reviewed Capital, Assets, Management, Earnings and Asset/Liability Management.

Audit Committee Report

We commend our Management and Staff and thank them for their hard work and due diligence throughout the year. We look forward to the opportunities and success during fiscal 2020, while continuing to protect the investments of our Owners.

LOANS PROCESSED AND DECLINED/CANCELLED

APPROVED	NUMBER	DOLLAR AMOUNT	DECLINED/CANCELLED	NUMBER	DOLLAR AMOUNT
PERSONAL LOANS	142	$ 1,271,060	PERSONAL LOANS	43	$ 568,905
PERSONAL MORTGAGE	36	$ 1,921,569	PERSONAL MORTGAGE	26	$ 3,278,493
COMMERCIAL - *LOANS*	11	$ 441,589	COMMERCIAL - *LOANS*	2	$ 495,926
COMMERCIAL – *MORTGAGE*	13	$ 8,418,328	COMMERCIAL – *MORTGAGE*	12	$ 4,800,518
LINE OF CREDIT *PERSONAL & COMMERCIAL*	34	$ 2,397,598	LINE OF CREDIT *PERSONAL & COMMERCIAL*	3	$ 57,000
TOTAL	236	$14,450,144	TOTAL	86	$ 9,200,842

Respectfully submitted,

Audit Committee

Fred Holmes, Chair

Judy Breau

Mary Clark

Lynn Estey

Brent Tozer

Terry Williston

Governance Committee Report

The Governance Committee is comprised of the following John Strong Chairperson, Judy Breau, Nick Lynch, Terry Williston, and Dane Gunnlaugson. Our President Pat Clancy also attended all meetings, as ex-officio. We met twelve times during 2019.

The Board of Directors has assigned the Governance Committee the following oversight responsibilities:
the size, composition and structure of the Board and its committees; the nomination of directors; assessments of the effectiveness and contribution of the Board, its committees and individual directors; Beaubear Credit Union's overall approach to its own corporate governance; develop and recommend to the Board for approval governance policies, practices and procedures orientation and continuing education for directors; matters involving actual or potential conflicts of interest; and any additional matters delegated to the Committee by the Board.

During the past year, the committee worked on various generic Board Governance policies supplied by the Atlantic Central. The Committee reviewed other various Board policies that had been previously approved by the Board, throughout the year. During the upcoming year we are confident that the new Board of Directors Governance Manual will be completed.

The Committee still has some work ahead and after this coming year the committee will mainly be utilized for review of existing policies and Board self assessment.

I would like to thank the committee members for their hard work and dedication over the past year and our resource person, Marilyn Daley, for her dedication and valued input.

Respectfully Submitted on behalf of the Governance Committee.

John Strong - Chairperson

Board of Directors for consideration at the 2019 AGM

A) APPOINTMENT OF AUDITORS

The Board of Directors of Beaubear Credit Union recommends the appointment of Allen, Paquet & Arseneau LLP as Beaubear Credit Union's auditor for the next financial period ending December 31, 2020.

B) BOARD OF DIRECTOR REIMBURSEMENT OF EXPENSES

The Board of Directors of Beaubear Credit Union recommends the reimbursement of expenses incurred by a board member(s) as a result of conducting credit union business on behalf of Beaubear Credit Union.

C) BOARD OF DIRECTOR REMUNERATION

The Board of Directors of Beaubear Credit Union recommends that if a board member(s) incur a loss in wages for conducting any credit union business on behalf of Beaubear Credit Union, Beaubear Credit Union will reimburse such member for loss of wages to a maximum of $200.00 per day.

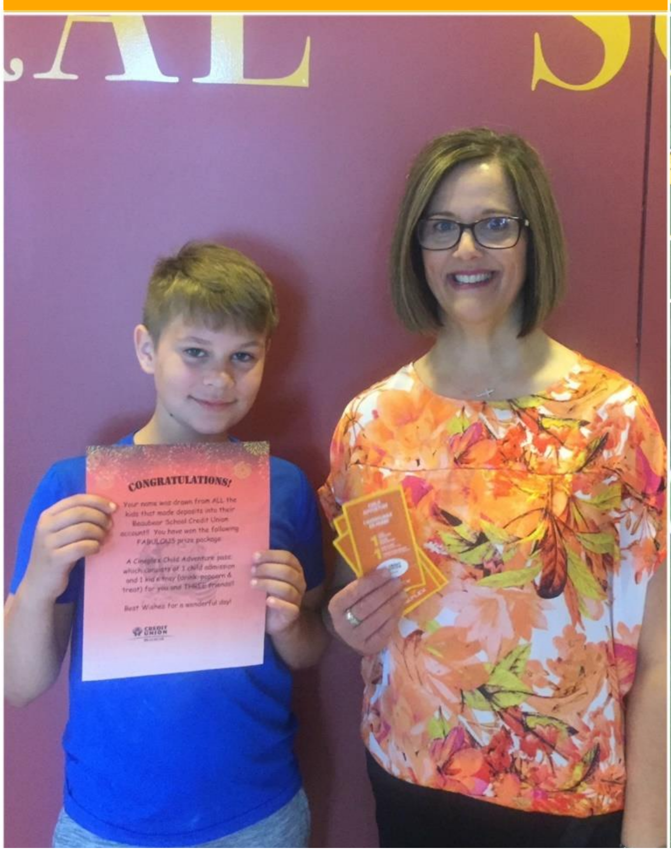
2019 Scholarships and Award Recipients

Padruig MacDonald
Recipient of the Beaubear Credit Union Founders Scholarship.
(Top Right)

