Grant Thornton

Financial Statements

Coastal Financial Credit Union Limited

December 31, 2020

Contents

Independent Auditor's Report

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To the Members of
Coastal Financial Credit Union Limited

Opinion

We have audited the financial statements of Coastal Financial Credit Union Limited ("the Credit Union"), which comprise of the statement of financial position as at December 31, 2020, and the statements of earnings, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Credit Union 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 these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 Credit Union'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 Credit Union or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could 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 Credit Union'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 Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union 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.

Grant Thornton LLP

Yarmouth, Canada
March 25, 2021

Chartered Professional Accountants

Coastal Financial Credit Union Limited
Statement of Earnings

Year Ended December 31	**2020**	2019
Interest revenue		
Interest on members' loans	**$ 5,879,522**	$ 5,866,087
Investment income	**385,501**	413,954
	6,265,023	6,280,041
Interest expense		
Interest on members' deposits	**1,044,426**	1,206,478
Other	**317**	1,457
	1,044,743	1,207,935
Financial margin	**5,220,280**	5,072,106
Other income (Note 12)	**1,223,980**	1,192,446
Financial margin and other income	**6,444,260**	6,264,552
Expenses		
Operating		
Members' security (Note 18)	**160,520**	149,705
General business (Note 18)	**1,639,119**	1,819,090
Personnel	**2,870,593**	2,774,171
Occupancy (Note 18)	**269,033**	268,125
Depreciation	**330,231**	226,725
Provision for impaired loans (Note 5)	**139,409**	32,961
	5,408,905	5,270,777
Earnings before other items and income taxes	**1,035,355**	993,775
Loss on disposal of property and equipment	**-**	9,166
Earnings before income taxes	**1,035,355**	984,609
Income taxes (Note 3)		
Current	**324,854**	203,995
Deferred	**(12,813)**	64,454
	312,041	268,449
Net earnings	**$ 723,314**	$ 716,160

See accompanying notes to the financial statements.

Coastal Financial Credit Union Limited
Statement of Changes in Members' Equity
Year Ended December 31

	Common Shares	Surplus Shares	Retained Earnings	Total Members' Equity
Balance at January 1, 2019	$ 150,007	$ 164,236	$12,328,616	$ 12,642,859
Net earnings	-	-	716,160	716,160
Issue of members' shares	6,343	-	-	6,343
Redemption of members' shares	(8,743)	(5,712)	-	(14,455)
Balance at December 31, 2019	$ 147,607	$ 158,524	$ 13,044,776	$ 13,350,907
Balance at January 1, 2020	**$ 147,607**	**$ 158,524**	**$ 13,044,776**	**$ 13,350,907**
Net earnings	**-**	**-**	**723,314**	**723,314**
Issue of members' shares	**6,200**	**-**	**-**	**6,200**
Redemption of members' shares	**(7,550)**	**(5,800)**	**-**	**(13,350)**
Balance at December 31, 2020	**$ 146,257**	**$ 152,724**	**$ 13,768,090**	**$ 14,067,071**

See accompanying notes to the financial statements.

Coastal Financial Credit Union Limited
Statement of Financial Position

December 31	**2020**	2019
Assets		
Cash and cash equivalents (Note 4)	**$ 31,718,014**	$ 34,665,913
Members' loans (Note 5)	**141,914,454**	141,679,836
Accounts receivable and other	**183,755**	154,166
Income taxes receivable	**-**	9,219
Prepaid expenses	**115,631**	113,427
Long term investments (Note 6)	**27,639,182**	2,378,662
Foreclosed property	**16,401**	38,337
Property and equipment (Note 7)	**3,200,814**	3,206,283
	$ 204,788,251	$ 182,245,843

Liabilities		
Payables and accruals	**$ 409,389**	$ 331,133
Lease liability (Note 19)	**315,616**	225,292
Income taxes payable	**106,133**	-
Deferred income taxes (Note 3)	**75,551**	88,366
Members' deposits (Note 8)	**175,088,850**	155,217,990
Members' savings	**14,725,641**	13,032,155
	190,721,180	168,894,936
Members' Equity (Note 10)		
Common shares (Note 11)	**146,257**	147,607
Surplus shares (Note 11)	**152,724**	158,524
Retained earnings (Note 10)	**13,768,090**	13,044,776
	14,067,071	13,350,907
	$ 204,788,251	$ 182,245,843

On behalf of the Board

____________________________ Director ____________________________ Director

See accompanying notes to the financial statements.

