

# 2018 ANNUAL REPORT

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SOURIS CREDIT UNION

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# 2018 HIGHLIGHTS

**\$62.6M**  
ASSETS

**\$53.9M**  
DEPOSITS

**3.8K**  
MEMBERS

**\$51.8M**  
LOANS

**\$21.9K**  
PAID TO MEMBERS

**9.1%**  
GROWTH IN MEMBER SAVINGS

# OUR MISSION

TO PROVIDE OUTSTANDING SERVICE  
AND PROFESSIONAL ADVICE TO  
ENABLE OUR MEMBERS TO REACH  
THEIR FINANCIAL GOALS.

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HONEST

INCLUSIVE

PASSIONATE

HOLISTIC

SPIRITUAL

SIMPLISTIC

EVOLUTIONARY

# OUR VALUES

# BOARD OF DIRECTORS



**TAMMY DALEY**  
President



**DENIS MCNALLY**  
Vice-President



**MEGAN CHEVERIE**  
Secretary



**SHELLY MANNING**



**BRAD COFFIN**



**GAIL JENNINGS**



**CHARLES DUNPHY**



**GLEN CAMERON**



**DALE CAHILL**

# STAFF





# PRESIDENT'S REPORT



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It has been an honour for me to serve as President of Souris Credit Union and to represent our Members on the Board of Directors.

The Board's role is to represent the interests of the Membership and incorporate those interests into the strategic governance of the credit union. This is done through our annual meeting and regular monthly meetings. In these meetings, everyone's opinions are valued, and we strive to be as progressive as possible to ensure we benefit our fellow Members. We work with various partners, such as Atlantic Central and CUDIC, to keep up with changes to regulation. We also examine changes in the marketplace and adapt to those changes in order to become more competitive.

Our success is due to you, our Members. Without your support, input and dedication our achievements would be near impossible. In 2018, one of Souris Credit Unions strategic initiatives was

to retain and grow our youth (age 19-25) portfolio. We have seen continued growth in this section of our Members and we are constantly improving our services to better meet the needs of this technologically advanced generation. We hope to take great strides in 2019 with more Members accessing the mobile services and finding them simple to navigate.

Every year also brings some challenges, and this past year was no exception. With the success we have had with advances in mobile banking, we also note that some of our traditional offerings and services, such as passbook printers and Global Payment Cards, have reached their life expectancy. This is a significant change that will require our Members to alter the manner in which they do business. Change can be difficult, but I am confident that our staff will continue to work with our Members to find workable solutions to their banking needs.





Building on the success of 2018, we look to expand our relationship with our busy Members who can't always make it in branch to see us. We recognize that a more functional online platform will be critical to supporting our Member's financial lives and we have dedicated a considerable amount of resources to the development of those products and services. We want the credit union to be the most convenient option to deal with and carry forward our top-ranking customer service into the digital world.

I am happy to present that with the growth we achieved this year we have declared a 0.5% dividend on shares for the fiscal year ended on December 31st, 2018. When you take into consideration the dividend on shares, the patronage dividend, charities, and community initiatives, Souris Credit Union gave back \$ 344,627 to the community for 2018. Since 2012, our grand total of contributions to the community is \$ 2.56 million. This substantial

sum is only possible with your continued patronage.

Finally, on behalf of the Board of Directors I would like to thank the staff of the credit union for their expertise, professional service, and their commitment to bettering our community each and every day.

Respectfully submitted;

**TAMMY DALEY**

President

# MANAGER'S REPORT



As General Manager it is my pleasure to speak to you about our most recent fiscal year, completed on December 31, 2018.

2018 was another strong year for Souris Credit Union. We experienced unprecedented loan demand, increasing our loan portfolio from 43 Million to almost 52 million, an increase of 19.5 %. During the same period Member deposits increased by 10 % to 49 Million. This was accomplished with very little loan write offs and exceptional delinquency levels.

Due to these positive financial outcomes Souris Credit Union was once again in a position to pay our Membership a Patronage Dividend. This year we paid \$339,631.00 back to our Members, rebating loan interest, service charges, and increasing investment returns. That brings the cumulative amount we have given back to the community in charitable donations and dividends to 2.58 million

dollars since 2012.

2018 has also been a year for change in the way we do business. We are working more closely with credit unions in PEI as we have developed a provincial strategy that will focus our collaborative efforts and make us more efficient. As well Souris Credit Union is taking part in regional initiatives that will reduce our risk in the areas such as money laundering, privacy, and compliance.

It has to be noted that some of the changes that occurred in 2018 were not met with universal approval. Due to changes in technology we were forced to discontinue the use of passbooks as a record keeping option. That coupled with a change in our card products, which resulted in the wind down of our Global Payment MasterCard, had some Members concerned that they may not be able to keep up with the pace of change in financial

# 65 YEARS HELPING MEMBERS DO MORE WITH THEIR MONEY

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services. In response I would like to acknowledge my team, who worked with Members to deliver alternatives for both record keeping options and card solutions.

Tonight you will be voting on an update in our bylaws, allowing for change in the way we elect directors. Over the past number of years, we have had a decline in the number of attendees for the AGM. With this change in bylaws we open up voting for directors to Members in office or electronically, which improves the democracy of our Credit Union.

Again, I would like to acknowledge my exceptional staff and the hard work they do everyday to make sure your needs are met. As well I would like to thank the Board of Directors, who have provided strategic guidance and oversight in 2018. Finally, I would like to acknowledge our retiring directors Glen Cameron and Gail Jennings for their long service

and valuable guidance. As with Walter Bruce and Nova MacIsaac last year I have been fortunate to have served with a Board that has performed their duties in an excellent manner.

Respectfully submitted;

**PAUL MACNEILL**  
General Manager

# IN OUR COMMUNITY

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THIS YEAR, WE SPENT OVER  
**\$38,329**  
TO MAKE OUR COMMUNITY EVEN BETTER.

THIS CONTRIBUTED TO THE  
**\$600,000**  
TOTAL THAT CREDIT UNIONS IN PEI  
SPEND EACH YEAR.

# RONALD MCDONALD HOUSE CHARITIES ATLANTIC

**13**  
FAMILIES

**246**  
NIGHTS

## FAMILY COMES FIRST

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

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

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

# GET ACTIVE

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



**1.4K**

## ISLAND STORM

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

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



**\$6K**

## GYM REBATE PROGRAM

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

**\$10K**

## SCHOLARSHIPS

We are pleased to announce 6 Souris Credit Union Scholarship Recipients for 2018. Each scholarship recipient received \$1,800 towards furthering their education. In total, Souris Credit Union distributed \$10,800.

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



**RAYMOND CAHILL**  
Abby Chaisson  
Memorial Bursary



**NOAH MANNING**  
Souris Credit Union  
Bursary



**LUCAS RAFUSE**  
Eleanor Clinton  
Memorial Bursary



**COLE MACDONALD**  
Souris Credit Union  
Bursary



**EMMA DIXON**  
Margaret McDonald  
Memorial Scholarship

**3.6K**

## JUNIOR ACHIEVEMENT

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

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

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

# \$2.58 MILLION REASONS YOUR MONEY DOES MORE HERE

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Since 2012, Souris Credit Union returned the majority of our profits back to our members & community in the form of dividends and donations, for a cumulative total of \$2.58 Million. We invest in our local schools, community groups, and healthcare. This total includes a five year \$50,000.00 commitment to the Eastern Kings Health Foundation supporting the purchase of x-ray equipment for the Souris Hospital.



# OUR EARLY BEGINNINGS

On our 65th anniversary, we have included excerpts from official reports and recordings of past credit unions in the Souris area. These credit unions laid the foundation for Souris Credit Union of today.

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*W. H. Harris*  
Inspector of Credit Unions

**THE CREDIT UNION SOCIETIES ACT**

(Statutes of Prince Edward Island, I. Edward-VIII., Chap. 6)  
(R.S. P.E.I. 1951, Chap. 38)

**Memorandum of Association**

*P. S. Stebbing*  
(P.S. PENDING),  
REGISTRAR.