Summer Augustine
Received an academic award for most improved female student.
(Middle)

Shane Carroll
Received an academic award for most improved male student.
(Bottom Right)

Cayden Comeau
Won the Nelson School Credit Union year end draw for participation.
(Bottom Left)



2019 Scholarships and Award Recipients

◄ Evan Matchett
NSER Recipient of the BeaubearCredit Union Founders Scholarship

Jillian McEvoy ►
MVHS Recipient of the Beaubear Credit Union Founders Scholarship

◄ Anika Nastasiuk
Received an Academic Award forHighest Academic Standing Pre-Calculus

Benson Doak ►
Male Student Who Best Combines Academic &; Athletic Achievement co-sponsored with Estey's Fish & Chips, Invetia Miramichi/Stewarts Hearth Store

◄ Blake McQuade
Received an Academic Award for Highest Academic Standing English123

Kassia Schenkels ►
Female Student Who Best Combines Academic & Athletic Achievement co-sponsored with Dickison's Pharmasave & Chatter's Pub and Eatery

Service Awards

25 Years

Toby LeBlanc

Dawn Hannah

15 Years

Erin Hambrook

Natalie Savoie

Lorie Ann Richard

Management's Responsibility for Financial Information

The management of Beaubear Credit Union is responsible for the integrity, objectivity and consistency of the financial information presented in this annual report. This responsibility includes selecting appropriate accounting policies which are in accordance with Canadian generally accepted accounting principles and ensuring that the financial information is based on informed judgments and estimates with appropriate consideration as to materiality. The Board of Directors has approved the financial statements for issuance to the members.

Management maintains the necessary system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained.

The Board of Directors oversees the management's responsibility for financial statements through the Audit Committee. The Audit Committee conducts a detailed review of the financial statements with management and the independent auditors before recommending their approval to the Board of Directors.

Allen, Paquet & Arseneau LLP, the independent auditors appointed by the members, have examined our financial statements in accordance with generally accepted auditing standards and issued their report below.

The auditors have full and complete access to and meet periodically with the Audit Committee to discuss the audit of the financial statements and matters arising there from.

Tosha Hamilton

Tosha Hamilton

Chief Executive Officer
Beaubear Credit Union

BEAUBEAR CREDIT UNION LTD.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2019

Allen, Paquet & Arseneau LLP
CHARTERED PROFESSIONAL ACCOUNTANTS • COMPTABLES PROFESSIONNELS AGRÉÉS

BEAUBEAR CREDIT UNION LTD.

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For the year ended December 31, 2019

Allen,Paquet & Arseneau LLP
Your business partner of choice
Votre partenaire d'affaires par excellence

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INDEPENDENT AUDITORS' REPORT

To the Members of
Beaubear Credit Union Ltd.

Opinion
We have audited the financial statements of Beaubear Credit Union Ltd., which comprise the statement of financial position as at December 31, 2019, and the statement of operations and 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 Beaubear Credit Union Ltd. as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International 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 the organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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.

Miramichi, NB

Allen, Paquet & Arseneau LLP

April 20, 2020

Chartered Professional Accountants

BEAUBEAR CREDIT UNION LTD.
Statement of Financial Position
As at December 31

	2019	2018
ASSETS		
Cash	$ 5,110,876	$ 7,365,394
Investments (Note 3)	5,230,686	5,201,834
Accounts receivable - other	6,060	11,989
Accrued interest receivable	88,518	86,341
Prepaid expenses	32,023	41,402
Loans receivable (Note 7)	48,704,480	45,735,282
Income taxes receivable	13,636	10,608
Future income taxes	9,800	8,500
Foreclosed assets	46,938	-
Property and equipment (Note 4)	1,459,987	771,956
	$ 60,703,004	$ 59,233,306
LIABILITIES		
Member deposits (Note 9)	$ 55,148,439	$ 54,519,792
Accrued interest on deposits	222,909	207,023
Accounts payable and accrued liabilities	310,192	368,475
Lease liability (Note 5)	786,372	-
	56,467,912	55,095,290
MEMBERS' EQUITY		
Membership shares (Note 10)	265,537	280,030
Special reserve (Note 12)	178,000	178,000
Surplus - Page 5	3,791,555	3,679,986
	4,235,092	4,138,016
	$ 60,703,004	$ 59,233,306

