CREDIT UNION
BEAUBEAR

Annual Report
2018

April 23, 2019

AGENDA

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

    b. Audit Committee

    c. 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 2017 Annual Meeting of Beaubear Credit Union Ltd.

The seventy-ninth annual meeting of Beaubear Credit Union Ltd was held on April 24, 2018 at the Newcastle Kin Centre, Miramichi West.

President Nick Lynch, as Chair called the meeting to order at 6:00 PM with 45 members present, a quorum was declared.

Pat Clancy was appointed Parliamentarian for the meeting.

Motion to accept the Agenda was made by Terry Williston and SECONDED by Pat Clancy. MOTION CARRIED.

A minute of silence was observed for deceased members of the Credit Union.

Board of Directors Present and Introduced

The Board members in attendance introduced themselves: Joe Kenny, Brent Tozer, Lynn Estey, Judy Breau, Mary Clark, Pat Clancy, and Terry Williston Nick also introduced the CEO Tosha Hamilton.

Reading and the Approval of the Minutes of the Last Meeting

Mary Clark read the minutes of the 2016 Annual General Meeting and MOVED that the minutes be accepted as read. SECONDED by Joe Kenny. MOTION CARRIED.

Business Arising from the Minutes There was no business arising from the minutes.

Auditor's Report

Alvin Bell, CA of Allen, Paquet & Arseneau LLP presented the Auditor's Report. This report included notes to the financial statement. It was MOVED by Clyde Hamilton, SECONDED by Terry Williston that the Auditors Report be accepted as presented. MOTION CARRIED.

President and Chief Executive Officer's Message

This was read by Tosha Hamilton on behalf of both herself and Nick Lynch. Once more the financial industry was faced with great challenges during 2017 due to increasing interest rates by the Bank of Canada.

Tosha, also mentioned the new service available through the credit union Lock and Block so members can control a misplaced debit card. We also had to deal with the banking terminology issue which after much work has been resolved. Beaubear Credit Union also began operating the school credit union at the Max Aitken Academy.

Tosha, then on behalf of the Board, Management and Staff of Beaubear Credit Union, went on to thank the members for choosing us as their Financial Institution.

It was MOVED by Tosha Hamilton and SECONDED by Judy Breau that the President and Chief Executive Officers report be accepted as presented. MOTION CARRIED.

Nick Lynch recognized and thanked the staff of Beaubear Credit Union for their hard work and dedication to the Credit Union. He asked them to raise their hands to be acknowledged.

Audit Committee Report

Lynn Estey gave the report from the Audit Committee. Lynn Estey MOVED the adoption of her report, SECONDED by Judy Breau. MOTION CARRIED.

Governance Committee Report

Pat Clancy gave the report from the Governance Committee. Pat Clancy MOVED the adoption of the report, SECONDED by Mary Clark. MOTION CARRIED

Recommendations of the Board of Directors

Appointment of Auditors

It was MOVED by Terry Williston, SECONDED by Tosha Hamilton to approve the recommended appointment of Allen, Paquet & Arseneau LLP as auditor for the coming year ending December 2018. MOTION CARRIED.

Board of Director Reimbursement of Expenses

It was MOVED by Marilyn Daley and SECONDED by Lynn Estey 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 Mary Clark, SECONDED by Toby LeBlanc 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

There were three Board members whose term of office was up; Pat Clancy, John Strong and Lynn Estey, all who agreed to remain on the board for another term. Nick called for nominations from the floor three times and none being made these three directors were reelected for another three-year term.

Adjournment The meeting adjourned at 6:31 PM

A slide show created by Stephanie Gremley-Wiseman was then shown presenting the many things done by the Beaubear Credit Union in the last year.

CEO and President's Joint Message

In **July 2018**, we marked **our 80th Anniversary**! Amazing how the financial industry has changed over the past 80 years. However, the way that we like to conduct our business has not changed. The Beaubear team takes great pride in providing exceptional member experience, we value our members and their finances.

Four years ago, the Atlantic Canada Credit Union system started a journey to reshape the national credit union system. In June 2018, as a national credit union system, we introduced our new credit cards from Collabria. We have MasterCard ™ for personal members and Visa ™ for business members.