THIS IS TO CERTIFY that the original of this  
Memorandum of Association was filed in the Office of the  
Registrar, together with the Rules and Regulations, on  
5th day of June, 1951.

of the ..... Souris ..... Credit Union Limited

1st. The name of the Credit Union is ..... Souris .....  
..... Credit Union Limited.

2nd. The head office of the ..... Souris .....  
Credit Union Limited is situated at Souris .....

- 3rd. The objects for which this Credit Union is established, are :
- (a) To receive the savings of its members either as payment on shares or as deposits;
  - (b) To make loans to members exclusively for provident or productive purposes;
  - (c) To make loans to a co-operative society or other organization having membership in this Credit Union.
  - (d) To deposit in chartered banks in Canada and, to any extent which shall not exceed twenty-five (25) per cent. of its capital, invest in the paid-up shares of building and loan associations and of other Credit Unions;
  - (e) To invest in any legal investments authorized by law for trust funds in the Province of Prince Edward Island.
  - (f) To borrow money as provided by Prince Edward Island Statute, I. Edw. VIII., Chap. 6, and amendments thereto at any time enacted.
  - (g) To draw, make, accept, endorse, discount, execute and issue promissory notes, bills of exchange, bills of lading, warrants, and other negotiable or transferable instruments;
  - (h) To do all other acts and things as are incidental or conducive to or consequential upon the attainment of the above objects, and including the matters and things set out in the Credit Union Act, aforesaid, and amendments thereto.

4th. The Liability of the members is Limited.

5th. The par value of the shares shall be ... Five dollars .....  
Dollars (\$.....5.00.....).

## REPORTS FROM THE PAST

We, the several persons, whose names and addresses are subscribed, are desirous of being formed into a company, in pursuance of this Memorandum of Association and we respectively agree to take the number of shares in the Capital Stock of the Credit Union set opposite our respective names.

Names in Full, Addresses and Occupations of Subscribers	Subscribed For No. of Shares
Joseph L. Lewis, S. agent	1 Share
Jerome A. Cheverie Fish cutter Lewis	1 Share
John A. Cheverie Fish cutter Lewis	1 Share
John W. Connors Carpenter Lewis	1 Share
Reynold L. Lewis Fisherman Lewis	1 Share
M. F. Prange Carpenter Lewis	1 Share
Leon Cheverie Painter Lewis	1 Share
Mary Madras Bookkeeper Lewis	1 Share
Herbert M. Snow Laborer	1 Share
Joseph Perry Fish cutter	1 Share
R. Joseph Paquette Shoemaker	1 Share
Paul J. McKee Sign painter Lewis	1 Share
John J. Lewis Lewis	1 Share
Mrs. J. Prange Housewife	1 Share
Mrs. Michael Letic Housewife Lewis	1 Share
Mrs. Paul McKee Housewife Lewis	1 Share
Ed. F. Lewis Lewis	1 Share
Mrs. Ivan Lewis Housewife	1 Share
Albert L. Cheverie Electrician	1 Share
Michael Letic Carpenter	1 Share
Garfield Carter Fisherman Lewis	1 Share
Edna B. Lewis Housewife	1 Share

Couris Credit Union held its sixth Annual meeting in the Credit Union Hall with a good attendance.

The Secretary read the minutes of the fifth Annual meeting which were approved.

Mr. Elmer Doucette President opened the meeting and reported on the work accomplished during the year.

12 monthly meetings and 2 special meetings of the Board of Directors were held. All recommendations were given careful consideration one of which was that 2% be paid in dividends on Share Capital only. This met the approval of the members present. Membership to date was 123.

The Treasurer reported assets of over six thousand dollars.

The Credit Committee Chairman Paul McPhee reported all loans in good standing and these were given for productive purposes.

Mrs. Helda McPhee reported for the Supervisory Committee. The books were

Charter No. 13

**ROLLO BAY CREDIT UNION LIMITED**  
**ROLLO BAY**

Incorporated April 22, 1937

**DIRECTORS:** A. A. McInnis, President; A. F. Peters, Vice-President; T. J. Kickham, Treasurer; Daniel McRae; Joseph P. Deagle, Francis O'Keefe, Joseph J. McCormack, Joseph Doucette, Felix E. Peters.

**CREDIT COMMITTEE:** Frank Deagle, Chairman; Fabian Howlett, Owen McCabe, Hugh McKinnon, Edwin Peters.

**SUPERVISORY COMMITTEE:** Henry Mallard, Chairman; Peter Conway, Rev. A. L. Sinnott.

**BALANCE SHEET**

September 30, 1940

ASSETS		LIABILITIES	
Loans .....	\$ 861.60	Shares .....	\$ 787.85
Cash .....	24.04	Deposits .....	7.25
		Education Fund .....	3.98
		Guaranty Fund .....	41.48
		Undivided Earnings .....	45.08
	\$ 885.64		\$ 885.64

**PROFIT AND LOSS STATEMENT**

For Nine Months Ended September 30, 1940

Interest received .....	\$ 35.67
Expenses:	
Rent, light, and heat .....	\$ 2.95
Office supplies and expenses .....	4.60
Total Expenses .....	7.55
Net Profit .....	\$ 28.12

	1940	1939
Number of members at end of period .....	100	92
Number of borrowers at end of period .....	35	63
Number of depositors at end of period .....	10	2
Rate of dividend .....	Nil	3%

# RULES AND REGULATIONS

(Prescribed by Order-in-Council, 15th, May, 1936)

*ROLLO BAY* ..... Credit Union, Limited.

## ARTICLE I.

### NAME AND OBJECT

Section 1. The name of this credit union is ~~*ROLLO BAY*~~ .....

*Eastern Kings* ..... Credit Union, Limited.

Section 2. The purpose of this credit union is to promote thrift among its members and to create thereby a source of credit for its member at legitimate rates of interest for provident and productive purposes.

## ARTICLE II.

### MEMBERSHIP AND SPHERE OF OPERATION

Section 1. Only persons who are bona fide *residents of the six school districts: Souris West, Rollo Bay East, Rollo Bay West, Lower Sias, New Zealand, Bear River South and organizations of such persons.* shall be eligible for membership in this credit union. If any member ceases to have that qualification he shall forthwith withdraw from the credit union and if he fails to do he may be expelled.

Section 2. Applications for membership must be made in writing and must bear the approval of a member of the Board of Directors, being presented by him to the Board for action at the next regular meeting. No director shall present the name of a person whom he cannot recommend as being honest, industrious and of good habits.

Section 3. A person admitted to membership by the Board of Directors shall not become a member until he has qualified by paying the entrance fee *25* cents (not more than twenty-five cents) and subscribing to one or more shares and paying thereon the first *monthly* (weekly, semi-monthly or monthly) installment of *twenty five* cents per share.

Section 4. No member may resign while a borrower, an endorser or a guarantor on any loan due the credit union.

Section 5. The officers and directors shall hold all transactions of the shareholders with the credit union in strict confidence.

Section 6. Any credit union incorporated under the Prince Edward Island Credit Union Societies Act shall be eligible for membership in this credit union.

## ARTICLE III.

### CAPITAL AND LIABILITY

Section 1. Shares are payable when subscribed for or in installments of *25¢* per share payable *monthly* on any day upon which such installments are due, any number of such installments may be paid in by the subscriber.

Section 2. The credit union shall have a lien on the shares and deposits of a member for any sum due to the credit union from said member or for any loan endorsed by him.

Section 3. Any other similar or affiliated corporation may, if its constituting instruments permit, hold shares in the credit union but the credit union shall not loan any part of its funds to such other corporation without the consent of the Registrar in each case.

Section 4. The credit union shall keep a register or list of members or shares.

Section 5. Shares may be issued to and deposits received in the name of a minor or in trust if both trustee and beneficiary are eligible to the credit union and the name of the beneficiary is disclosed to the credit union.

Section 6. A member failing to pay the installments on shares when due, unless excused there-

*Amended by Council of 11 members on 11th Nov 1936 to include residents of Souris River, Souris North and South, Chignecto, Little Harbor and Pointe.*



Charter No. 19

**LITTLE POND CREDIT UNION LIMITED**

ANNANDALE LOT 56

Incorporated June 1, 1937

DIRECTORS: J. Raymond McDonald, President; Joseph A. McDonald, Vice-President; Alfred P. D. McDonald, Treasurer; John Joe McDonald, Allan McKenzie.