Coastal Financial Credit Union Limited
Statement of Cash Flows

December 31	**2020**	2019
Increase (decrease) in cash and cash equivalents		
Operating		
Earnings before income taxes	**$ 1,035,355**	$ 984,609
Adjustments for:		
Change in allowance for impaired loans	**166,225**	(32,411)
(Gain) Loss on disposal of property and equipment	**(1,188)**	9,166
Depreciation	**330,231**	226,725
	1,530,623	1,188,089
Changes in working capital		
Accounts receivable and other	**(29,589)**	144,004
Prepaid expenses	**(2,204)**	(27,708)
Payables and accruals	**78,256**	(131,527)
	1,577,086	1,172,860
Income taxes paid	**(209,502)**	(198,033)
Change in members' activities (net)		
Increase in members' deposits	**19,870,860**	17,249,475
Increase (decrease) in members' savings	**1,693,486**	(462,933)
Increase in members' loans	**(400,843)**	(13,225,761)
	22,531,087	4,535,608
Financing		
Decrease in members' common shares, net	**(1,350)**	(2,400)
Decrease in members' surplus shares, net	**(5,800)**	(5,712)
	(7,150)	(8,112)
Investing		
Decrease (increase) in foreclosed property	**21,936**	61,979
Principal repayments of lease liability	**(42,264)**	(5,003)
Increase in new leases obtained	**132,586**	-
Purchase of property and equipment	**(323,574)**	(743,931)
(Increase) decrease in long term investments	**(25,260,520)**	44,615
	(25,471,836)	(642,340)
(Decrease) increase in cash and cash equivalents	**(2,947,899)**	3,885,156
Cash and cash equivalents		
Beginning of year	**34,665,913**	30,780,757
Ending of year	**$ 31,718,014**	$ 34,665,913

Supplemental cash flow information		
Interest received	**$ 5,847,340**	$ 5,790,101
Interest paid	**$ 1,013,720**	$ 1,395,062

See accompanying notes to financial statements.

1. Government legislation and operations

Coastal Financial Credit Union Limited is incorporated under the Nova Scotia Credit Unions Act, and the operation of the Credit Union is subject to the Financial Institutions Act. The Credit Union serves primarily the Yarmouth County region.

These financial statements were authorized for issue by the Board of Directors of Coastal Financial Credit Union Limited on March 25, 2021.

2. Significant accounting policies

Statement of compliance
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). The principle accounting policies applied in the preparation of these financial statements is set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of presentation
The Credit Union's functional and presentation currency is the Canadian dollar. The financial statements are presented in accordance with International Accounting Standards ("IAS") 1, "*Presentation of Financial Statements".*

Use of estimates and assumptions
The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. Actual results could differ from those estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The estimates and underlying assumptions are continually reviewed on an ongoing basis based on historical experience, best knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances, including future expectations of future events. The resulting accounting estimates will, by definition seldom equal the related actual results, and actual results may ultimately differ from these estimates.

Revisions to accounting estimates are recorded in the period in which the estimate reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include the allowance for impaired loans, measurements of fair value of financial instruments, and the estimates of useful lives for depreciation of property and equipment and any impairment in the carrying value of property and equipment.

2. Significant accounting policies (continued)

Revenue recognition

Revenue is recognized when control of the promised goods and/or services is transferred to the Credit Union's members, in an amount that reflects the consideration the Credit Union expects to be entitled to in exchange for those goods and/or services.

The Credit Union's revenue includes service charges and fees, and is recognized as the related services are performed. The performance obligation for service charges and fees is typically completed at the point in time the transaction is completed as the member has consumed all of the benefits provided by the Credit Union.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and current accounts. Bank borrowings are considered to be financing activities.

Members' loans

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

Members' loans are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

Purchased loans

The Credit Union periodically buys mortgages from financial institutions ("the seller"). In these transactions, the seller continues to administer the loans sold, but the contractual right to receive payments on the mortgages is offset by an obligation to transfer their payments to the Credit Union. The Credit Union bears the credit risk on the mortgages. The mortgages are recognized by the Credit Union on the date of transfer, or when substantially all the risks and rewards of ownership have transferred. Judgement is applied in determining whether these are assets of the Credit Union.