Approved by the board

D. Clancy Director

Fred Holmes Director

BEAUBEAR CREDIT UNION LTD.
Statement of Operations and Comprehensive Income

For the year ended December 31	2019	2018
INTEREST INCOME		
Interest on loans	$ 2,245,644	$ 2,123,661
Interest on investments	149,064	104,627
	2,394,708	2,228,288
INTEREST EXPENSE AND CREDIT LOSSES		
Interest on member deposits	527,406	476,141
Provision for credit losses	150,494	121,527
	677,900	597,668
FINANCIAL MARGIN	1,716,808	1,630,620
NON-INTEREST EXPENSES		
Amortization	171,439	106,156
General business	838,875	815,961
Member security	71,014	101,668
Occupancy	125,978	163,909
Organization	63,747	66,365
Personnel	921,546	911,251
	2,192,599	2,165,310
OTHER INCOME		
Commissions	123,610	147,665
Service charges	412,573	406,761
Miscellaneous	70,882	30,959
	607,065	585,385
NET EARNINGS BEFORE INCOME TAXES	131,274	50,695
INCOME TAXES		
Current	21,005	11,810
Future (recoverable)	(1,300)	(4,000)
	19,705	7,810
NET EARNINGS FOR THE YEAR - to Page 5	$ 111,569	$ 42,885

BEAUBEAR CREDIT UNION LTD.
Statement of Changes in Members' Equity
For the year ended December 31

	2019	2018
BALANCE, beginning of year	**$ 3,679,986**	$ 3,637,101
Excess of Earnings for the year - Page 4	**111,569**	42,885
BALANCE, end of year	**$ 3,791,555**	$ 3,679,986

BEAUBEAR CREDIT UNION LTD.
Statement of Cash Flows
For the year ended December 31

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	$ 111,569	$ 42,885
Adjustments for		
Amortization	171,439	106,156
Future income taxes	(1,300)	(4,000)
	281,708	145,041
Change in non-cash working capital items:		
Decrease in accounts receivable - other	5,929	53,292
Increase in accrued interest receivable	(2,177)	(2,656)
Decrease (increase) in prepaid expenses	9,379	(5,680)
Increase in income taxes receivable	(3,028)	(8,877)
Decrease (increase) in foreclosed assets	(46,938)	61,209
Increase in accrued interest on deposits	15,886	31,112
Increase (decrease) in accounts payable and accrued liabilities	(58,282)	15,910
	202,477	289,351
CASH FLOWS FROM FINANCING ACTIVITIES		
Member deposits	628,647	1,561,639
Proceeds from leasing liabilities	826,221	-
Repayment of leasing liability	(39,850)	-
Issuance (redemption) of members' shares	(14,493)	(10,575)
	1,400,525	1,551,064
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments	(28,852)	(229,103)
Increase in loans receivable	(2,969,198)	(1,088,317)
Purchase of property and equipment	(33,249)	(28,573)
Recognition of right-of-use asset	(826,221)	-
	(3,857,520)	(1,345,993)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,254,518)	494,422
CASH AND CASH EQUIVALENTS, beginning of year	7,365,394	6,870,972
CASH AND CASH EQUIVALENTS, end of year (Note 6)	$ 5,110,876	$ 7,365,394

1. STATUS AND NATURE OF ACTIVITIES

Beaubear Credit Union Ltd. was incorporated under the Credit Unions Act of New Brunswick (the Credit Unions Act) and its principal activity is providing financial services to its members. For financial reporting and regulatory matters, the Credit Union is under the authority of the Superintendent of Credit Unions, Province of New Brunswick.

2. SIGNIFICANT ACCOUNTING POLICIES

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 and authorized for issue by the Board of Directors on April 20, 2020.

The Credit Union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 15.

(a) **Standards, amendments and interpretations adopted in the current year:**

IFRS 16, Leases
IFRS 16 replaces IAS 17 'Leases' along with three interpretations (IFRIC 4, SIC 15 and SIC 27). The adoption of this new Standard has resulted in the Credit Union recognizing a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value and having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach.

For contracts in place at the date of initial application, the Credit Union has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Credit Union has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019. At this date, the Credit Union has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Credit Union has applied the optional exemptions not to recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16, the incremental borrowing rate applied to lease liabilities recognized under IFRS was 3.95%.