CREDIT COMMITTEE: James I. McDonald, Chairman; James D. Steele, Alex. D. McDonald.

SUPERVISORY COMMITTEE: Henry J. McDonald, Chairman; Edward D. McDonald, Charles S. McDonald.

**BALANCE SHEET**

September 30, 1940

ASSETS		LIABILITIES	
Loans .....	\$ 347.00	Shares .....	\$ 345.11
Cash .....	33.72	Dividends Payable .....	5.09
		Education Fund .....	1.96
		Guaranty Fund .....	18.14
		Undivided Earnings .....	10.42
	<u>\$ 380.72</u>		<u>\$ 380.72</u>

**PROFIT AND LOSS STATEMENT**

For Nine Months Ended September 30, 1940

Interest received .....		\$ 20.51
Expenses:		
Office Supplies and Expenses .....	\$ 2.37	
Credit Union League Fees .....	2.00	
Total Expenses .....		<u>4.37</u>
Net Profit .....		<u>\$ 16.14</u>

	1940	1939
Number of members at end of period .....	41	37
Number of borrowers at end of period .....	22	12
Rate of dividend .....	3%	3%



Charter No. 14

**LOT 47 CREDIT UNION LIMITED**  
**ELMIRA**

Incorporated April 22, 1937

**DIRECTORS:** James N. Campbell, President; L. D. Rose, Vice-President; U. B. Seaman, Treasurer, J. Chas. Campbell, sub-Treasurer; Isadore Murphy, A. H. Beaton, John J. McPhee, D. J. Campbell, A. F. Campbell, J. B. McIsaac.

**CREDIT COMMITTEE:** No. 1—Jos. A. Campbell, Chairman, E. A. Pierce, W. F. Pierce.

No. 2—Ernest McPhee, Chairman; W. A. Ryan, J. J. McDonald.

**SUPERVISORY COMMITTEE:** W. S. McIntyre, Chairman; James Harris, C. W. Rose.

**BALANCE SHEET**

September 30, 1940

ASSETS		LIABILITIES	
Loans .....	\$ 1,473.58	Shares .....	\$ 1,373.98
Cash .....	56.90	Deposits .....	10.00
		Education Fund .....	6.93
		Guaranty Fund .....	67.41
		Undivided Earnings .....	72.16
	<u>\$ 1,530.48</u>		<u>\$ 1,530.48</u>

**PROFIT AND LOSS STATEMENT**

For Nine Months Ended September 30, 1940

Interest received .....		\$ 74.40
Expenses:		
Office supplies and expenses .....	\$ 12.46	
Travelling expenses .....	6.00	
Credit Union League fees .....	12.35	
Total Expenses .....		30.81
Net Income .....		\$ 43.59

	1940	1939
Number of members at end of period .....	155	140
Number of borrowers at end of period .....	53	28
Number of depositors at end of period .....	1	0
Rate of dividend .....	3%	3%

Charter No. 35

**ST. MARY'S CREDIT UNION LIMITED**  
**SOURIS EAST**

Incorporated July 15, 1938

**DIRECTORS:** D. F. MacAulay, President; Hugh MacAulay, Vice-President; Peter MacAulay, Treasurer; Stewart MacAulay, Clerk; John Malone Sr., L. A. McCormack, Walter MacDonald, D. F. Cheverie, Cyril Gallant, Frank Praught.

**CREDIT COMMITTEE:** John D. McIntyre, Chairman; John Malone Jr., James Paquet, Bernard Clinton, Stewart MacAulay.

**SUPERVISORY COMMITTEE:** Ralph Mooney, Chairman; Mrs. P. A. Mooney, George Cheverie.

**BALANCE SHEET**

September 30, 1940

ASSETS		LIABILITIES	
Loans .....	\$ 482.00	Shares .....	\$ 542.49
Cash .....	149.46	Deposits .....	42.25
		Education Fund .....	1.50
		Guaranty Fund .....	29.54
		Undivided Earnings .....	15.68
	<u>\$ 631.46</u>		<u>\$ 631.46</u>

**PROFIT AND LOSS STATEMENT**

For Nine Months Ended September 30, 1940

Interest received ..... \$ 21.70

Expenses paid from other funds.

	1940	1939
Number of members at end of period .....	85	59
Number of borrowers at end of period .....	26	34
Number of depositors at end of period .....	5	0
Rate of dividend .....	Nil	Nil

### Boundaries of St. Mary's Credit Union

Beginning at the junction of the Keays Road with the Main St of the Town of Souris and running eastward and including the school districts of Chepstow and Little Star thence northward to the Tarantum Road and including the school district of Greenwood thence westward along Tarantum Road to a line between lots 45 & 46 thence northward along line between lots 45 & 46 to Kelly's Road thence west along Kelly's Road to Souris Line Road including the school district of Milton, thence south including school district of Granville (Souris Line Road south) and comprising Souris School outside of Town of Souris (omitting properties situated on Souris River Road between Park Road the limits of the Town of Souris) thence easterly along Town limits to place of commencement.

Charter No. 37

**ST. CHARLES CREDIT UNION LIMITED**

%

**ST. CHARLES**

Incorporated December 13, 1938

**DIRECTORS:** Benny Doucette, President; Isidore Peters, Vice-President; Daniel MacDonald, Treasurer; Elmer McInnis, Gus Peters, Alfred Gallant, Willie Cahill, Walter Whitty, Peter Gallant.

**CREDIT COMMITTEE:** Stephen McDonald, Chairman; Allan McKimmon, Henry Gallant.

**SUPERVISORY COMMITTEE:** Rev. Leonard MacDonald, Chairman; Jerry Pineau, Stephen MacInnis.

**BALANCE SHEET**

September 30, 1940

ASSETS		LIABILITIES	
Loans .....	\$ 687.50	Shares .....	\$ 574.90
Cash .....	1.90	Deposits .....	71.17
		Education Fund .....	1.82
		Guaranty Fund .....	25.27
		Undivided Earnings .....	16.24
	\$ 689.40		\$ 689.40
	\$ 689.40		\$ 689.40

**PROFIT AND LOSS STATEMENT**

For Nine Months Ended September 30, 1940

Interest received .....		\$ 38.74
Expenses:		
Salaries .....	\$ 10.00	
Office supplies and expenses .....	4.00	
Credit Union League fees .....	4.00	
	18.00	
Total Expenses .....		18.00
Net Profit .....		\$ 20.74

	1940	1939
Number of members at end of period .....	71	58
Number of borrowers at end of period .....	36	25
Number of depositors at end of period .....	3	2
Rate of dividend .....	3%	Nil

Charter No. 39

**ST. MARGARETS' CREDIT UNION LIMITED**  
**ST. MARGARETS'**

Incorporated March 17, 1939

**DIRECTORS:** Daniel O'Hanley, President; Stephen Gillis, Vice-President; Jos. Gillis, Treasurer; Wilfred MacPhee, D. J. MacDonald, Peter McPhee, Charles Kelly.

**CREDIT COMMITTEE:** R. C. McPhee, Chairman; Geo. Gallant, Allen J. MacDonald, Allen J. McCormack, Mel McPhee.

**SUPERVISORY COMMITTEE:** Rev. Geo. McDonald, Chairman; Roddie McDonald, Adolphus McDonald.

**BALANCE SHEET**

September 30, 1940

ASSETS		LIABILITIES	
Loans .....	\$ 340.80	Shares ....	\$ 314.20
Cash .....	15.07	Education Fund .....	.71
		Guaranty Fund .....	28.33
		Undivided Earnings .....	12.63
	\$ 355.87		\$ 355.87
	\$ 355.87		\$ 355.87

**PROFIT AND LOSS STATEMENT**

For Nine Months Ended September 30, 1940

Interest received .....	\$ 12.07		
Expenses paid from other funds.			
		1940	1939
Number of members at end of period .....		100	92
Number of borrowers at end of period .....		40	27
Rate of dividend .....		Nil	Nil

Souris P&S.  
Feb 27<sup>th</sup> 1967

W. E. D. Gauthier  
W. E. D. Credit Union League  
Charlottetown  
Dear Sir

This letter is to  
notify you that the Board of  
Directors of Souris Credit Union  
are all in favor of a merger with  
Eastern Kings Credit Union.