Members' deposits

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

2. Significant accounting policies (continued)

Impairment of financial assets
The Credit Union assesses impairment of its financial assets on a forward-looking basis, referred to as the 'expected credit loss (ECL) model.' The Credit Union recognizes an impairment loss allowance for such losses at each reporting period regardless of an actual loss being occurred. The Credit Union considers reasonable and supportable information that is available at the reporting date about past events, current conditions, and forecasts that affect the expected collectability of the future cash flows of the instruments when assessing credit risk and measuring expected credit losses.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments. In applying this forward-looking approach, a distinction is made between:

- Stage 1 – financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk;
- Stage 2 – financial instruments that have deteriorated significantly in credit quality since initial recognition or whose credit risk is not low; and
- Stage 3 – financial assets that have objective evidence of impairment at the reporting date.

On initial recognition of the financial instrument, a loss allowance is recognized and maintained equal to 12 months of ECL, being the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within the 12 months after the reporting date.

If credit risk increases significantly relative to the initial recognition of the financial instrument, the loss allowance is increased to cover full lifetime ECL. In assessing whether credit risk has significantly increased, the Credit Union compares the risk of a default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument as at the date of its initial recognition. Evidence of increased credit risk is observed when the financial instrument has had an unfavorable movement in internal risk assessment. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Credit Union places the financial instrument in the Stage 1 category and reverts to recognizing 12 months of ECL.

The Credit Union places financial instruments with a beacon score of less than 620 or those with risk ratings of 4 or 5 in the Stage 2 category, either on initial recognition or in subsequent reporting periods when the beacon score has declined to a threshold of 620 or the risk rating has declined to 4 or 5. When a financial instrument is in Stage 2, the loss allowance is recognized to reflect lifetime expected credit losses

When a financial instrument is considered credit-impaired, the loss allowance continues to reflect lifetime expected credit losses and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. The Credit Union considers a financial instrument as impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial instrument have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. All financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears are considered impaired. All financial instruments where the borrower has filed for bankruptcy or consumer proposal will also be re-staged to Stage 3.

2. Significant accounting policies (continued)

Impairment of financial assets (continued)
Changes in the loss allowance, including the movement between 12 months and lifetime expected credit losses, is recorded in the statement of comprehensive income.

Financial instruments are written off, either partially or in full, against the related allowance for credit losses when there is evidence that there is no realistic prospect of future recovery. When financial instruments are secured, a write-off is recognized after all collateral has been realized or transferred to the Credit Union, or in certain circumstances, when the net realizable value of any collateral and other available information suggests that there is no reasonable expectation of further recovery. In events where a bankruptcy or consumer proposal occurs, management will file all required documentation with the Trustee and realize on any available security with the unrecoverable balance being immediately written off. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for loan losses.

Leases
The Credit Union as a Lessee

The Credit Union makes use of leasing arrangements principally for office space and IT equipment.

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Credit Union
- the Credit Union has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Credit Union has the right to direct the use of the identified asset throughout the period of use. The Credit Union assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

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

The Credit Union depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Credit Union also assesses the right-of-use asset for impairment when such indicators exist.

2. Significant accounting policies (continued)

Leases (continued)
At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. As at December 31, 2020, the Credit Union has recognized interest expense of $12,413 related to the lease liability (2019 – $1,587).

Subsequent to initial measurement, the liability will be reduced by lease payments that are allocated between repayments of principal and finance costs. The finance cost is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. It is remeasured to reflect any reassessment or modification, or if there are changes in the substance of fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

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

Income taxes
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2. Significant accounting policies (continued)

Income taxes (continued)

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Investments
Coastal Financial Credit Union Limited invests in debt securities as prescribed in Part V Sections 49 and 50 of the Provincial Credit Union Act and Regulations. Investments in equity and debt investments that do not have a quoted market price in an active market are measured at fair value. Investment income is recognized on an accrual basis. Gains and losses are included in investment income in the year realized. Investment are tested annually for impairment

Foreclosed assets
Foreclosed assets held for sale are carried at the lower of the amortized cost of the loan or mortgage foreclosed, adjusted for revenues received, costs incurred, and the estimated net proceeds from the sale of the assets. At December 31, 2020, there was $16,401 in foreclosed property (2019 - $38,337).

Property and equipment
Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized using the diminishing-balance (“DB”) and straight-line (“SL”) methods at the following rates:

Parking area	8% declining balance
Buildings	5% declining balance or straight line over 5 yrs
Furniture and equipment	20% declining balance or straight line over 3 yrs
Computers	straight line over 3 yrs
Automated bank machine	straight line over 10 yrs
Leasehold improvements	straight line over 4-5 yrs

Depreciation methods and useful lives are reviewed annually and adjusted if necessary.