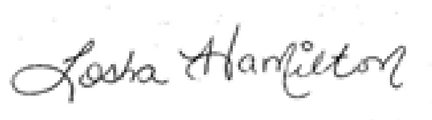
Throughout this year, Beaubear took part in the Atlantic Central Mortgage Campaign as well as our Greener Home Campaign where Beaubear Credit Union is currently offering preferred rates on loans (Prime +1.75%) to qualifying individuals who are upgrading their homes to more efficient technology. Energy 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 October 2018, Beaubear Credit Union was excited to announce that we started the school credit union at Gretna Green School with Mrs. Gallant's grade 5 class and Ms. Matheson's Kindergarten class. To date, the school credit union operates at Nelson Rural School, Max Aitken Academy and Gretna Green 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 and other initiatives. In keeping with the co-operative principles of community, in celebration of our 80th Anniversary, we had 80 Acts of Kindness in which members and staff could write down their acts of kindness. We are more than a Bank and we are very proud and humbled to say that "Your money stays here and works here!"

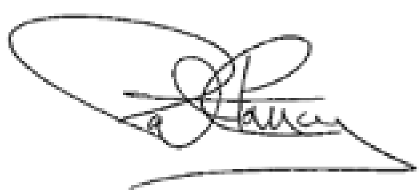
Our Management Team and Board continue to strategically plan for change and as a proactive organization, we are making the necessary decisions to direct Beaubear Credit Union to continue to be strong and prosperous for the community of Miramichi for generations to come. Beaubear Credit Union will remain 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 2019. 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. We also ask that you spread the word to your friends, neighbors and acquaintances of what a great and unique financial institution Beaubear Credit Union is and encourage them to become a member and enjoy the differences that Beaubear Credit Union has to offer to you and your community! The wheels are in motion to simplify the process of switching financial institutions which makes all direct deposits and withdrawals to your new account seamless with the ClickSwitch process!



Tosha Hamilton,

Chief Executive Officer, Beaubear Credit Union



Patrick Clancy,

President, Beaubear Credit Union Board of Directors

Audit Committee Report – 2018

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 174 loans, 42 mortgages and 17 commercial requests totalling $8,622,559. There were also 35 lines of credit limits (personal & commercial) for $1,903,950. 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.

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 2019, 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	174	$ 1,648,060	PERSONAL LOANS	47	$ 656,556
PERSONAL MORTGAGE	42	$ 2,266,168	PERSONAL MORTGAGE	20	$ 2,213,581
COMMERCIAL - *LOANS*	4	$ 85,751	COMMERCIAL - *LOANS*	3	$ 68,231
COMMERCIAL – *MORTGAGE*	13	$ 4,622,580	COMMERCIAL – *MORTGAGE*	15	$ 4,654,200
LINE OF CREDIT *PERSONAL & COMMERCIAL*	35	$ 1,903,950	LINE OF CREDIT *PERSONAL & COMMERCIAL*	21	$ 80,500
TOTAL	268	$10,526,509	TOTAL	106	$ 7,673,068

Respectfully submitted,

Audit Committee
Fred Holmes, Chair
Judy Breau
Mary Clark
Lynn Estey
Joe Kenny
Brent Tozer

Governance Committee Report

The Governance Committee is comprised of the following John Strong Chairperson, Judy Breau, Nick Lynch, Terry Williston and Joe Kenny. Our President Pat Clancy also attended all meetings, as ex-officio. We met twelve times during 2018.

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 compiled the results of the Board's Self Assessment and reported to our President, who in turn reported to the Board items that required further attention. It is the intention of the committee to conduct Board Self Assessments every two years. Early in the year, we were informed that Credit Unions must have a Liquidity policy and procedures in place. It is our understanding that RMA is working on this and will draft a Liquidity policy and procedures for NB Credit Unions. We await notification from them. We also drafted a Privacy Policy for the Board, which they approved. The Founders Scholarship Committee mandate was revised and updated. The Board's Code of Conduct was updated and was approved by the Board. The Committee reviewed other various Board policies throughout the year. During the upcoming year we will continue to work on completing a new Board of Directors Governance Manual.

The Committee still has a great deal of work ahead, one being developing, for Board approval, governance policies applicable to Beaubear.

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 2018 Annual Meeting

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, 2019.

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.