The Credit Union has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income or fair value through profit or loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss; the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as fair value through profit or loss; the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at fair value through profit or loss. In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirement to be measured at amortized cost or at fair value through other comprehensive income as fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment
The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Credit Union's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Credit Union's stated objective for managing the financial assets is achieved and how cash flows are realized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) **Financial instruments (continued)**

Assessment of whether contractual cash flows are solely payments of principal and interest
For the purpose of this assessment, "principal" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Credit Union considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Credit Union's claim to cash flows from specified assets (e.g. non- recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Credit Union holds a portfolio of long-term fixed rate loans for which the Credit Union has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Credit Union has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

<u>Non-recourse loans</u>
In some cases, loans made by the Credit Union that are secured by collateral of the borrower limit the Credit Unions' claim to cash flows of the underlying collateral (non-recourse loans). The Credit Union applies judgment in assessing whether the non-recourse loans meet the solely payments of principal and interest criterion. The Credit Union typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Credit Union's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Credit Union will benefit from any upside from the underlying assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

Contractually linked instruments
The Credit Union has some investments in securitizations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the solely payments of principal and interest criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are solely payments of principal and interest without looking through to the underlying pool of financial instruments;

- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are solely payments of principal and interest; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are solely payments of principal and interest; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and

- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union business models during the current year.

De-recognition financial assets
The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Credit Union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial assets.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Any cumulative gain/loss recognized in other comprehensive income in respect of equity investment securities designated as at fair value through other comprehensive income is not recognized in profit or loss on de-recognition of such securities. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Credit Union is recognized as a separate asset or liability.

In certain transactions, the Credit Union retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the de-recognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

Financial liabilities
The Credit Union derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Restructured financial assets
If the terms of a financial asset are modified, then the Credit Union evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- other fees are included in profit or loss as part of the gain or loss on de-recognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Credit Union plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the de-recognition criteria are not usually met in such cases.
If the modification of a financial asset measured at amortized cost or fair value through other comprehensive income does not result in de-recognition of the financial asset, then the Credit Union first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Restructured financial liabilities
The Credit Union derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as de-recognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) **Financial instruments (continued)**

For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expense are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Credit Union's trading activity.

Impairment
The Credit Union recognizes loss allowances for expected credit losses on the following financial instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Credit Union measures loss allowances at an amount equal to lifetime expected credit losses, except for the following for which they are measured as 12-month expected credit losses:

- debt investment securities that are determined to have low credit risk at the reporting date; and

- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Credit Union considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Credit Union does not apply the low credit risk exemption to any other financial instruments.

12-month expected credit losses are the portion of expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month expected credit losses is recognized are referred to as "Stage 1 financial instruments".

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime expected credit losses is recognized but which are not credit impaired are referred to as "Stage 2 financial instruments".

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

Measurement of expected credit losses
Expected credit losses are a probability weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);

- financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive; and

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Credit Union expect to recover.

Credit impaired financial assets
At each reporting date, the Credit Union assesses whether financial assets carried at amortized cost and debt financial assets carried at fair value through other comprehensive income are credit impaired (stage 3). A financial asset is "credit impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past due event;

- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit impaired.

Presentation of allowance for expected credit losses in the statement of financial position
Loss allowances for expected credit losses are presented in the statement of financial position as follows:

- financial assets are measured at amortized cost: as a deduction from the gross carrying amount of the assets;

- loan commitments and financial guarantee contracts: generally, as a provision;

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

- where a financial instrument includes both a drawn and an undrawn component, and the Credit Union cannot identify the expected credit losses on the loan commitment component separately from those on the drawn component: the Credit Union presents a combined loss allowance for both components. The combined
amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

- debt instruments measured at fair value through other comprehensive income: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-offs
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in "impairment losses on loans" in the statement of operations. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

Recognition and derecognition
Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument. The Credit Union recognizes financial instruments at the trade date. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

(c) Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses), with the exception of land which is not amortized. Amortization is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	25 years Straight-line
Office equipment	10 years Straight-line
ATM	4 years Straight-line
Safekeeping equipment	20 years Straight-line
Computer equipment	5 years Straight-line

Amortization of leasehold improvements is recorded over the remaining term of the lease plus the first renewal option.

Amortization methods, useful lives and residual values are reviewed annually and adjusted if necessary.

(d) Foreclosed assets

Foreclosed assets held for sale, if any, are carried at the lower of the carrying value of the loan foreclosed, adjusted for revenues received and costs incurred subsequent to foreclosure, and the estimated net proceeds from sale of the assets less costs to sell.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income taxes

The Credit Union uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in the period that includes the date of enactment or substantive enactment.

(f) Membership shares

Membership shares, including members' shares and surplus shares, are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union Board of Directors, the shares are classified as equity, as per IFRIC 2 - Members' Shares in Cooperative Entities and Similar Instruments.

Under the Credit Unions Act of New Brunswick, the Credit Union is not permitted to make distributions on redemption by members if the distributions will cause the Credit Union to fall below legislated capital requirements (Note 13). Membership shares are presented as equity to the extent they are required to meet the legislated capital requirements.

(g) Revenue recognition

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(i) the amount of revenue can be measured reliably;

(ii) it is probable that the economic benefits associated with the transaction will flow to the entity;

(iii) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

(iv) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognized only to the extent of the expenses recognised that are recoverable.

Interest income is recognized using the effective interest method.