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

Impairment charges are included in net income.

2. Significant accounting policies (continued)

Patronage dividends
The Credit Union policy is to accrue patronage dividends when approved by the Board of Directors. These dividends are recorded in the statement of earnings in the year to which they relate.

Mortgages held under administration
The Credit Union, under a Mortgage Origination Program, has the ability to refer certain mortgages to a third party. These loans, which are under the Credit Union's administration, are not the property of the Credit Union and are not reflected on the balance sheet. Fees earned by the Credit Union to service these mortgages are recognized as the related services are provided and reported in income as other income.

Risk management
In the normal course of business, the Credit Union is exposed to liquidity risk, credit risk, and market risk. There has been no change in how the credit union manages those risks from the previous year.

It is the policy of the Credit Union to manage significant risks efficiently and effectively through an Enterprise Risk Management Process which includes a comprehensive infrastructure of policies, procedures, methods, oversight and independent review designed to reduce the significant risks and to manage those risks within an appropriate threshold. The Credit Union provides their staff with the training necessary to understand and implement these policies and processes. The Board of Directors is provided with timely, relevant, accurate and complete reports on the management of significant risks. Significant risks managed by the Credit Union include liquidity, credit and market risks.

Liquidity risk
Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes. See Note 10 for further information about the Credit Union's capital requirement and management.

Credit risk
Credit risk is defined as the risk of financial loss to the Credit Union as the result of a member failing to meet their obligations in accordance with contractual terms.

Concentrations of credit risk exist if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic credit risk exists for the Credit Union due to most of its service being primarily provided in the municipalities of Yarmouth and Argyle. The exposure to credit risk associated with the non-performance of these members can be directly impacted by a decline in economic conditions which would impair the members' ability to satisfy their obligations to the Credit Union. In order to reduce this economic risk, the Credit Union has comprehensive credit procedures in place whereby analyses are performed to control the granting of credit to all members.

2. Significant accounting policies (continued)

Risk management (continued)

The Credit Union maintains its impairment on financial assets using the expected credit loss model. The expected credit losses are assessed at each reporting period by classifying each account into its respective stage based on management's knowledge and financial position of the borrower. For those financial instruments where credit quality has not deteriorated since initial recognition or have low credit risk, they are assigned to Stage 1 and a 12 month expected credit loss is recognized based on factors such as market conditions, concentration of credit risk of the members' accounts, general state of the economy and future looking information. Those financial instruments where there is increased credit risk, those instruments are assigned to Stage 2 and a full lifetime expected credit loss is recognized. Those financial instruments where credit quality has deteriorated and there is objective evidence of impairment are assigned to Stage 3 and a full lifetime expected credit loss is recognized. Management regularly monitors the Credit Union's credit risk and reports to the Board of Directors on a regular basis.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Credit Union segregates market risk into two categories: fair value risk and interest rate risk.

a) Interest rate risk
The Credit Union has interest bearing loans on which general interest rate fluctuations apply. The financial risk is the risk to the Credit Union's earnings that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The Credit Union does not use derivative instruments to reduce its exposure to interest and foreign currency risk.

b) Fair value risk
Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits and investments held. The Credit Union does not hedge its fair value risk. See Note 16 for further information on fair value of financial instruments.

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

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

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the financial asset, and substantially all the risks and rewards, are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

2. Significant accounting policies (continued)

Financial instruments (continued)

Classification and initial measurement of financial assets and financial liabilities
The Credit Union classifies its financial assets and financial liabilities according to their characteristics and management's intentions related thereto for the purpose of ongoing measurements. Financial assets and financial liabilities are initially measured at fair value, adjusted for transaction costs (where applicable), regardless of classification choice and are subsequently accounted for based on classifications described below.

Financial assets, other than those designated as effective hedging instruments, are classified as either amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Credit Union does not have any financial assets designated as FVOCI. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs, unless designated as FVTPL.

The classification of financial assets is determined by both:
- The Credit Union's business model for managing the financial asset, and
- The contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income, or other financial items.

Subsequent measurement of financial assets
Financial assets are measured at amortized cost if the assets are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows and where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL. After initial recognition, the financial assets are measured at amortized cost using the effective interest method, less provision for loss impairment.

The following financial assets are classified as amortized cost:
- Cash and cash equivalents;
- Loans to members and purchased mortgages;
- Accrued interest and receivables;
- Deposits with financial institutions; and
- Term deposits.

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

The following financial assets are classified as FVTPL:
- Equity investments in unlisted entities.