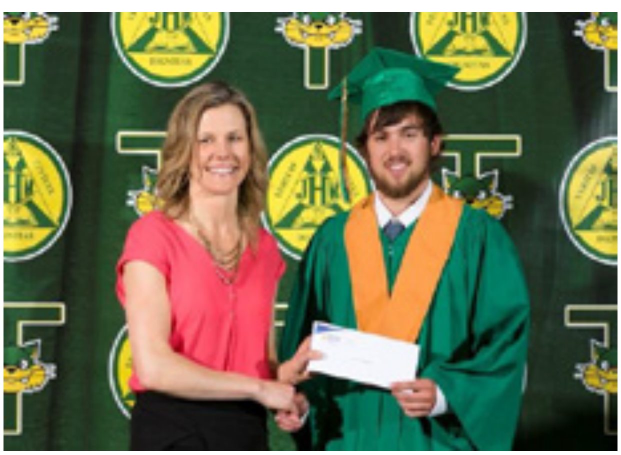
C) BOARD OF DIRECTOR REMUNERATION

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.

Beaubear Credit Union Founders Scholarship and Academic Awards

ETHAN DUPLESSIE - Beaubear Credit Union Flounders Scholarship Recipient

BAILEY MCLEAN - Beaubear Credit Union Flounders Scholarship Recipient



COLE WALSH - Beaubear Credit Union Flounders Scholarship Recipient

Special Achievement Awards

At the 2018 Miramichi Valley High School Graduation, we presented awards to the following graduates with the best combined academic and athletic accomplishments:

- Mitchel Hallihan
- Alex Tozer
- Kristy Vautour

The female student award was donated by Beaubear Credit Union and Dr Amos Kpogo. The male student award was donated by Beaubear Credit Union, Dr. Amos Kpogo and Estey's Fish'n'Chips.

At the 2018 James M Hill Graduation, we presented the following students with awards for Academic Improvement:

- Thomas Comeau
- Macey Dicks

At the 2018 NSER Graduation, we presented awards to students who achieved the highest standing in a subject. The recipients were:

- Ryan Lawlor   Wellness/Phys Ed 110
- Ashley White   Theatre Arts 120

Congratulations to the all recipients for their outstanding achievements.

Beaubear Credit Union Service Awards

Tosha Hamilton, CEO
10 Years of Service

Liette Arsenault
15 Years of Service

Carla Thibodeau
20 Years of Service

We are not a team because we work together, we are a team because we respect, trust and care for each other. ~ *Vala Afsher*

The staff had a team building day at Fletcher's Farm Corn Maze. In 2018 Beaubear Credit Union was the major sponsor of Fletcher's Farm Haunted Corn Maze. It was a huge success and great addition to many events that are hosted in the Miramichi annually.

Beaubear Credit Union 80th Anniversary Celebration

Beaubear Credit Union's 80th Anniversary Celebration

On July 20th, Beaubear Credit Union Celebrated 80 years of success and history. We invited our members and the community to join us for a BBQ, entertainment and bounce arounds. We had draws for prizes and more. It was a great day!

Thank you to everyone who helped make our Anniversary Celebration so memorable.

80 Years of Beaubear Credit Union – written by Shawn McCarthy

This year, the Beaubear Credit Union celebrates its 80th anniversary as a staple in the Miramichi area. Looking back over their storied history, there can be little doubt that, while undergoing a great deal of change, they have long retained their own unique, and admirable, character.

The late 19th century and early 1900s were considered boom years for Nelson, with the Burchill & O'Brien mills running alongside a number of others, and an estimated 12 stores servicing the ballooning population, this was indeed a high-water mark. Yet, it was not to last. Construction of the Morrissey Bridge saw traffic bypass Nelson and the depression that followed the First World War was especially difficult to bear. It was in these trying years that Father Hill, rector of St. Thomas College in Chatham, came to Nelson to speak about how the people might band together and gain a measure of self-reliance through creating a Credit Union. Many liked what they heard and in 1938 ten men gathered to discuss the matter at the Gould house.

These were Rev. E.J. Connors, Cloran Coughlan, Adrian English, George Stewart, Cleo Gould, Frank Maher, John McCarthy, Raymond Murphy, Douglas Stewart and Bert Coughlan.

In the months preceding this meeting, many community members had met and studied the tenants of the Cooperative Movement. Reflecting on the study groups years later, they were seen as being at once informative and a source of community building; people realized that they truly were in it together. The certificate of incorporation was drawn up on July 22, and Mr. Coughlan witnessed the signatures of his fellows, as a local Justice of the Peace. From these ten individuals, each depositing 25¢, the agreed unit of savings, the roots of the local Credit Union took form.