Dividends are recognized when the Credit Union's right to receive the payment is established.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Foreign currency

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(i) Standards, amendments and interpretations not yet effective

There are currently no new standards, amendments or interpretations that have been published that are mandatory or relevant for the Credit Union's accounting periods beginning on or after January 1, 2020.

3. INVESTMENTS

	2019	2018
Amortized cost		
Liquidity reserve	$ 4,511,555	$ 4,455,804
Fair value through profit and loss		
Atlantic Central common shares	504,900	533,830
Atlantic Central LSM shares	33,281	31,250
Atlantic Central League Data class B preferred shares	34,850	34,850
Atlantic Central Class NB shares	146,000	146,000
Atlantic Co-op shares	100	100
	$ 5,230,686	$ 5,201,834

The Credit Union must maintain a minimum liquidity reserve with Atlantic Central at 8% of total liabilities at December 31 each year. Deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Atlantic Central.

Atlantic Central shares are subject to an annual re-balancing mechanism and are issued and redeemable at par value. Fair value is equal to redemption value.

The Credit Union is not intending to dispose of any Atlantic Central shares as the services supplied by Atlantic Central are relevant to the day-to-day activities of the Credit Union.

Other equity investments have no active market as they represent the Credit Union's investment in support organizations that were created to support their delivery of service to its members. The Credit Union is entitled to par value of the interest on redemption and therefore these instruments are considered due on demand and therefore par value approximates fair value. The Credit Union has no intention of redeeming these units.

4. PROPERTY AND EQUIPMENT

2019	Land	Buildings	Office equipment	Leasehold improvements	ATM	Safekeeping equipment	Computer equipment	Total
Cost								
Balance as at January 1, 2019	$ 146,115	$ 849,804	$ 314,156	$ 2,028	$ 128,445	$ 156,736	$ 181,700	$ 1,778,984
Additions	-	-	2,976	-	-	-	30,274	33,250
Disposals	-	-	-	-	-	-	-	-
Adjustment on transition to IFRS 16	-	826,222	-	-	-	-	-	826,222
Balance as at December 31, 2019	$ 146,115	$ 1,676,026	$ 317,132	$ 2,028	$ 128,445	$ 156,736	$ 211,974	$ 2,638,456
Accumulated amortization								
Balance as at January 1, 2019	$ -	$ 455,010	$ 243,353	$ 845	$ 82,078	$ 78,723	$ 147,019	$ 1,007,028
Amortization expense	-	93,009	18,137	338	36,029	7,837	16,091	171,441
Balance as at December 31, 2019	$ -	$ 548,019	$ 261,490	$ 1,183	$ 118,107	$ 86,560	$ 163,110	$ 1,178,469
Net book value								
December 31, 2019	$ 146,115	$ 1,128,007	$ 55,642	$ 845	$ 10,338	$ 70,176	$ 48,864	$ 1,459,987
December 31, 2018	$ 146,115	$ 394,794	$ 70,803	$ 1,183	$ 46,367	$ 78,013	$ 34,681	$ 771,956

The cost of the right-of-use asset that was recognized at January 1, 2019 was $826,222.

The accumulated depreciation of the right-of-use asset at December 31, 2019 was $59,016.

5. LEASE LIABILITY

The Credit Union has a lease for Branch #2 at 202 Pleasant Street, Miramichi, New Brunswick. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of sales) are excluded from the initial measurement of the lease asset and liability. The Credit Union classifies its right-of-use asset in a consistent manner to its property, plant and equipment (see Note 4).

The original lease has a term of ten years, with a renewal option for another ten years in 2023. Lease payments are fixed for the first 10 years, however in the renewal option, the payments are subject to a CPI increase each year to a maximum 3% per year.

The lease imposes a restriction that, unless approved by the lessor, the property can only be used by the Credit Union. The lease is non-cancellable. The Credit Union is prohibited from selling or pledging the underlying leased asset as security. Further, the Credit Union is required to keep the property in good state, must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease agreement.

The following explains the Credit Union's leasing activity: the Credit Union has one right-of-use asset leased for Branch #2 at 202 Pleasant Street, Miramichi, New Brunswick. The remaining term of the lease is three years, with a renewal option of ten years available at the end of the lease.

The interest expense related to the amortization of the lease liability for the year ending December 31, 2019 was $29,150.

The timing of the lease liability payments are as follows:

Current	$ 38,633
Non-Current	$747,739

The following is a reconciliation of total operating lease commitments at December 31, 2018 (as disclosed in the financial statements to December 31, 2018 to the lease liability recognized at January 1, 2019:

Total operating lease commitments disclosed at December 31, 2018	-	1
Operating lease liabilities before discounting		1,090,738
Discounted using incremental borrowing rate		3.95%
Operating lease liabilities		826,222
Total lease liabilities recognized under IFRS 16 at January 1, 2019		826,222

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and current accounts held with Atlantic Central. The Credit Union maintains an authorized line of credit, which was not utilized at year end, with Atlantic Central in the amount of $1,425,000 with an interest rate of 3.45%. The line is secured by investments with Atlantic Central and a general assignment of book debts.