This resolution was made at their  
last Board meeting on Feb 21<sup>st</sup> 1967

Signed: Doris Mary Jaquet  
Secretary  
Souris Credit Union.

Meeting of Eastern Kings Credit Union  
called to order at 7:15 P.M. on <sup>Feb 7, 1962</sup> Present: 5 Directors  
2 supervisory committee, 1 audit committee.

Moved by Lem Buche seconded by Edward Gauthier  
that Frank Blaghe be appointed President <sup>(second)</sup> motion carried

Moved by John Okeefe seconded by Alfred Cairns  
that Val Muehlberg be appointed Secretary/Treasurer  
motion carried

Moved by Francis A. White seconded by George Chuteau  
that Hazel McKeown be appointed Vice President  
motion carried

Moved by Edward Gauthier seconded by ~~John Okeefe~~  
John Okeefe that interest rate of 1% per month  
be charged on the unpaid balance of all notes

Moved by Billy Gauthier seconded by Alfred Cairns  
that Mrs. Robert White, and Lloyd Blaghe be accepted  
as members of Credit Union motion carried

Moved by John Okeefe seconded by Alfred Cairns  
that Mrs. Robert White and Lloyd Blaghe  
act as clerks of Eastern Kings Credit Union  
motion carried

Moved by George Chuteau seconded by Edward Gauthier  
that meeting be adjourned motion carried

# REPORTS FROM THE PAST



# NOW POWERED BY 100% RENEWABLE ELECTRICITY WITH BULLFROG POWER

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

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



WE PROUDLY CHOOSE  
RENEWABLE ENERGY.



# FINANCIAL STATEMENTS

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## INDEPENDENT AUDITOR'S REPORT

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### To the Members of Souris Credit Union Limited

#### Opinion

We have audited the financial statements of Souris Credit Union Limited (the Credit Union), which comprise the statement of financial position as at December 31, 2018, and the statements of profit and loss and other comprehensive income, changes in members' equity, and cash flow 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 the Credit Union as at December 31, 2018, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

#### Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters relating 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.

*(continues)*

## 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.

*MRSB Chartered Professional Accountants*

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS

Charlottetown, PE

February 19, 2019

# SOURIS CREDIT UNION

## STATEMENT OF FINANCIAL POSITION

December 31, 2018

	2018	2017 (Restated)
<b>ASSETS</b>		
Cash and cash equivalents (Note 5)	\$ 355,030	\$ 2,051,354
Investments (Note 6)	9,017,027	10,016,909
Accounts receivable (Note 7)	656,893	528,222
Member loans and mortgages (Note 8)	51,808,060	43,338,093
Provision for impaired loans (Note 9)	(235,779)	(250,655)
Income taxes recoverable	-	6,586
Prepaid expense	35,829	32,504
Deferred income taxes (Note 11)	48,574	13,005
Property and equipment (Schedule 1)	641,808	633,255
Restricted cash - retirement allowance	306,847	268,273
Deferred pension benefit (Note 13)	18,964	-
	<b>\$ 62,653,253</b>	<b>\$ 56,637,546</b>
<b>LIABILITIES</b>		
Overdrafts in financial institutions (Note 5)	\$ 769,982	\$ -
Accounts payable and accrued liabilities	440,067	386,609
Employee benefits payable	218,347	207,497
Income taxes payable	120,612	-
Accrued interest payable	183,782	140,368
Member deposits (Note 12)	48,991,223	44,463,179
Share deposits	4,910,866	4,806,639
Retirement allowance payable	306,847	268,273
Deferred pension obligation (Note 13)	-	204,136
	<b>\$ 55,941,726</b>	<b>\$ 50,476,701</b>
<b>MEMBERS' EQUITY</b>		
Lease commitments (Note 14)		
Members' shares (Statement 4)	15,540	15,785
Accumulated other comprehensive income (Statement 4)	539,036	332,736
Undistributed earnings (Statement 4)	6,156,951	5,812,324
	<b>6,711,527</b>	<b>6,160,845</b>
	<b>\$ 62,653,253</b>	<b>\$ 56,637,546</b>

**ON BEHALF OF THE BOARD**

  
 \_\_\_\_\_ Director

  
 \_\_\_\_\_ Director

Notes 1 - 23 are an integral part of these financial statements

# SOURIS CREDIT UNION

## STATEMENT OF CHANGES IN MEMBERS' EQUITY Year Ended December 31, 2018

	2018	2017 (Restated)
<b>Members' shares</b> (Note 15)		
Balance - beginning of year	\$ 15,785	\$ 15,940
Redemption of members' shares, net of issuance	<u>(245)</u>	<u>(155)</u>
Balance - end of year	<u>15,540</u>	<u>15,785</u>
<b>Accumulated other comprehensive income</b>		
Balance - beginning of year	332,736	432,336
Actuarial gain (loss) on defined pension plan (Statement 5)	<u>206,300</u>	<u>(99,600)</u>
Balance - end of year	<u>539,036</u>	<u>332,736</u>
<b>Undistributed earnings</b>		
Balance - beginning of year	5,812,324	5,257,050
Prior period adjustment (Note 16)	-	322,158
Net income (Statement 5)	<u>344,627</u>	<u>233,116</u>
Balance - end of year	<u>6,156,951</u>	<u>5,812,324</u>
<b>Members' equity</b>	<u>\$ 6,711,527</u>	<u>\$ 6,160,845</u>

Notes 1 - 23 are an integral part of these financial statements

# SOURIS CREDIT UNION

## STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2018

	<u>2018</u>	<u>2017</u>
<b>Income</b>		
Interest and investment	\$ 2,812,522	\$ 2,246,394
Cost of capital and borrowing (Note 17)	<u>1,066,001</u>	<u>733,632</u>
Financial margin	<u>1,746,521</u>	<u>1,512,762</u>
<b>Other</b>		
Commissions	566,740	501,695
Miscellaneous	<u>51,224</u>	<u>49,786</u>
	<u>617,964</u>	<u>551,481</u>
	<u>2,364,485</u>	<u>2,064,243</u>
<b>Expenses</b>		
Advertising and promotions	91,676	86,607
Amortization of property and equipment	31,673	31,979
Automated teller machines	146,569	122,372
Board honorarium	17,355	18,524
Data processing	92,264	101,101
Director training	100	6,527
Dues and memberships	3,206	1,562
Insurance	91,745	76,954
Loss on disposal of property and equipment	8,348	-
Meetings	5,853	5,280
Office	129,920	108,229
Premises	59,473	101,076
Pension (Note 13)	76,700	62,700
Professional fees	36,593	38,078
Provision for impaired loans	53,883	6,375
Service fees	237,294	219,356
Telephone	14,932	16,314
Travel	13,223	15,284
Wages and wage levies	<u>774,751</u>	<u>740,179</u>
	<u>1,885,558</u>	<u>1,758,497</u>
<b>Income before income taxes and other comprehensive income</b>	<u>478,927</u>	<u>305,746</u>
<b>Income taxes</b>		
Current (Note 18)	169,869	48,698
Deferred	<u>(35,569)</u>	<u>23,932</u>
	<u>134,300</u>	<u>72,630</u>
<b>Net income</b>	<u>344,627</u>	<u>233,116</u>
<b>Other comprehensive gain (loss)</b>		
Actuarial gain (loss) on defined pension plan (Note 13)	<u>206,300</u>	<u>(99,600)</u>
<b>Net comprehensive income</b>	<u>\$ 550,927</u>	<u>\$ 133,516</u>