It was decided that the Credit Union would service an area beginning on Foley Hill to Ben DeRoches' property in Chatham Head, and back to cover Craigville and Douglasfield. Cleo Gould was named the first treasurer and manager and allotted 60¢ a year for expenses.

There remained now only the name of the Credit Union to be decided. Calling it after the local Catholic church, St. Patrick's, was voted down, since, as was said among those who started the movement in Nova Scotia, "There's no Catholic way or Protestant way to catch a fish, only the cooperative way." It was Rev. Connors, looking across the river, who suggested the name of Beaubear, after the 161-acre Island at the confluence of both branches of the Miramichi River. Men and women from all walks worked together on the Island throughout its history, and it was thought that such cooperation was little different from what was now being planned. So, from then on it was decided to call the Credit Union Beaubear.

At the first annual meeting the balance sheet read:

Earnings..........$1.28

Loans..............$99.00

Assets..............$93.55

Membership......45

Growth was slow until 1946, when the membership decided to partake of the share and loan insurance of CVNA. At that time, the holdings of the Beaubear Credit Union were $9000, yet, within twelve years, in 1958, this had grown to $140,924. Within a few short decades people from across Canada began to regard Nelson as a model community, showcasing the many benefits of co-operation.

Another struggle in those early years was an office location. Beginning in St. Patrick's rectory in 1941, the office moved across from the Nelson post office in 1950, a building later sold to what the Beaubear Co-op. On December 1, 1966, the Credit Union opened a new building on Nelson Street along with the Co-op. The office and bank received its own building on May 13, 1978. The next year, the Miramichi Credit Union, comprising Millerton, North Esk and Northumberland Co-op Credit Unions, joined with the Beaubear Credit Union. Finally, in November 2005, the Beaubear Credit Union, with branches on both sides of the Miramichi River, opened its new location on Water Street.

The last several years have been most eventful. In 2010 the Beaubear Credit Union was the recipient of the Community and Economic Development Award from Credit Union Central of Canada, recognizing its efforts in the establishment of Miramichi Transit. Two years later, the operation was the recipient of the prestigious Coady Award for exemplary leadership, support and involvement in the community. The next year, 2013, saw recognition from Concentra Financial emPowering Your Communities in the form of a $10,000 donation to help Mount St Joseph Nursing Home build a therapeutic space called a Snoezelen Room. Finally, in 2014, the Beaubear Credit Union was acknowledged as the #2 Best Place to Work in Atlantic Canada, by Progress Magazine and Best Companies Group.

From humble beginnings, the Beaubear Credit Union has, time again, shaped itself to best serve the needs of the community. That said, their commitment to their members, and to Miramichi at large, has never wavered in 80 years, and stands as a sterling tribute to their founders and members throughout the decades.

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

Chief Executive Officer
Beaubear Credit Union

BEAUBEAR CREDIT UNION LTD.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2018

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

BEAUBEAR CREDIT UNION LTD.

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To the Financial Statements

For the year ended December 31, 2018

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 balance sheet as at December 31, 2018, and the statement of earnings, 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, 2018, 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 company 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.

Auditors' Responsibilities for the Audit of 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.

INDEPENDENT AUDITORS' REPORT (continued)

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 municipality 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 16, 2019

Chartered Professional Accountants

BEAUBEAR CREDIT UNION LTD.
Balance Sheet
As at December 31

	2018	2017
ASSETS		
Cash	**$ 7,365,394**	$ 6,870,972
Investments (Note 3)	**5,201,834**	4,972,731
Accounts receivable - other	**11,989**	65,281
Accrued interest receivable	**86,341**	83,685
Prepaid expenses	**41,402**	35,722
Loans receivable (Note 6)	**45,735,282**	44,646,965
Income taxes receivable	**10,608**	1,731
Future income taxes	**8,500**	4,500
Foreclosed assets	**-**	61,209
Property and equipment (Note 4)	**771,956**	849,539
	$ 59,233,306	$ 57,592,335
LIABILITIES		
Member deposits (Note 9)	**$ 54,519,792**	$ 52,958,153
Accrued interest on deposits	**207,023**	175,911
Accounts payable and accrued liabilities	**368,475**	352,565
	55,095,290	53,486,629
MEMBERS' EQUITY		
Membership shares (Note 10)	**280,030**	290,605
Special reserve (Note 12)	**178,000**	178,000
Surplus - Page 5	**3,679,986**	3,637,101
	4,138,016	4,105,706
	$ 59,233,306	$ 57,592,335