7. LOANS RECEIVABLE

	2019	2018
Personal loans:		
Mortgages	$ 18,429,102	$ 18,448,217
Other (LOC, term, student, etc.)	7,510,215	8,130,294
Commercial loans:		
Mortgages	17,093,512	14,702,044
Business loans	5,935,216	4,600,918
	48,968,045	45,881,473
Allowance for impaired loans	(263,565)	(146,191)
Net loans to members	$ 48,704,480	$ 45,735,282

Terms and conditions

Personal loans have fixed or variable rates of interest with a maturity date of up to twenty years depending on the economic life of the security pledged and the relative policy section for each loan type. Student line of credits have a variable rate of interest with a maturity date of up to ten years. Mortgages have a variable or fixed rate of interest with a maturity date of up to twenty five years.

The interest rate offered on fixed rate loans being advanced at December 31, 2019 is 2.69% to 13.50%.

Variable rate student loans are based on a prime rate formula of prime plus 1.00% to 2.00%. The Credit Union's prime rate at December 31, 2019 was 3.95%.

Residential mortgages are loans secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Personal loans-other consist of term loans, overdraft protection and lines of credit that are non-real estate secured and have various repayment terms. Some of the personal loans are secured by personal property or investments.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, and charges on specific equipment, investments, and personal guarantees.

Fair value

The fair value of member loans at December 31, 2019 was $48,968,045 (2018 - $45,881,473).

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

Concentration of risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments. A significant portion of member loans are with members located in and around Miramichi, New Brunswick.

8. ALLOWANCE FOR IMPAIRED LOANS

Allowance for impaired loans:

	Gross carrying amount	Expected credit losses allowance	2019 Carrying amount
Personal Loans:			
Residential mortgages	$ 18,429,102	$ (14,758)	$ 18,414,344
Other	7,510,215	(145,991)	7,364,224
Commercial Loans:			
Commercial mortgages	17,093,512	(9,231)	17,084,281
Business Loans	5,935,216	(93,585)	5,841,631
	$ 48,968,045	$ (263,565)	$ 48,704,480

	Gross carrying amount	Expected credit losses allowance	2018 Carrying amount
Personal Loans:			
Residential mortgages	$ 18,448,217	$ (30,052)	$ 18,418,165
Other	8,130,294	(72,701)	8,057,593
Commercial Loans:			
Commercial mortgages	14,702,044	(5,293)	14,696,751
Business loans	4,600,918	(38,145)	4,562,773
	$ 45,881,473	$ (146,191)	$ 45,735,282

	12 months expected credit losses (Stage 1)	Lifetime non-credit impaired (Stage 2)	Lifetime credit impaired (Stage 3)	2019 Total
Beginning balance	$ 85,010	$ 5,162	$ 56,019	$ 146,191
Transfer to (from):				
Stage 1	37,820	(5,084)	(32,736)	-
Stage 2	(48,054)	48,054	-	-
Stage 3	(12,904)	-	12,904	-
Re-measurement	94,873	(81)	52,627	147,419
Realized losses	-	-	(35,438)	(35,438)
Recoveries	-	-	5,393	5,393
	$ 156,745	$ 48,051	$ 58,769	$ 263,565

8. ALLOWANCE FOR IMPAIRED LOANS (continued)

		Allowance for credit losses			
	Gross amount	Stage 1	Stage 2	Stage 3	Net amount
Residential					
Mortgage	$ 18,429,102	$ 14,163	$ 595	$ -	$ 18,414,344
Other	7,510,215	71,377	47,454	27,160	7,364,224
Commercial					
Mortgage	17,093,512	9,231	-	-	17,084,281
Business	5,935,216	61,974	2	31,609	5,841,631
	$ 48,968,045	$ 156,745	$ 48,051	$ 58,769	$ 48,704,480

Measurement of expected credit losses

The expected credit losses impairment model measures the credit losses using the following three-stage approach based on the extent of credit deterioration of the financial assets since initial recognition:

Stage 1 – Where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to twelve months expected credit losses is recorded. The expected credit losses is computed using a probability of default occurring over the next twelve months.

Stage 2 – When a financial instrument experiences a significant increase in credit risk subsequent to initial recognition but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit losses 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.

The probability of default, exposure at default, and loss given default are inputs used to estimate the expected credit losses, and are modelled based on macroeconomic factors that are closely related with credit losses in the relevant portfolios.

Details of these statistical parameters/inputs are as follows:

Probability of default - is an estimate of the likelihood of default over a given time horizon, and is expressed as a percentage. Probability of default is adjusted based on historical experience and changes in forward-looking information to considered indicators of changes in the probability of default.