The investments in unlisted entities are measured at fair value, with the exception of where such information is not available, in which case the investments are recorded at cost, as an estimate of fair value for unquoted equity instruments. The Credit Union assesses all relevant and available information when determining the measurement of the unquoted equity instruments, including evidence provided by recent similar transactions.

The Credit Union's Atlantic Central membership shares are subject to a rebalancing mechanism and transactions occur at par value; therefore, providing a reasonable estimate of fair value.

2. Significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial liabilities
Financial liabilities are subsequently measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit to 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 finance costs or finance income.

The following financial liabilities are classified as other financial liabilities and subsequently measured at amortized cost:
- Payables and accruals; and
- Members' deposits and savings including accrued interest.

Accumulated other comprehensive income is reported on the statement of financial position (when applicable) as a separate component of members' equity (net of tax), and includes any unrealized gains or losses on available-for-sale financial assets. However, the Credit Union has not recorded any comprehensive income related to these investments because there is not an active market for them and fair value cannot be reliably measured.

3. Income taxes

	2020	**2019**
Combined basic federal and provincial income taxes at statutory rates applied to earnings from continuing operations	**$ 305,430**	$ 305,229
Small business deduction and other rate deduction credits	**(10,438)**	(40,373)
Permanent differences	**1,646**	1,985
Deferred income tax rate difference	**15,403**	1,608
Income tax expense	**$ 312,041**	$ 268,449

	Balance at December 31, 2019	Recognize in net income	**Balance at December 31, 2020**
Deferred tax liabilities			
Stock dividend	$ (96,793)	$ (11,498)	**$ (108,291)**
Property and equipment	(21,702)	(6,330)	**(28,032)**
Deferred tax liability	$ (118,495)	$ (17,828)	**$ (136,323)**
Deferred tax assets			
Claims reserve	$ 30,129	$ 30,644	**$ 60,773**
Deferred tax assets	30,129	30,644	**60,773**
Net total	$ (88,366)	$ 12,813	**$ (75,551)**

4. Cash and cash equivalents

	2020	2019
Cash on hand and in current accounts	**$ 2,424,752**	$ 3,103,831
Atlantic Central liquidity deposits	**29,293,262**	31,562,082
	$ 31,718,014	$ 34,665,913

Required liquidity as defined by Regulation 19 is $18,979,979 (2019 – $16,813,635). Actual liquidity at December 31, 2020 is $59,269,510 (2019 – $38,162,389).

5. Members' loans

	2020	2019
Members' loans		
Personal	**$ 8,480,727**	$ 9,306,655
Mortgages	**80,966,774**	79,062,489
Business	**39,812,150**	39,194,118
Lines of credit and overdrafts	**12,222,317**	13,550,045
	141,481,968	141,113,307
Accrued interest on loans	**761,463**	729,281
	142,243,431	141,842,588
Less allowance for impaired loans	**328,977**	162,752
	$ 141,914,454	$ 141,679,836

Continuity of allowance for loan losses

	2020	2019
Allowance, beginning of year	**$ 162,752**	$ 195,163
Write-offs	**(32,971)**	(78,476)
Recoveries	**59,787**	13,104
Provision for loan losses	**139,409**	32,961
Allowance, end of year	**$ 328,977**	$ 162,752

5. Members' loans (continued)

Loans can have either variable or fixed rate of interest and they mature within 1 month to 5 years. The rates offered to members are determined by the type of security offered, the member's credit worthiness, competition from other lenders and the current prime rate. The Credit Union's prime rate at December 31, 2020 was 2.45% (2019 – 3.95%).

In addition to members' loans noted above, the Credit Union administers mortgages in the amount of $26,709 (2019 – $32,500) on behalf of other financial institutions.

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of security held on a portfolio basis is as follows:

	2020	2019
Insured residential mortgages	**$ 49,464,837**	$ 48,677,155
Conventional residential mortgages	**8,680,844**	6,502,300
Commercial mortgages	**24,705,651**	19,108,871
Commercial loans guaranteed by provincial or federal government	**4,605,362**	5,145,260
Secured by other	**40,144,214**	40,508,310
	$ 127,600,908	$ 119,941,896

Commercial loans that are not subject to a provincial or federal guarantee all are secured by collateral ranging from specific assets to a general security agreement or personal guarantee. Loans included in secured by other are secured by collateral such as general security agreements or personal guarantees.