Approved by the board

Fred Holmes Director

Director

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

	2018	2017
INTEREST INCOME		
Interest on loans	**$ 2,123,661**	$ 2,100,720
Interest on investments	**104,627**	64,453
	2,228,288	2,165,173
INTEREST EXPENSE AND CREDIT LOSSES		
Interest on member deposits	**476,141**	445,711
Provision for credit losses	**121,527**	102,000
	597,668	547,711
FINANCIAL MARGIN	**1,630,620**	1,617,462
NON-INTEREST EXPENSES		
Amortization	**106,156**	94,759
General business	**815,961**	746,587
Member security	**101,668**	86,351
Occupancy	**163,909**	164,188
Organization	**66,365**	71,085
Personnel	**911,251**	949,313
	2,165,310	2,112,283
OTHER INCOME		
Commissions	**147,665**	140,702
Service charges	**406,761**	414,165
Miscellaneous	**30,959**	61,101
	585,385	615,968
NET EARNINGS BEFORE INCOME TAXES	**50,695**	121,147
INCOME TAXES		
Current	**11,810**	17,589
Future (recoverable)	**(4,000)**	(2,300)
	7,810	15,289
NET EARNINGS FOR THE YEAR - to Page 5	**$ 42,885**	$ 105,858

BEAUBEAR CREDIT UNION LTD.
Statement of Members' Equity

For the year ended December 31	2018	2017
BALANCE, beginning of year	**$ 3,637,101**	$ 3,531,243
Excess of Earnings for the year - Page 4	**42,885**	105,858
BALANCE, end of year	**$ 3,679,986**	$ 3,637,101

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	$ 42,885	$ 105,858
Adjustments for		
Amortization	106,156	94,759
Future income taxes	(4,000)	(2,300)
	145,041	198,317
Change in non-cash working capital items:		
Decrease (increase) in accounts receivable - other	53,292	(1,059)
Increase in accrued interest receivable	(2,656)	(1,438)
Increase in prepaid expenses	(5,680)	(2,516)
Increase in income taxes receivable	(8,877)	(1,731)
Decrease (increase) in foreclosed assets	61,209	(56,209)
Increase (decrease) in accrued interest on deposits	31,112	(10,141)
Increase in accounts payable and accrued liabilities	15,910	89,811
Decrease in income taxes payable	-	(18,074)
	289,351	196,960
CASH FLOWS FROM FINANCING ACTIVITIES		
Member deposits	1,561,639	387,998
Issuance (redemption) of members' shares	(10,575)	(16,432)
	1,551,064	371,566
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments	(229,103)	(3,925)
Increase in loans receivable	(1,088,317)	(500,935)
Purchase of property and equipment	(28,573)	(30,345)
	(1,345,993)	(535,205)
INCREASE IN CASH AND CASH EQUIVALENTS	494,422	33,321
CASH AND CASH EQUIVALENTS, beginning of year	6,870,972	6,837,651
CASH AND CASH EQUIVALENTS, end of year (Note 5)	$ 7,365,394	$ 6,870,972

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 16, 2019.

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:**

<u>IFRS 9, Financial Instruments</u>
IFRS 9 sets out requirements for recognizing and measuring financial assets and financial liabilities. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss. IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows; the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and the remaining amount of change in the fair value is presented in profit or loss.

IFRS 9 replaces the "incurred loss" model in IAS 39 with and "expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at fair value through profit or loss.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Credit Union has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The following financial instruments are classified as amortized cost under both IFRS 9 and IAS 39; cash and cash equivalents; term deposits; loans; member deposits and accrued interest; indebtedness; payables and accruals; and membership shares. Liquidity reserve is also classified as amortized cost under IFRS 9 but was previously classified as fair value through profit or loss under IAS 39. Investments - shares are classified as fair value through other comprehensive income under IFRS 9 but was previously classified as cost under IAS 39.

IFRS 15, Revenue form Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Credit Union initially applied IFRS 15 on January 1, 2018, retrospectively. The timing or amount of the Credit Union's fee and commission income from contracts with members was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements.