Notes 1 - 23 are an integral part of these financial statements

# SOURIS CREDIT UNION

## STATEMENT OF CASH FLOW

Year Ended December 31, 2018

	2018	2017 (Restated)
<b>Cash flows from operating activities</b>		
Net comprehensive income	\$ 550,927	\$ 133,516
Items not affecting cash:		
Amortization of property and equipment	31,673	31,979
Loss on disposal of property and equipment	8,348	-
Deferred income taxes	(35,569)	23,932
	<u>555,379</u>	<u>189,427</u>
Changes in non-cash working capital (Note 19)	<u>1,102,805</u>	<u>(3,629,511)</u>
	<u>1,658,184</u>	<u>(3,440,084)</u>
<b>Cash flows from investing activities</b>		
Increase in member loans and mortgages	(8,484,843)	(3,161,842)
Purchase of property and equipment	(50,073)	-
(Increase) decrease in restricted cash - retirement allowance	(38,574)	28,228
Proceeds on disposal of property and equipment	1,500	-
	<u>(8,571,990)</u>	<u>(3,133,614)</u>
<b>Cash flows from financing activities</b>		
Increase in member deposits	4,528,044	7,764,875
Increase (decrease) in deferred pension obligation	(223,100)	124,799
Increase in share deposits and members' shares	103,982	229,024
Increase (decrease) in retirement allowance payable	38,574	(28,228)
Prior period adjustment	-	322,158
	<u>4,447,500</u>	<u>8,412,628</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>(2,466,306)</u>	<u>1,838,930</u>
<b>Cash and cash equivalents - beginning of year</b>	<u>2,051,354</u>	<u>212,424</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ (414,952)</u>	<u>\$ 2,051,354</u>
<b>Cash and cash equivalents consist of:</b>		
Overdraft in financial institutions	\$ (769,982)	\$ -
Cash and cash equivalents	<u>355,030</u>	<u>2,051,354</u>
	<u>\$ (414,952)</u>	<u>\$ 2,051,354</u>
<b>Cash flow supplementary information</b>		
Interest received	<u>\$ 1,809,607</u>	<u>\$ 2,179,639</u>
Interest paid	<u>\$ 422,316</u>	<u>\$ 405,300</u>
Income taxes paid	<u>\$ 42,671</u>	<u>\$ 75,800</u>

Notes 1 - 23 are an integral part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 1. REPORTING ENTITY

Souris Credit Union Limited was incorporated provincially under the Companies Act of Prince Edward Island on June 17, 1954 and is governed by the Prince Edward Island Credit Unions Act. Souris Credit Union Limited is a member-owned financial institution whose principal business activities include financial and banking services for its members in Souris, Prince Edward Island.

## 2. BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with and are in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in Note 4.

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

These financial statements were authorized for issue by the Board of Directors on February 19, 2019.

As explained in changes in accounting policies in Note 4, the Credit Union has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018.

## 3. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis except for available-for-sale investments which are at fair value through profit and loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### Cash and cash equivalents

Cash and cash equivalents is comprised of cash on hand and cash in financial institutions. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

### Investments

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

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted investments whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

*(continues)*



# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Accounts receivable

Accounts receivable arise from miscellaneous rebates and accrued interest on loans and mortgages and investments. An allowance for bad debts has been calculated through discussions with management, assessment of the other circumstances influencing the collectibility of amounts and using historical loss experience. Amounts deemed uncollectible are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the period of recovery.

### Loans and mortgages

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

### Impairment

The Credit Union measures loss allowances at an amount equal to lifetime 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.

If the terms of a financial asset are renegotiated or modified or an existing financial assets is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized.

At each reporting date, the Credit Union assesses whether financial assets carried at amortized cost are credit-impaired. 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 significant financial difficulty of the borrower or issuer; a breach of contract such as a default or past due event; the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise; it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Loss allowances for expected credit losses are presented in the statement of financial position as financial assets measured at amortized cost; as a deduction from the gross carrying amount of the assets.

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. 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.

*(continues)*

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

An individual measurement of impairment is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management made judgments about a debtor's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or loss rates. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgment to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were benchmarked against actual loss experience.

The loan allowance covers credit losses inherent in portfolios of loans and advances, when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified. Loans that were subject to a collective provision were not considered impaired.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Impairment losses on assets measured at amortized cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

If an event occurring after the impairment was recognized caused the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses were recognized in profit or loss and reflected in an allowance account against loans and receivable. Interest on the impaired assets continued to be recognized through the unwinding of the discount. At December 31, 2018, interest accrued on impaired loans and mortgages totals \$Nil (2017 - \$Nil).

*(continues)*

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Deferred income taxes

Income tax expense comprises current and deferred tax.

Current income taxes are recognized for the estimated income taxes payable or recoverable 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 period 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 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 allows 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.

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 period end date and are expected to apply when the liabilities/assets are settled/recovered.

### Property and equipment

Property and equipment is stated at cost less accumulated amortization and is amortized over its estimated useful life on a declining balance basis at the following rates:

Building	5%
Furniture and equipment	20%
ATMs	20%
Computer hardware	30%
Pavement	8%

One-half of the annual rate is recorded in the year of acquisition; no amortization is recorded in the year of disposal.

### Finance charges

Fees related to the purchase of Index-Linked RRSP units are amortized using the straight-line method over the term of the investment and are netted against the cost of the liability.

(continues)

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Employee future benefits

The Credit Union records annually the estimated liabilities for pension and other benefit obligations, which are payable to its employees in subsequent periods under the Credit Union's policy.

Liabilities are recorded for employee benefits including salaries and wages, deductions at source, paid annual or sick leave, variable compensation and bonuses that are expected to be settled within 12 months of the financial statement date. These represent present obligations resulting from employees' services provided to the financial statement date and are calculated at the undiscounted amounts based on the remuneration rate that the Credit Union expects to pay at the financial statement date. The expected cost of variable compensation and bonus payments is recognized as a liability when the Credit Union has a present legal or constructive obligation to pay as a result of past events and the obligation can be estimated reliably.

Benefits such as medical care are non-vesting and are expensed by the Credit Union as the benefits are taken by the employees.

Severance benefits are recognized as an expense when the Credit Union is committed demonstrably, without realistic opportunity for withdrawal, to a formal detailed plan to provide severance benefits under certain circumstances. If material benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

Souris Credit Union Limited contributes to a defined benefit plan and a defined contribution plan for employees, which is administered and managed through CUMIS. The Credit Union's defined benefit obligation is calculated by independent actuaries at the reporting date using the Projected Unit Credit Method pro-rated on service and management's best estimate of discount rates, expected plan investment performance, salary escalation, mortality and retirement age of employees.

Pension expense for the defined benefit plan includes the cost of pension benefits earned during the period, the expected return on plan assets, interest cost on pension obligations and past service costs. The Credit Union recognizes all actuarial gains and losses arising from the defined benefit pension plan immediately in other comprehensive income.

### Member deposits

Borrowings and deposits and membership shares that are classified as liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Term, RRSP, RRIF and demand deposits can be fixed or variable rate. Interest can be paid annually, semi-annually, monthly or upon maturity.

Share deposits pay a dividend return at the discretion of the Board of Directors. Privileges of the shares are under the authority of the Board of Directors. The dividend rate declared and paid for 2018 was 0.5% (2017 - 0.5%), and was based on the average of the lowest monthly share balances.

*(continues)*

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Share deposits

The Credit Union has authorized an unlimited number of voting equity shares, with a value of \$5 per share. The shares are non-transferable, redeemable by the Credit Union, retractable by members subject to the Credit Union's right to suspend redemption, if the redemption would impair the financial stability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Corporation.

As at the financial statement date, the Credit Union has 3,108 member shares issued and outstanding with a value of \$15,540 (2017 - 3,157 shares with a value of \$15,785).

### Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can readily be measured. The principal sources of revenue are interest and fee income. Interest on loans and mortgages is recognized and reported on an accrual basis using the effective interest method.

Other fee and commission income - including account servicing fees, loan discharge and administration fees, and syndication fees - is recognized as the related services are performed.

Operating expenses are recognized upon the utilization of the services or at the date of their origin. Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in profit or loss, as a reduction to income over the expected life of the relevant loans and mortgages. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

### Foreign currency translation

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities have been translated at the year end exchange rate. Non-monetary assets have been translated at the rate of exchange prevailing at the date of transaction. Revenues and expenses have been translated at the average rates of exchange during the year, except for amortization, which has been translated at the same rate as the related assets.

Foreign exchange gains and losses on monetary assets and liabilities are included in the determination of profit or loss.

*(continues)*

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial assets and financial liabilities

The Credit Union initially recognizes loans and advances, deposits and liabilities on the date on which they are originated. 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 amortized cost, FVOCI or fair value through profit and loss (FVTPL). A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL: the asset is held within a business model whose objective is to hold assets to collect contractual cash flow; 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. All other financial assets are classified as measured at FVTPL. Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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 (prior: Nil).