The following is an analysis of loans in arrears based on the age of repayments outstanding:

	2020	2019
31 to 60 days	**$ 207,236**	$ 145,591
61 to 90 days	**-**	-
91 to 180 days	**169,019**	39,211
Over 180 days	**8,119**	118,532
	$ 384,374	$ 303,334

6. Long term investments

	2020	2019
Atlantic Central common shares	**$ 2,013,630**	$ 1,781,980
Atlantic Central class LSM shares	**593,402**	564,532
Atlantic Central term deposits	**25,000,000**	-
League Data preferred class B shares	**32,050**	32,050
Nova Scotia Enterprise Co-op	**100**	100
	$27,639,182	$ 2,378,662

Long term investments in shares in the Credit Union System (the "System") and others have been classified as FVTPL and are required to be measured at fair value with any changes in fair value recorded in the statement of earnings. The Credit Union has determined these investments are subject to a rebalancing mechanism and transact at par, therefore providing a reasonable estimate of fair value.

7. Property and equipment

	Land	Right of use Asset	Parking area	Buildings	Equipment	Furniture & Computers	ATM	Improvements	Leasehold Total
Cost									
Balance, December 31, 2019	$ 205,129	$ 230,295	$ 308,800	$ 3,263,489	$ 724,558	$ 605,198	$ 303,417	$ 161,858	$ 5,802,744
Additions		132,587	-	2,469	70,367	62,633	29,779	25,739	323,574
Disposals	-	-	-	-	-	(34,867)	(56,855)	-	(91,722)
Balance, December 31, 2020	**$ 205,129**	**$ 362,882**	**$ 308,800**	**$ 3,265,958**	**$ 794,925**	**$ 632,964**	**$ 276,341**	**$ 187,597**	**$ 6,034,596**
Accumulated depreciation									
Balance, December 31, 2019	$ -	$ 5,955	$ 220,188	$ 1,045,487	$ 683,303	$ 529,612	$ 75,542	$ 36,374	$ 2,596,461
Depreciation expense	-	52,051	14,760	93,716	23,934	53,603	52,478	39,689	330,231
Disposals	-	-	-	-	-	(36,055)	(56,855)	-	(92,910)
Balance, December 31, 2020	**$ -**	**$ 58,006**	**$ 234,948**	**$ 1,139,203**	**$ 707,237**	**$ 547,160**	**$ 71,165**	**$ 76,063**	**$ 2,833,782**
Net book value									
December 31, 2019	$ 205,129	$ 224,340	$ 88,612	$ 2,218,002	$ 41,255	$ 75,586	$ 227,875	$ 125,484	$ 3,206,283
December 31, 2020	**$ 205,129**	**$ 304,876**	**$ 73,852**	**$ 2,126,755**	**$ 87,688**	**$ 85,804**	**$ 205,176**	**$ 111,534**	**$ 3,200,814**

8. Members' deposits

	2020	2019
Chequing and demand deposits	**$ 154,557,820**	$ 137,632,061
Term deposits (rates ranging from 0.00% to 2.00%)	**5,197,060**	4,033,646
Registered savings and retirement plans	**7,570,610**	6,788,137
Tax-free savings accounts	**7,618,206**	6,650,872
Accrued deposit interest	**145,154**	113,274
	$ 175,088,850	$ 155,217,990

9. Credit Union indebtedness

The Credit Union has an operating line of credit with Atlantic Central of $4,550,000 (2019 - $3,675,000). During the year a maximum of $665,977 (2019 - $1,629,225) was drawn against the line of credit. At December 31, 2020 $131,462 (2019 - nil) was drawn against the line of credit. The interest rate on the line of credit is 1.95% (2019 – 3.45%). The security held by Atlantic Central is a general assignment of book debts.

10. Capital requirements

The Credit Union is required under governing legislation to maintain equity in an amount that is not less than 5% of its total assets. At December 31, 2020, the Credit Union has met the requirement with equity amounting to 6.87% of total assets (2019 – 7.33%).

The Credit Union's capital consists of retained earnings, common shares and surplus shares.

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

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

Atlantic Central stock dividend/restriction on distribution of members' equity
In 2011, the Credit Union received a non-cash stock dividend from Atlantic Central of $467,000 in the form of 4,670 Class NS shares having a redemption value of $100 per share. This amount was included in income for 2011 with a corresponding current and deferred tax liability of $103,590, resulting in net income of $363,410 from this transaction.

