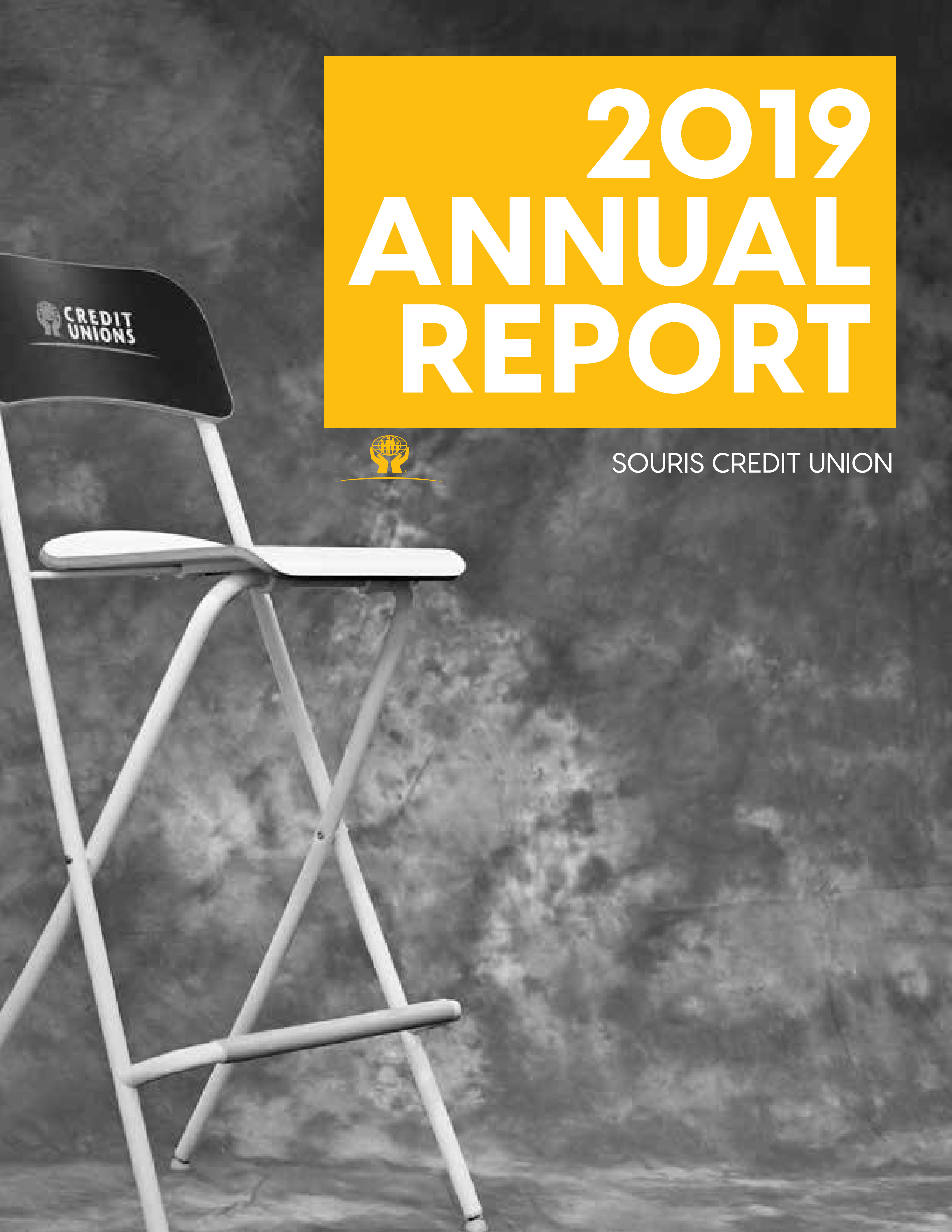
2019 ANNUAL REPORT

SOURIS CREDIT UNION



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Board of Directors

Tammy Daley
President

Denis McNally
Vice President

Megan Cheverie
Secretary

Karen MacKenzie

Brad Coffin

Stephen Flynn

Shelly Manning

Charles Dunphy

Dale Cahill

Tammy Daley
President

President's Report

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 over the past year.