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL. The Credit Union derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

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 asset. On derecognition 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 (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. In transactions in which the Credit Union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Credit Union continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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 legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

*(continues)*

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Credit Union has classified its financial assets and liabilities as follows:

Cash and cash equivalents - amortized cost

Available-for-sale investments - fair value through other comprehensive income

Held-to-maturity investments - amortized cost

Accounts receivable, member loans and mortgages, member and share deposits, accounts payable and accrued liabilities and accounts receivable - amortized cost

### Use of judgements and estimates

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 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 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 is 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 impairment of financial instruments; assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of Expected Credit losses, measurement of employee benefits, and the estimates of useful lives for depreciation of property and equipment, classification of financial assets; assessment of the business model within which, the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

*(continues)*

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Changes in accounting policies

Except for the changes below, the Credit Union has consistently applied the accounting policies as set out in Note 4 to all periods presented in these financial statements. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively with \$322,158 increase in opening undistributed earnings and corresponding decrease in allowance for loan losses.

The Credit Union has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Credit Union's accounting policies resulting from its adoption of IFRS 9 are summarized below.

IFRS 9 contains three principal classification categories for financial assets: amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). 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 existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

### Interest income and expense

#### Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit impaired assets, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.



# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 5. CASH AND CASH EQUIVALENTS

	<u>2018</u>	<u>2017</u>
Cash (overdraft) in financial institutions	\$ (769,982)	\$ 1,712,201
Cash on hand	355,030	339,153
	<u>\$ (414,952)</u>	<u>\$ 2,051,354</u>

## 6. INVESTMENTS

	<u>2018</u>	<u>2017</u>
<u>Shares</u>		
Concentra Financial - 20,000 Class D preferred shares	\$ 500,000	\$ 500,000
Atlantic Central Credit Union Limited - common shares	521,990	437,850
Atlantic Central Credit Union Limited - Class B preferred shares	117,200	117,200
Atlantic Central Credit Union Limited - 50,478 Class LSM preferred shares	50,478	50,478
League Data Limited - 1,613 Class B preferred shares	16,130	16,130
Atlantic Central Credit Union Limited - Class PEI shares	800	800
	<u>1,206,598</u>	<u>1,122,458</u>
<u>Debentures</u>		
Atlantic Central Credit Union Limited liquidity deposit - 1.75%	3,810,429	3,394,451
Atlantic Central Credit Union Limited term deposit - 1.72%; matures February 19, 2019	2,500,000	1,500,000
Atlantic Central Credit Union Limited term deposit - 1.68%; matures January 9, 2019	500,000	1,500,000
Atlantic Central Credit Union Limited term deposit - 1.70%; matures January 4, 2019	500,000	1,000,000
Atlantic Central Credit Union Limited term deposit - 1.68%; matures January 14, 2019	500,000	-
Atlantic Central Credit Union Limited term deposit - 1.08%; matured January 10, 2018	-	1,000,000
Atlantic Central Credit Union Limited term deposit - 1.19%; matured March 5, 2018	-	500,000
	<u>7,810,429</u>	<u>8,894,451</u>
	<u>\$ 9,017,027</u>	<u>\$ 10,016,909</u>

The credit union shall maintain sufficient liquid assets to meet its obligations as they come due. As prescribed in the Credit Union Regulations, Section 2, the credit union shall maintain liquid assets of not less than 10% of the total amount of member deposits in and borrowings of the credit union as follows: 9% shall be invested in eligible financial instruments of Atlantic Central; 6% of assets, or other such amount as may be determined by Central from time to time, shall be maintained in the segregated liquidity account. The remainder will be invested in: current account, cash management account, and term deposits that have a remaining term to maturity of not more than one year.

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 7. ACCOUNTS RECEIVABLE

	<u>2018</u>	<u>2017</u>
Accrued interest - loans and mortgages	\$ 567,061	\$ 427,186
Other receivables	86,474	95,727
Accrued interest - investments	3,358	5,309
	<u>\$ 656,893</u>	<u>\$ 528,222</u>

## 8. MEMBER LOANS AND MORTGAGES

	Total loans	Allowance	Net loans
2018			
Commercial	\$ 25,063,271	\$ (73,216)	\$ 24,990,055
Personal	8,906,007	(115,882)	8,790,125
Mortgages	6,281,133	-	6,281,133
LS&M high ratio mortgages	9,733,791	-	9,733,791
Lines of credit and overdrafts	1,823,858	(46,681)	1,777,177
	<u>\$ 51,808,060</u>	<u>\$ (235,779)</u>	<u>\$ 51,572,281</u>
2017			
Commercial	\$ 18,409,619	\$ (55,307)	\$ 18,354,312
Personal	8,782,187	(133,342)	8,648,845
Mortgages	6,061,079	-	6,061,079
LS&M high ratio mortgages	8,387,099	-	8,387,099
Lines of credit and overdrafts	1,698,109	(62,006)	1,636,103
	<u>\$ 43,338,093</u>	<u>\$ (250,655)</u>	<u>\$ 43,087,438</u>

## 9. PROVISION FOR IMPAIRED LOANS

	<u>2018</u>	<u>2017</u>
Provision for impaired loans - beginning of year	\$ 250,655	\$ 570,000
Provision for impaired loans - current year	53,883	6,375
Recovery of loans written off	38,857	11,394
IFRS 9 adjustment opening balance	-	(322,158)
Loans written off - current year	<u>(107,616)</u>	<u>(14,956)</u>
Provision for impaired loans - end of year	<u>\$ 235,779</u>	<u>\$ 250,655</u>

Members' loans can have either variable or fixed rate of interest. 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.

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 10. LOANS IN ARREARS

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

	<u>2018</u>	<u>2017</u>
31 to 60 days	\$ 116,713	\$ 112,217
61 to 90 days	9,505	37,097
91 to 180 days	17,341	80,864
181 days - 1 year	4,098	61,953
	<u>\$ 147,657</u>	<u>\$ 292,131</u>

## 11. DEFERRED INCOME TAXES

Deferred income taxes reflect the tax consequences of 'temporary differences' between the statement of financial position carrying amounts and the tax bases of assets and liabilities. These deferred income taxes are calculated using the income tax rates and tax laws that are expected to apply when these temporary differences are reflected in taxable income.

Temporary differences which give rise to deferred income tax assets are as follows:

	<u>2018</u>	<u>2017</u>
Deferred income tax asset		
Property and equipment	\$ 2,960	\$ 3,385
Retirement allowance	45,614	9,620
	<u>\$ 48,574</u>	<u>\$ 13,005</u>

## 12. MEMBER DEPOSITS

	<u>2018</u>	<u>2017</u>
Call deposits	\$ 15,969,744	\$ 13,355,863
Chequing accounts	11,956,679	12,728,790
Registered Retirement Savings Plan (RRSP) deposits	7,494,001	6,863,702
Tax Free Savings Account (TFSA) deposits	5,010,347	3,474,439
Term deposits	4,700,549	4,112,803
Registered Retirement Income Fund (RRIF) deposits	3,859,903	3,927,582
	<u>\$ 48,991,223</u>	<u>\$ 44,463,179</u>

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 13. DEFERRED PENSION PLAN

### Defined benefit pension plan

Souris Credit Union Limited established a final salary defined benefit pension plan for its employees in 2002. The most recent independent actuarial valuation on this pension plan for funding purposes was performed as at November 1, 2017. The next actuarial valuation is scheduled to occur in November 2020.