(b) **Financial instruments - After January 1, 2018**

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments - After January 1, 2018 (continued)

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments - After January 1, 2018 (continued)

- 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.

Non-recourse loans
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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments - After January 1, 2018 (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments - After January 1, 2018 (continued)

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.

<u>Restructured financial liabilities</u>
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.
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.

<u>Offsetting</u>
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.

<u>Impairment</u>
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:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) **Financial instruments - After January 1, 2018 (continued)**

- 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".

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;

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments - After January 1, 2018 (continued)

- 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.

<u>Presentation of allowance for expected credit losses in the statement of financial position</u>
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;

- 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.

<u>Write-offs</u>
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.

<u>Recognition and derecognition</u>
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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments - Prior to January 1, 2018

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

A financial liability is de-recognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are initially measured at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are initially measured at fair value.

Subsequent measurement of financial assets and financial liabilities is as described below.

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Loans and receivables
- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Available-for-sale financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

At least at each reporting date, all financial assets except for those at fair value through profit or loss are subject to a review for impairment. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

<u>Loans and receivables:</u>
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables. The Credit Union also classifies cash and cash equivalents and loans in this category.

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment (losses).

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans, plus accrued interest. Interest for all loans is accounted for on the accrual basis. If there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate. Discounting is omitted where the effect of discounting is immaterial.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments - Prior to January 1, 2018 (continued)

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

<u>Bad debts written off:</u>
Bad debts are written-off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written-off against the provision for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write-offs are recognized as expenses in net income.

<u>Held-to-maturity investments</u>:
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables.

Investments are classified as held-to-maturity if the Credit Union has the intention and ability to hold them until maturity.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows.

Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

<u>Fair value through profit and loss</u>:
A financial asset or liability is required to be classified as fair value through profit and loss if it is acquired principally for the purpose of selling it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

<u>Available-for-sale financial assets</u>:
Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union's available-for-sale financial assets include the Credit Union's investments in Atlantic Central.

These investments are measured at cost less any impairment charges, as their fair value cannot currently be estimated reliably. Impairment charges are recognized in profit or loss.

Reversals of impairment losses are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments - Prior to January 1, 2018 (continued)

Financial liabilities:
The Credit Union's financial liabilities include member deposits, payables and accruals and member shares.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held-for-trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

All interest related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within "interest expense and credit losses".

(d) 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.

(e) 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.

(f) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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.

(h) 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.

(i) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2019 or later periods that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union are:

IFRS 16 Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Credit Union will adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Credit Union is determining the measurement of the value, if any, of recognizing lease assets and liabilities. The Credit Union has only identified minor contracts that would meet the definition of a lease and therefore does not anticipate a significant impact at January 1, 2019.

3. INVESTMENTS

	2018	2017
Amortized cost		
Liquidity reserve	$ 4,455,804	$ -
Fair value through profit and loss		
Liquidity reserve	-	4,241,121
Atlantic Central common shares	533,830	-
Atlantic Central LSM shares	31,250	-
Atlantic Central League Data class B preferred shares	34,850	-
Atlantic Central Class NB shares	146,000	-
Atlantic Co-op shares	100	-
Cost		
Atlantic Central common shares	-	519,410
Atlantic Central LSM shares	-	31,250
Atlantic Central League Data class B preferred shares	-	34,850
Atlantic Central Class NB shares	-	146,000
Atlantic Co-op shares	-	100
	$ 5,201,834	$ 4,972,731

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. In the prior year the Credit Union elected this investment to be classified as fair value through profit or loss. Fair value was approximated as amortized cost due to the relatively short term to maturity. Under IFRS 9 the balance is classified to amortized cost. There was no impact to the value of the liquidity reserve on transition to IFRS 9.