Exposure at default - is the expected exposure in the event of default at a future default date, and is expressed as an amount. This includes the expected amount, if any, of future advances of unused line of credits, overdraft limits or other loan commitments that may not be advanced as at the reporting date.

Loss given default - is an estimate of the loss arising in cases where a default occurs at a given time and is based on the difference between the contractual cash flows due and those that the Credit Union would expect to receive, including from the realization of any collateral. It is expressed as a percentage of the exposure at default.

8. ALLOWANCE FOR IMPAIRED LOANS (continued)

Forward-looking information

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of expected credit losses. The estimation and application of forward-looking information requires significant judgment. The Credit Union relies on a broad range of forward-looking information, such as expected unemployment rates and interest rates. The economic scenarios used as at December 31, 2019 included the following ranges of New Brunswick, Canada key indicators for the years ending December 31, 2019 and 2018:

Unemployment rates:
Base - 7.50% (2018 - 7.8%)
Range - 7.50% and 8.40% (2018 - 7.50% and 8.50%)

Interest rates:
Base - 3.95% (2018 - 4.25%)
Range - 3.95% (2018 - 3.95% and 4.45%)

Assessment of significant increase in credit risk

The determination of whether the expected credit losses on a financial instrument is calculated on a twelve month period or lifetime basis is dependent on the stage the financial asset falls into at the reporting date. A financial instrument moves across stages based on an increase or decrease in its risk of default at the reporting date compared to its risk of default at initial recognition.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Credit Union's historical experience and expert credit assessment, delinquency and monitoring. With regards to delinquency and monitoring, there is a rebuttal presumption that the risk of default of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue. The monitoring typically involves use of the following data:

Commercial loans
- Information obtained during periodic review of customer files
- Actual and expected significant changes to business activities and/or environment

Personal loans and residential mortgages
- Payment history
- External data related to change in financial abilities

All loans
- Payment history including overdue status
- Utilization of the granted limit
- Requests for and granting of forbearances
- Existing and forecasted changes in business, financial and economic conditions

9. MEMBER DEPOSITS

	2019	2018
Chequing	$ 19,852,392	$ 18,690,108
Demand	15,831,241	15,307,624
Term	11,997,072	13,169,169
Registered retirement savings plans	3,323,819	3,705,385
Registered retirement investment funds	979,678	948,917
Tax free savings accounts	3,164,237	2,698,589
	$ 55,148,439	$ 54,519,792

Terms and conditions

Commercial chequing deposits are due on demand and bear interest at a variable rate up to 1.25% at December 31, 2019 depending on the balance in the account.

Demand deposits are due on demand and bear interest at a variable rate up to 0.60% at December 31, 2019 depending on the balance in the account. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2019 range from 0.35% to 3.35%.

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to 0.75% at December 31, 2019.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from an RRIF account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in chequing deposits are amounts of $113,160 (2018 - $113,093) denominated in US dollars. Included in savings deposits are amounts of $60,024 (2018 - $61,725) denominated in US dollars.

Concentration of risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments. No individual or related groups of member deposits exceed 10% of member deposits. Substantially all member deposits are with members located in and around Miramichi, New Brunswick.

Fair value

The fair value of member deposits at December 31, 2019 was $55,100,294 (2018 - $54,460,564). The estimated fair value of the variable rate deposits is assumed to be equal to book value as the interest rates on these deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows at current market rates for products with similar terms.

10. MEMBER SHARES

	2019	2018
Membership shares	$ 265,537	$ 280,030

Membership shares are a requirement for membership in the Credit Union and are redeemable on withdrawal from membership. Pursuant to the Credit Unions' by-laws, the value of each membership share is $5. The authorized share capital is not covered by Credit Union deposit insurance and the shares have various restrictions on withdrawal. The number of membership shares issued and outstanding at December 31, 2019 is 53,108 (2018 - 56,006).

11. RELATED PARTY TRANSACTIONS

The Credit Union's related parties include key management, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Credit Union entered into the following transactions with management and personnel, which are defined by IAS 24 - Related Party Disclosures.

	2019	2018
Board expenses (including annual meeting)	$ 4,993	$ 7,551
Aggregate value of loans advanced	1,666,872	1,798,737
Aggregate value of lines of credit advanced	6,171	7,253

The Credit Union's policy for lending to management and personnel is that all such loans and leases were granted in accordance with normal lending terms.

The Credit Union's policy for receiving deposits from management and personnel is that all transactions are approved and deposits accepted in accordance with the same conditions which apply to members for each type of deposit.

12. ATLANTIC CENTRAL TRANSACTION AND CREDIT UNION CENTRAL NEW BRUNSWICK WIND UP

The Credit Union received $178,000 as a gain on sale of shares on September 30, 2011, as a result of rebalancing of cash and shares from Credit Union Central New Brunswick into the new Atlantic Central. This income, which is included in a special reserve, is not to be distributed in any form and is frozen for an indefinite period subject to the Risk Management Agency's review at that time.