Information about the financial position of the Credit Union's defined benefit plan as at period end is as follows:

	<u>2018</u>	<u>2017</u>
Changes in accrued benefit obligation:		
Balance - beginning of year	\$ 3,094,100	\$ 2,925,000
Current service	68,600	57,700
Interest on liabilities	106,500	111,500
Employee contributions	21,400	19,900
Actuarial (gains) losses due to financial experience	(283,300)	267,000
Benefits paid	(103,700)	(287,000)
	<u>2,903,600</u>	<u>3,094,100</u>
Change in fair value of plan assets:		
Balance - beginning of year	2,889,964	2,845,663
Employer contributions	93,500	37,501
Employee contributions	21,400	19,900
Expected investment return	98,400	106,500
Actual gains (losses) due to financial experience	(77,000)	167,400
Benefits paid	(103,700)	(287,000)
	<u>2,922,564</u>	<u>2,889,964</u>
Deferred pension (benefit) obligation	<u>\$ (18,964)</u>	<u>\$ 204,136</u>

In determining the accrued pension obligation (benefit), estimates and assumptions from market data and management's best estimates are used. Some of these estimates and assumptions have a high degree of uncertainty and increase the risk that the fair value of plan assets and obligations may change by a material amount in the future. The following actuarial assumptions have been used in the determination of the accrued pension obligation (benefit) and the fair value of plan assets:

Discount rate	4.00 %	3.40 %
Expected return on plan assets	3.40 %	3.90 %
Rate of salary increase	2.00 %	2.00 %
Inflation rate	2.00 %	2.00 %

Assumed retirement age: 62 or earliest unrecorded retirement age if later  
Mortality rates: December 31, 2018 - CPM2014-Private Table with Improvement Projected by MI-2017

(continues)

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 13. DEFERRED PENSION PLAN (continued)

	2018	2017
The expense for the Credit Union's defined benefit plan is as follows:		
Current service costs	\$ 68,600	\$ 57,700
Interest on liabilities	106,500	111,500
Expected investment return	(98,400)	(106,500)
	<hr/>	<hr/>
Pension expense recognized in net income	\$ 76,700	\$ 62,700
	<hr/>	<hr/>
Actuarial gain (loss) in other comprehensive income	\$ 206,300	\$ (99,600)
	<hr/>	<hr/>
Cumulative actuarial gains recognized in comprehensive income	\$ 539,036	\$ 332,736

The expected return on plan assets for the defined benefit pension plan is comprised of the estimated returns for each major asset consistent with market conditions on the valuation date and the asset mix of the pooled funds that make up the plan assets, additional returns assumed to be achievable due to active equity management and implicit provision for expenses expected to be paid from the pension fund.

The investment asset mix of the defined benefit pension plan at December 31, 2018 is as follows:

Cash and cash equivalents	5.40 %	\$ 158,765
Canadian equities	14.90 %	435,765
US equities	17.80 %	519,671
668535	22.90 %	668,535
Fixed income	31.80 %	928,370
Federal bonds	0.90 %	27,722
Provincial bonds	1.70 %	48,567
Municipal bonds	0.20 %	6,232
Corporate bonds	2.90 %	85,959
Commercial mortgages	1.50 %	42,978
	<hr/>	<hr/>
	100 %	\$ 2,922,564

Liabilities at December 31, 2018:

Extrapolated present value of benefit obligation \$ 2,903,600

Sensitivity of liabilities at December 31, 2018:

1.0% increase in discount rate	\$ 2,471,000
1.0% decrease in discount rate	\$ 3,411,800
1.0% increase in rate of salary increase	\$ 3,042,100
1.0% decrease in rate of salary increase	\$ 2,771,400

Maturity profile of liabilities at December 31, 2018:

Weighted average duration of liabilities 16.2 years

The Credit Union expects employer contributions of approximately \$87,000 to be paid for the next fiscal year.

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 14. LEASE COMMITMENTS

The Credit Union has entered into a lease agreement for a postage machine. Future minimum annual lease payments as at December 31, 2018 are as follows:

2019	<u>\$ 1,697</u>
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## 15. MEMBERS' SHARES

	Number of shares	December 31 2018	Number of shares	December 31 2017
Balance - beginning of year	3,157	\$ 15,785	3,188	\$ 15,940
Shares redeemed, net of issuance	<u>(49)</u>	<u>(245)</u>	<u>(31)</u>	<u>(155)</u>
Balance - end of year	<u>3,108</u>	<u>\$ 15,540</u>	<u>3,157</u>	<u>\$ 15,785</u>

## 16. PRIOR PERIOD ADJUSTMENT

Prior period adjustment was recorded to adjust provision for impaired loans by \$322,158 in accordance with IFRS 9.

This adjustment was applied retroactively and has resulted in a transition adjustment of \$322,158 to the opening 2017 comparative figures for undistributed earnings.

## 17. COST OF CAPITAL AND BORROWINGS

	2018	2017
Interest and service charges	\$ 707,454	\$ 429,335
Patronage dividends	339,631	284,177
Share dividends	<u>18,916</u>	<u>20,120</u>
	<u>\$ 1,066,001</u>	<u>\$ 733,632</u>

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 18. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 24.79% (2017 - 32.43%) to the income for the year and is reconciled as follows:

	<u>2018</u>	<u>2017</u>
Income before income taxes and other comprehensive income	<u>\$ 478,927</u>	<u>\$ 305,746</u>
Income tax expense at the combined basic federal and provincial tax rate	\$ 118,747	\$ 99,153
Increase (decrease) resulting from:		
Small business deduction	(77,120)	(51,661)
Capital cost allowance claimed in excess of amortization	(2,421)	462
Non-deductible expenses	1,469	1,635
Tax reserves	75,209	(821)
Provision for loan loss reserve	13,360	2,067
Recovery of loans previously written off	9,634	3,695
Loans written off in the current year	26,683	(4,850)
Employee future benefits	4,308	(982)
Effective tax expense	<u>\$ 169,869</u>	<u>\$ 48,698</u>

The effective income tax rate is 35.47% (2017 - 15.93%).

## 19. CHANGES IN NON-CASH WORKING CAPITAL

	<u>2018</u>	<u>2017</u>
Investments	\$ 999,882	\$ (3,550,283)
Accounts receivable	(128,671)	(68,570)
Prepaid expense	(3,325)	(544)
Accounts payable and accrued liabilities	53,458	(16,968)
Employee benefits payable	10,850	9,647
Income taxes	127,198	(27,102)
Accrued interest payable	43,413	24,309
	<u>\$ 1,102,805</u>	<u>\$ (3,629,511)</u>

## 20. LINE OF CREDIT AVAILABILITY

The Credit Union has an approved line of credit with Atlantic Central Credit Union Limited of \$1,400,000, which is due for renewal on December 31, 2020, and was not utilized at the year end. The line of credit bears an interest rate of prime less 0.5% and is secured by a general security agreement.

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 21. RELATED PARTY TRANSACTIONS

Souris Credit Union Limited provides financial services to members. These members hold the loans, deposits and share deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

As at period end, some members of the Board of Directors, Credit Committee, management and employees had loans and mortgages from Souris Credit Union Limited. These loans were in the normal course of operations with interest rates at the regular rates offered to all members of the Credit Union. Interest rates of deposits and dividends on shares were at identical rates offered to all Credit Union members.

Key management personnel include the General Manager and other senior officers of the Credit Union. The components of total compensation received by key management personnel and balances due to and from key management personnel are as follows:

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 346,777	\$ 332,043
Contributions to a retirement pension plan	33,299	31,635
Mortgages, loan balances, and lines of credit due from key management at December 31	45,755	65,658
Deposit balances due to key management at December 31	7,924	50,861

Short-term employee benefits include salaries, variable compensation and other benefits. The mortgage and deposit transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

## 22. RISK MANAGEMENT

The Credit Union manages significant risks through 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 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 credit, liquidity, currency and interest rate risks.

### (a) Credit risk

Credit risk is the risk that a member will fail to meet their obligation to the Credit Union. Providing credit facilities to qualified members is one of the Credit Union's primary sources of earnings and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the member's ability to repay principal and interest over the term of the facility, which is determined by following Board approved policies and procedures, which includes assessing the member's credit history, character, collateral, and debt servicing capacity. In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. Also, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

Overdue loan accounts, or lending delinquency, is closely monitored and frequently reported to senior management to ensure all allowances for potential loan losses are adequately provided for and written-off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as described by approved lending agreements.