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

2018	Land	Buildings	Office equipment	Leasehold improvements	ATM	Safekeeping equipment	Computer equipment	Total
Cost								
Balance as at January 1, 2018	$ 146,115	$ 849,804	$ 314,156	$ 2,028	$ 128,445	$ 156,736	$ 153,127	$ 1,750,411
Additions	-	-	-	-	-	-	28,573	28,573
Disposals	-	-	-	-	-	-	-	-
Balance as at December 31, 2018	$ 146,115	$ 849,804	$ 314,156	$ 2,028	$ 128,445	$ 156,736	$ 181,700	$ 1,778,984
Accumulated amortization								
Balance as at January 1, 2018	$ -	$ 421,018	$ 225,491	$ 507	$ 46,601	$ 70,886	$ 136,369	$ 900,872
Amortization expense	-	33,992	17,862	338	35,477	7,837	10,650	106,156
Balance as at December 31, 2018	$ -	$ 455,010	$ 243,353	$ 845	$ 82,078	$ 78,723	$ 147,019	$ 1,007,028
Net book value								
December 31, 2018	$ 146,115	$ 394,794	$ 70,803	$ 1,183	$ 46,367	$ 78,013	$ 34,681	$ 771,956
December 31, 2017	$ 146,115	$ 428,786	$ 88,665	$ 1,521	$ 81,844	$ 85,850	$ 16,758	$ 849,539

5. 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.

6. LOANS RECEIVABLE

	2018	2017
Personal loans:		
Mortgages	$ 18,448,217	$ 18,042,021
Other (LOC, term, student, etc.)	8,130,294	8,857,387
Commercial loans:		
Mortgages	14,702,044	15,771,786
Business loans	4,600,918	2,064,038
	45,881,473	44,735,232
Allowance for impaired loans	(146,191)	(88,267)
Net loans to members	$ 45,735,282	$ 44,646,965

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, 2018 is 2.59% to 15.50%.

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, 2018 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.

6. LOANS RECEIVABLE (continued)

Fair value

The fair value of member loans at December 31, 2018 was $45,881,473 (2017 - $44,735,232).

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 signficant portion of member loans are with members located in and around Miramichi, New Brunswick.

7. ALLOWANCE FOR IMPAIRED LOANS - IFRS 9 (2018)

Allowance for impaired loans:

	Gross carrying amount	Expected credit losses allowance	2018 Carrying amount (IFRS 9)
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

	Gross carrying amount	Impairment allowance	2017 Net carrying amount (IAS 39)
Personal Loans:			
Residential mortgages	$ 18,042,021	$ (20,055)	$ 18,021,966
Other	8,857,387	(48,386)	8,809,001
Commercial Loans:			
Commercial mortgages	15,771,786	(17,532)	15,754,254
Business loans	2,064,038	(2,294)	2,061,744
	$ 44,735,232	$ (88,267)	$ 44,646,965

7. ALLOWANCE FOR IMPAIRED LOANS - IFRS 9 (2018) (continued)

	12 months expected credit losses (Stage 1)	Lifetime non-credit impaired (Stage 2)	Lifetime credit impaired (Stage 3)	2018 Total - IFRS 9
Beginning balance, IAS 39	$ 35,537	$ 18,588	$ 34,142	$ 88,267
Transfer to (from):				
Stage 1	7,691	(1,145)	(6,546)	-
Stage 2	(122)	122	-	-
Stage 3	(227)	(3,353)	3,580	-
Re-measurement	42,131	(9,050)	85,601	118,682
Realized losses	-	-	(65,504)	(65,504)
Recoveries	-	-	4,746	4,746
	$ 85,010	$ 5,162	$ 56,019	$ 146,191

		Allowance for credit losses			
	Gross amount	Stage 1	Stage 2	Stage 3	Net amount - IFRS 9
Residential					
Mortgage	$ 18,448,217	$ 7,998	$ 1,631	$ 20,423	$ 18,418,165
Other	8,130,294	44,328	3,531	24,842	8,057,593
Commercial					
Mortgage	14,702,044	5,293	-	-	14,696,751
Business	4,600,918	27,391	-	10,754	4,562,773
	$ 45,881,473	$ 85,010	$ 5,162	$ 56,019	$ 45,735,282

7. ALLOWANCE FOR IMPAIRED LOANS - IFRS 9 (2018) (continued)

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.

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, 2018 included the following ranges of New Brunswick, Canada key indicators for the years ending December 31, 2018 and 2017:

Unemployment rates:
Base - 7.8% (2017 - 7.6%)
Range - 7.50% and 8.50% (2017 - 7.50% and 8.50%)

Interest rates:
Base - 4.25% (2017 - 3.60%)
Range - 3.95% and 4.45% (2017 - 3.20% and 3.95%)

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

7. ALLOWANCE FOR IMPAIRED LOANS - IFRS 9 (2018) (continued)

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

8. ALLOWANCE FOR IMPAIRED LOANS - IAS 39 (2017)

	2017
Collective provision	$ 49,727
Individual specific provision	38,540
Total provision	$ 88,267

Change in individual specific provision and collective provision for impairment:

	Beginning balance	Provision/ recoveries	Write-offs	2017
Personal loans				
Mortgages	$ 27,825	$ 25,594	$ (1,208)	$ 52,211
Other	85,726	61,482	-	147,208
Commercial loans				
Mortgages	62,315	22,373	(212,654)	(127,966)
Business loans	13,886	2,928	-	16,814
	$ 189,752	$ 112,377	$ (213,862)	$ 88,267

As a percentage of total loans 0.20 %

Loans and related allowances:

	Loan balance	Specific allowance	Collective allowance	2017
Personal loans				
Mortgages	$ 18,042,021	$ -	$ (20,055)	$ 18,021,966
Other	8,857,387	(38,540)	(9,846)	8,809,001
Commercial loans				
Mortgages	15,771,786	-	(17,532)	15,754,254
Business loans	2,064,038	-	(2,294)	2,061,744
	$ 44,735,232	$ (38,540)	$ (49,727)	$ 44,646,965

A collective provision is established to cover estimated loan losses which have not yet been specifically identified as impaired. In determining the allowance for impaired loans, management considers factors such as the composition and credit quality of the portfolio, current economic conditions and trends and historical loss experience

For purposes of the collective provision, loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

Impaired loans with specific allowances:

	Impaired loans	Security value	2017
Personal loans	$ 39,350	$ (810)	$ 38,540
Commercial loans	-	-	-
	$ 39,350	$ (810)	$ 38,540

8. ALLOWANCE FOR IMPAIRED LOANS - IAS 39 (2017) (continued)

Loans past due but not impaired as at December 31 are as follows:

	< 30 days	31 - 60 days	61 - 90 days	90 + days	2017
Personal loans	$ 397,815	$ 207,851	$ 24,995	$ 272,634	$ 903,295
Commercial loans	53,566	8,135	-	29,553	91,254
	$ 451,381	$ 215,986	$ 24,995	$ 302,187	$ 994,549
	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -

9. MEMBER DEPOSITS

	2018	2017
Chequing	$ 18,690,108	$ 16,880,847
Demand	15,307,624	15,597,020
Term	13,169,169	13,391,186
Registered retirement savings plans	3,705,385	3,665,377
Registered retirement investment funds	948,917	1,049,098
Tax free savings accounts	2,698,589	2,374,625
	$ 54,519,792	$ 52,958,153

Terms and conditions

Commercial chequing deposits are due on demand and bear interest at a variable rate up to 1.25% at December 31, 2018 depending on the balance in the account.

Demand deposits are due on demand and bear interest at a variable rate up to 1.00% at December 31, 2018 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, 2018 range from 0.25% 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, 2018.

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 $113,093 (2017 - $129,194) denominated in US dollars. Included in savings deposits are amounts of $61,725 (2017 - $66,742) 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, 2018 was $54,460,564 (2017 -$52,958,153). 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

	2018	2017
Membership shares	$ 280,030	$ 290,605

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, 2018 is 56,006 (2017 - 58,121).

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.

	2018	2017
Board expenses (including annual meeting)	$ 7,551	$ 10,293
Aggregate value of loans advanced	1,798,737	1,748,599
Aggregate value of lines of credit advanced	7,253	9,640

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.

	2018	**2017**
Membership shares	0.47 %	0.50 %
Retained earnings/special reserve	6.51 %	6.62 %
	6.98 %	7.12 %

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, 2018 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.

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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, 2018, 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 21% 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	$ 16,904,890	$ 24,622,790	$ (7,717,900)
6-12 months	6,780,530	10,086,640	(3,306,110)
1-2 years	4,619,590	1,791,920	2,827,670
2-3 years	9,825,210	827,460	8,997,750
3-5 years	15,047,770	1,483,940	13,563,830
Non interest sensitive	6,136,800	20,502,040	(14,365,240)
	$ 59,314,790	$ 59,314,790	$ -

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.

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

Classification of financial assets

With the adoption of IFRS 9 on January 1, 2018, the classification of financial assets required 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.

Member loan loss provision

Upon implementation of IFRS 9, effective January 1, 2018, 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. Previously under IAS 39, in determining whether an impairment loss should be recorded in the statement of operations the Credit Union made judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

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 7.

16. COMMITMENT

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

Notes

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