Pursuant to directives issued by the regulator, CUDIC, the $363,410 net income and retained earnings resulting from this stock dividend transaction cannot be distributed until such time as total equity of the Credit Union is equal to or greater than 8% of total assets and retained earnings are equal to or greater than 4% of total assets.

11. Common and surplus shares

Common shares are part of the equity of the Credit Union and can only be withdrawn with the approval of the Board of Directors. The Credit Union is authorized to issue an unlimited number of common shares. The shares have a par value of $5, $25 or $50 per share depending on the type of account opened. Members are required to hold a minimum of 5 shares if they are 19 years and over and only 1 share if they are younger than 19.

During the year 144 accounts were closed (net of new shares issued), which were redeemed for cash consideration of $1,350 (net of unclaimed accounts of $6,241). There are a total of 6,203 shares outstanding at the end of December 31, 2020 (2019 – 6,347).

The Credit Union has a policy of classifying unpaid patronage dividends as surplus shares and these surplus shares can only be withdrawn with the approval of the Board of Directors.

During the year, 105 surplus shares were either withdrawn or cancelled. At December 31, 2020, there are 2,657 surplus shares outstanding (2019 – 2,762).

12. Other income

	2020	2019
Referral fees and commissions	**$ 131,122**	$ 139,884
Rebates – Atlantic Central	**116,752**	-
Other	**188,182**	244,853
Service charges	**787,924**	807,709
	$ 1,223,980	$ 1,192,446

13. Related party transactions

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

At December 31, 2020 loans to directors, committee members, officers, employees, and close family members of the Credit Union amounted to $2,773,186 (2019 - $2,074,985). All such loans were granted in accordance with normal lending terms. At December 31, 2020 deposits from directors, committee members, officers, employees and close family members of the Credit Union amounted to $2,040,272 (2019 - $1,350,317).

Meeting allowance fees paid to directors of the Credit Union amounted to $28,160 (2019 – $29,120).

13. Related party transactions (continued)

Key management personnel include the General Manager and other senior officers of the entity. Compensation paid to key personnel of the entity is as follows:

	2020	2019
Salary	**$ 979,712**	$1,007,668
Post-employment benefits	**91,125**	90,275
Short-term employment benefits	**8,564**	13,247
	$1,079,401	$1,111,190
Loans to key management personnel		
Loans, mortgages and lines of credit advanced	**$2,191,279**	$ 1,377,742
Interest received on loans, mortgages and lines of credit advanced	**69,151**	41,926
Deposits from key management personnel		
Deposits	**$1,496,537**	$ 783,727
Interest paid on deposits	**3,900**	5,185

14. Company co-funded employee retirement plan

On July 31, 2001, the Credit Union provided its employees with a defined contribution registered pension plan ("RPP") matching plan. As of December 31, 2020, there were no required future contributions in respect of past service and all contributions required under the plan had been funded.

During the fiscal year, the Credit Union contributed $143,837 (2019 - $137,814) towards the pension plan.

15. Derivative financial instruments

The Credit Union has $525,696 (2019 - $489,500) outstanding in index linked term deposits to its members. The index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. As at December 31, 2020, the embedded derivative associated with these deposits is presented in accrued interest on deposits and have a fair value of $38,971 (2019 - $37,797).

The Credit Union has entered into agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the Credit Union pays a fixed rate of interest for the term of each index linked term deposits on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2020, the Credit Union has entered into such contracts on index linked term deposits for a total of $38,971 (2019 - $37,797) and is presented in other receivables.

16. Fair market value of the financial instruments

The following table presents the fair value of financial instruments of the Credit Union based on the valuation methods and assumptions as set out below.

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists.

Quoted market prices are not available for a significant portion of the Credit Union's financial instruments. Consequently, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings and equipment. In addition, items such as the value of intangible assets such as customer relationships which, in management's opinion, add significant value to the Credit Union are not included in the disclosures below.

The Credit Union categories valuation methods used for financial instruments carried at fair value under a hierarchy of valuation techniques based on whether inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Credit Union's market assumptions. These two inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for active markets for identical financial instruments.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuation in which all significant inputs are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The carrying value of cash and cash equivalents, receivables, payables and members' savings approximate their fair value as they are short term in nature or are receivable on demand.

There have been no transfers during the year.

For variable rate loans and deposits the carrying value is also considered to be a reasonable estimate of fair value. For fixed rate loans and mortgages, and deposits, the fair value is calculated using a discounted cash flow model, based on weighted average interest rates and the term to maturity of the instrument. The discount rates applied were based on the current market rate offered by the average remaining term to maturity.