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# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 22. RISK MANAGEMENT *(continued)*

The Credit Union's loan portfolio is focused in two main areas: consumer and commercial loans and mortgages, the latter of which are to mainly small and mid-sized companies. A syndication process is available with other Credit Unions for larger commercial loans, when considered necessary, to appropriately mitigate the Credit Union's credit risk. Consumer mortgages are made available on a conventional basis up to 80% of the lesser of cost or appraised value of single family housing, up to 75% on other residential properties, up to 65% of the lesser of cost or appraised value on commercial properties having general purpose usage and up to 50% of the lesser of cost or appraised value on commercial properties designed for specific use. Other credit facilities provided include personal overdrafts that have no recourse to the Credit Union.

The Credit Union's policy is to pursue timely realization of the collateral in an orderly manner. The Credit Union does not generally use the non-cash collateral for its own operations. During the year, the Credit Union did not take possession of collateral held as security against loans and advances.

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 and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime probability of default (PD) as at the reporting date; with the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Credit Union allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgments. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

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. Based on advice from economic experts and consideration of a variety of external actual and forecast information, the Credit Union formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The base case represents a most-likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

*(continues)*

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 22. RISK MANAGEMENT (continued)

The key inputs into the measurement of expected credit losses are the term structure of the following variables: probability of default (PD); loss given default (LGD); and exposure at default (EAD). These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. PD estimates are estimates at a certain date, LGD is the magnitude of the likely loss if there is a default. The Credit Union estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. EAD represents the expected exposure in the event of a default.

Cash and equivalents and investments have low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral.

### (b) Liquidity risk

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis. The Credit Union has established policies to ensure the Credit Union is able to generate sufficient funds to meet all of its financial commitments in a timely and cost effective manner. The Credit Union's liquidity management practices include ensuring the quality of investment acquired for liquidity purposes meet very high standards, matching maturities of assets and liabilities and monitoring cash flow on a regular basis. Management monitors the Credit Union's liquidity position and reports to the Board on a regular basis.

The Credit Union is required to maintain 6% of prior quarter's assets in liquid investments in which 100% must be held by Atlantic Central Credit Union Limited and the Credit Union was in compliance with this requirement at year end. Cash flows payable under financial liabilities by remaining contractual maturities are disclosed in Schedule 2. The Credit Union expects that many members will not request repayment on the earliest date the Credit Union could be required to pay.

### (c) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Credit Union is exposed to currency risk through its cash accounts and member deposits. The Credit Union maintains deposits in foreign currencies to service its member accounts.

### (d) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate materially due to changes in market interest rates. The Credit Union is exposed to interest rate risk through its loans and mortgages, providing lending services to its members for a rate based on the Bank of Canada base rate plus a risk premium determined at the loan inception. The Credit Union manages and controls interest rate risk primarily by managing asset and liability maturities. Interest rate risk is measured on a quarterly basis and the results are reported to the Board of Directors.

# NOTES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## 23. CAPITAL MANAGEMENT

Souris Credit Union Limited provides lending services to its members in the form of loans, lines of credit and mortgages. The Credit Union's objective in the lending process is to remain within the lending guidelines set for the institution and to provide an adequate return to its members through adjusting risk premiums with the level of assessed risk on an individual basis. These services are provided to members at the discretion of the general manager and lending personnel within the established parameters. Total lending activities managed by the Credit Union as of December 31, 2018 amounted to \$51,808,060 (2017 - \$43,338,093).

Consistent with other Prince Edward Island Credit Unions, Souris Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain an equity level of 5% of the Credit Union's total assets. This ratio is calculated by adding the undistributed earnings at the end of the previous year plus the operating surplus in the current year and members' shares, divided by the total assets of the Credit Union.

	<u>2018</u>	<u>2017</u>
Members' shares	\$ 15,540	\$ 15,785
Accumulated other comprehensive income	539,036	332,736
Undistributed earnings	<u>6,156,951</u>	<u>5,812,324</u>
Total regulatory equity	6,711,527	6,160,845
Total assets	<u>62,653,253</u>	<u>56,637,546</u>
	<u>10.71 %</u>	<u>10.88 %</u>

Credit Union bylaws require Souris Credit Union Limited to maintain sufficient liquid assets and a line of credit to meet its normal cash flow requirements. Overall, a minimum liquid asset level of 10% of total assets must be maintained to ensure ongoing cash flow requirements are met.

	<u>2018</u>	<u>2017</u>
Total assets	\$ 62,653,253	\$ 56,637,546
Liquid assets	<u>10,028,951</u>	<u>12,596,485</u>
	<u>16.01 %</u>	<u>22.24 %</u>

# SCHEDULES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

**SOURIS CREDIT UNION LIMITED**  
**Schedules to Financial Statements**  
**Statement of Property and Equipment**  
**Year Ended December 31, 2018**

**(Schedule 1)**

	Cost beginning of year	Cost end of year	Disposals and write downs	Amort beginning of year	Amort in year Reductions	Amort end of year	NBV Dec 31, 2018	NBV Dec 31 2017
Land	\$ 179,291	\$ 179,291	\$ -	\$ -	\$ -	\$ -	\$ 179,291	\$ 179,291
Building	999,381	999,381	-	587,586	20,592	608,178	391,203	411,794
Furniture and equipment	200,933	200,933	-	184,376	3,311	187,687	13,246	16,557
ATMs	55,654	50,073	(55,654)	45,807	5,006	5,007	45,066	9,847
Computer hardware	132,962	132,962	-	126,130	2,051	128,180	4,782	6,832
Pavement	38,670	38,670	-	29,736	714	30,450	8,220	8,934
	<b>\$1,606,891</b>	<b>\$ 1,601,310</b>	<b>\$ (55,654)</b>	<b>\$ 973,635</b>	<b>\$ 31,674</b>	<b>\$ (45,806)</b>	<b>\$ 641,808</b>	<b>\$ 633,255</b>

Notes 1 - 23 are an integral part of these financial statements

# SCHEDULES TO THE FINANCIAL STATEMENTS

SOURIS CREDIT UNION  
Year Ended December 31, 2018

## Interest Rate Sensitivity (Schedule 2) Year Ended December 31, 2018

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 15,577	\$ -	\$ -	\$ 339,453	\$ 355,030
Effective interest rate	1.57 %	- %	- %	- %	
Investments	7,810,429	-	-	1,206,598	9,017,027
Effective interest rate	1.74 %	- %	- %	- %	
Accounts receivable	-	-	-	656,893	656,893
Personal and commercial loans and mortgages	27,845,502	21,695,384	254,218	-	49,795,104
Effective interest rate	6.35 %	4.89 %	6.88 %	- %	
Lines of credit and overdrafts	1,777,177	-	-	-	1,777,177
Effective interest rate	8.18 %	- %	- %	- %	
Prepaid expense	-	-	-	35,829	35,829
Deferred income taxes	-	-	-	48,574	48,574
Property and equipment	-	-	-	641,808	641,808
Restricted cash - retirement allowance	-	-	-	306,847	306,847
Deferred pension benefit	-	-	-	18,964	18,964
	<b>\$ 37,448,685</b>	<b>\$ 21,695,384</b>	<b>\$ 254,218</b>	<b>\$ 3,254,966</b>	<b>\$ 62,653,253</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 440,067	\$ 440,067
Employee benefits payable	-	-	-	218,347	218,347
Accrued interest payable	-	-	-	183,782	183,782
Income taxes payable	-	-	-	120,612	120,612
Member deposits	33,727,249	6,045,155	-	9,218,819	48,991,223
Effective interest rate	1.44 %	2.17 %	- %	- %	
Share deposits	4,910,866	-	-	-	4,910,866
Effective interest rate	0.50 %	- %	- %	- %	
Retirement allowance payable	-	-	-	306,847	306,847
Overdrafts in financial institutions	-	-	-	769,982	769,982
Members' shares	15,540	-	-	-	15,540
Effective interest rate	0.50 %	- %	- %	- %	
Accumulated other comprehensive income	-	-	-	539,036	539,036
Undistributed earnings	-	-	-	6,156,951	6,156,951
	<b>\$ 38,653,655</b>	<b>\$ 6,045,155</b>	<b>\$ -</b>	<b>\$ 17,954,443</b>	<b>\$ 62,653,253</b>

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

As at December 31, 2018, Souris Credit Union Limited's net interest spread was 2.45%. The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year end interest bearing liabilities.

Notes 1 - 23 are an integral part of these financial statements



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