13. CAPITAL MANAGEMENT

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

New Brunswick Credit Union Legislation

Regulatory capital:

The *New Brunswick Credit Union Legislation* requires that each credit union maintain a minimum level of equity in the credit union to provide protection against potential financial losses. The requirement calls for equity to meet or exceed 5% of total assets. The following represents the equity level for the Credit Union at December 31.

	2019	2018
Membership shares	0.44 %	0.47 %
Retained earnings/special reserve	6.54 %	6.51 %
	6.98 %	6.98 %

14. RISK MANAGEMENT

The types of risk inherent in the Credit Union environment include credit, liquidity and interest rate risk.

(a) Credit Risk

Credit risk is the risk that the Credit Union will incur a loss because a member fails to meet an obligation. Risk management policies are implemented by management and the Board. These include the evaluation of the member's character, ability to pay, and the value of collateral available to secure the loan, and the regular monitoring of member information such as delinquent and over-limit amounts.

In addition, the Credit Unions Act requires the Credit Union to maintain, at all times, a prescribed capital base. The required level of capital, consisting of share capital and retained earnings, is 5% of total assets. The actual capital base at December 31, 2019 is detailed in Note 13 to the financial statements.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

14. RISK MANAGEMENT (continued)

(b) Liquidity Risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. To mitigate this risk, the Credit Union is required under the Credit Unions Act to maintain, at all times, liquid assets that are adequate in relation to the business carried on. The level of liquidity is based on a prescribed percentage of total liabilities. At December 31, 2019, the prescribed liquidity requirement was 10% of total liabilities of which 8% is to be in liquid deposits with Atlantic Central. The actual liquidity was 17% of total liabilities, and 8% was in liquidity deposits with Atlantic Central.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

(c) Interest rate risk

Interest rate risk refers to the potential impact on the Credit Union's earnings and net asset values due to changes in interest rates. Interest rate risk results primarily from differences in the maturity or re-pricing dates of assets and liabilities. The Credit Union manages the impact of interest rate changes with self-imposed limits, thus minimizing fluctuations of income during periods of changing interest rates. The Credit Union's major source of income is the financial margin between income earned on investments and loans to members, and interest paid to members on their deposits and interest on temporary borrowings.

The Credit Union is exposed to interest rate risk as a consequence of the mismatch between the assets and liabilities. Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within six months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

	Assets	Liabilities and members' equity	Net asset/liability mismatch
0-6 months	$ 14,472,920	$ 26,284,880	$(11,811,960)
6-12 months	7,066,730	8,796,210	(1,729,480)
1-2 years	7,019,400	1,206,180	5,813,220
2-3 years	8,186,410	582,550	7,603,860
3-5 years	19,626,610	1,689,270	17,937,340
Non interest sensitive	3,655,520	21,468,500	(17,812,980)
	$ 60,027,590	$ 60,027,590	$ -

14. RISK MANAGEMENT (continued)

(d) Fair value of financial instruments

The estimated fair values of the Credit Union's financial instruments disclosed do not reflect the value of items that are not considered financial instruments, such as capital assets. 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 market rates that have occurred since their origination. Due to the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments. The carrying value of the Credit Union's financial instruments are not adjusted to reflect changes in interest rates, as it is the Credit Union's intention to hold the instruments to maturity.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

(e) Currency risk

Currency risk is the risk to the organization's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The organization does not use derivative instruments to reduce its exposure to foreign currency risk.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

15. SIGNIFICANT MANAGEMENT JUDGMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The effect of a change in an accounting estimate is recognized prospectively by including it in income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Classification of financial assets

The classification of financial assets requires an assessment of the business model within which assets are held and an assessment of whether the contractual terms of the financial assets have primarily cash flows that are solely payments of principle and interest on the principle outstanding.

15. SIGNIFICANT MANAGEMENT JUDGMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY (continued)

Member loan loss provision

Impairment of financial instruments is assessed on whether credit risk on the financial asset has significantly increased since initial recognition and requires forward looking information in the measurement of expected credit losses.

In determining the collective loan loss provision management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans are provided in Note 8.

16. COMMITMENT

One of the Credit Union's two branches operates from a leased premises. The lease expires December 31, 2023 with a renewable option for a further 10 years. The minimum annual rent is $60,000 plus HST.

17. SUBSEQUENT EVENT

The spread of COVID-19 has significantly impacted the economy. Employees are being laid off from employment and businesses are being forced to cease or limit operations for long or indefinite periods of time resulting in an economic slowdown. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. The Credit Union has determined that these events are likely to result in an increase in its expected credit losses; due to a greater probability of default across many borrowers, even those that currently do not exhibit significant increases in credit risk but may in the future; and a higher magnitude of loss given default, due to possible decreases in the value of collateral and other assets. Expected credit losses under IFRS 9 are based on information about past events, current conditions and forecasts of future economic conditions, however it is not possible to completely or reliably estimate the full impact on the financial position and results of the Credit Union.

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