The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	2020	**2020**	2019	2019
	Carrying Value	**Estimated Fair Market Value**	Carrying Value	Estimated Fair Market Value
Assets				
Loans receivable	**$ 141,914,454**	**$ 141,853,663**	$ 141,679,836	$ 141,995,015
Liabilities				
Deposits	**$ 175,088,850**	**$ 175,232,622**	$ 155,217,990	$ 155,211,662

17. Maturities

The following table sets out the scheduled maturities or repricing dates, whichever occurs earlier, of the financial assets and liabilities as at December 31, 2020, together with the weighted average interest rates, subject to interest rate fluctuations.

(In thousands of dollars) **December 31, 2020**	**Within 1 year**	**1 to 2 Years**	**2 to 3 Years**	**3 to 4 Years**	**4 to 5 Years**	**Non-Interest Sensitive**	**Total**	**Rate**
Financial assets								
Cash resources	**$ 29,293**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,425**	**$ 31,718**	
Members' loans	**50,564**	**20,298**	**30,175**	**18,287**	**22,919**	**(329)**	**141,914**	**4.12%**
Long term investments	**25,000**	**-**	**-**	**-**	**2,260**	**379**	**27,639**	
	$ 104,857	**$ 20,298**	**$ 30,175**	**$ 18,287**	**$ 25,179**	**$ 2,475**	**$ 201,271**	
Financial liabilities								
Payables and accruals	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 409**	**$ 409**	
Members' savings	**14,726**	**-**	**-**	**-**	**-**	**-**	**14,726**	
Members' deposits	**171,407**	**1,799**	**862**	**638**	**383**	**-**	**175,089**	**1.55%**
	$ 186,133	**$ 1,799**	**$ 862**	**$ 638**	**$ 383**	**$ 409**	**$ 190,224**	

December 31, 2019	Within 1 year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Non-Interest Sensitive	Total	Rate
Financial assets								
Cash resources	$ 31,562	$ -	$ -	$ -	$ -	$ 3,104	$ 34,666	
Members' loans	55,194	23,015	19,308	25,423	18,903	(163)	141,680	4.37%
Long term investments	-	-	-	-	2,000	379	2,379	
	$ 86,756	$ 23,015	$ 19,308	$ 25,423	$ 20,903	$ 3,320	$ 178,725	
Financial liabilities								
Payables and accruals	$ -	$ -	$ -	$ -	$ -	$ 331	$ 331	
Members' savings	13,032	-	-	-	-	-	13,032	
Members' deposits	149,869	2,518	1,677	637	518	-	155,219	1.60%
	$ 162,901	$ 2,518	$ 1,677	$ 637	$ 518	$ 331	$ 168,582	

18. Expenses

	2020	2019
Members' security		
Bonding	**$ 35,123**	$ 36,818
CUDIC assessment	**125,397**	112,887
	$ 160,520	$ 149,705
General business		
Advertising and promotion	**$ 135,196**	$ 143,810
Audit and legal	**63,734**	51,851
Board honorarium	**28,160**	29,120
Central processing charge	**86,157**	96,545
Courier	**288**	847
Education	**22,374**	32,730
HST paid	**85,066**	93,876
Interac fees	**14,506**	144,143
League assessment, dues and services	**770,455**	728,700
Meals and entertainment	**9,336**	13,847
Meetings	**16,661**	60,254
Miscellaneous	**56,796**	59,551
Office and postage	**115,397**	99,114
Service bureau charges	**2,600**	1,212
Service charge	**42,695**	49,332
Service contracts	**131,823**	169,837
Telephone	**57,875**	44,321
	$ 1,639,119	$ 1,819,090
Occupancy		
Heat, lights and water	**$ 40,551**	$ 40,253
Insurance	**25,939**	32,762
Municipal taxes	**84,654**	79,374
Rent	**-**	9,206
Repairs and maintenance	**117,889**	106,530
	$ 269,033	$ 268,125

19. Lease liability

During the year, the Credit Union entered into lease agreements for a building and office equipment and has recorded an associated lease liability. Future principal lease commitments under the Credit Union's lease agreements for the next five years are as follows:

2021	$ 59,643
2022	63,374
2023	48,884
2024	31,309
2025	20,356

20. Impact of COVID-19

On March 11, 2020, COVID-19 was declared a global pandemic. The spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses were forced to cease or limit operations for long periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

To date, the Credit Union has not been negatively impacted by COVID-19. However, the duration of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Credit Union for future periods.