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.

2019 was a very successful year for Souris Credit Union, with a growth in assets of nearly $ 10 million dollars and operational income before dividends and taxes of $ 952 thousand dollars. 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, 2019 and were again in the position to declare a Patronage dividend, rewarding members for the level of business they do with us.

When you take into consideration the dividend on shares, the patronage dividend, charities, and community initiatives, Souris Credit Union gave back over $ 450 thousand to the community for 2019. Since 2012, the grand total of contributions to the community is over $ 3 million dollars. This substantial sum is only possible with your continued business. Thank you for your support and patronage in 2019, as our achievements would not have been possible without you.

Building on the success of 2019, 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.

In closing, and 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.

Respectfully submitted

TDaley

Tammy Daley
President, Board of Directors

Paul MacNeill
General Manager

Manager’s Report

As General Manager it is my pleasure to speak to you about our most recent fiscal year, completed on December 31, 2019.

2019 was a record year for Souris Credit Union. We were active participants in the growth of our local economy, with assets growing nearly 10 million from just under 63 million to just over 74 million. Our operational income for the year was approximately $ 950 thousand before taxes and dividends. We experienced a 4.4 % increase in our loan portfolio (from 52 Million to over 54 million), and Member deposits increased by over 21 %, from 49 million to 59.5 million. These results were accomplished with little loan write offs and exceptional delinquency levels.

Due to these positive financial outcomes Souris Credit Union was once again able to pay our Membership a Patronage Dividend. This year we paid out $ 422 thousand 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 over 3 million dollars since 2012.

2019 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.

You may recall that out our last AGM in April of 2019 we changed the way we elect directors. 2020 was the first year of this change, and the new election process was utilized to replace 1 retiring director. The process worked well and we look forward to utilizing it in the future.

Again, I would like to acknowledge my exceptional staff and the hard work they do daily 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 2019. Finally, I would like to acknowledge our retiring director Dale Cahill for his long service and valuable guidance. 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

Donation Report

As Souris Credit Union made donations in the amount of $32,032.00 in 2019.

We invested in education by granting $ 10,800 in bursaries to Members and their children.

We invested in early childhood development, with a $ 5,000 donation to the Eastern Kings Learning Academy to create a quiet room for children affected by Autism.

We invested in health and recreation with the purchase of an AED for Eastern Kings Fitness.

We invested in youth sport, donating to football, soccer, ringette, and hockey.

We invested in Seniors, sponsoring the Souris 55+ games and the seniors Christmas party.

We invested in local business, sponsoring business forums and the Tuna Cup.

We invested in festivals and events, contributing to events such as the Rollo Bay Fiddle Festival and the Village Feast.

We invested in the environment in a partnership with Bullfrog power, a company who provides carbon offsets for our power consumption.

All this is made possible by the business our Members transact with Souris Credit Union. Thank you for your continued support allowing us to help our community.

Financial Statements

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PO Box 2679
Charlottetown, PE
C1A 8C3
902-368-2643
500 Granville Street
Suite 2B
Summerside, PE
C1N 5Y1
902- 888- 3897

INDEPENDENT AUDITOR'S REPORT

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, 2019, and the statements of profit or loss and other comprehensive income 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, 2019, 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.

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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 Inc.

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS INC.

Charlottetown, PE

February 18, 2020

Statement of Financial Position

SOURIS CREDIT UNION

December 31, 2019

	2019	2018
ASSETS		
Cash and cash equivalents (Note 6)	**$ 10,795,281**	$ 4,355,030
Investments (Note 7)	**5,589,492**	5,017,027
Accounts receivable (Note 8)	**940,623**	656,892
Income taxes recoverable	**61,146**	-
Member loans and mortgages (Note 9)	**54,112,451**	51,808,060
Provision for impaired loans (Note 10)	**(335,278)**	(235,779)
Prepaid expense	**35,256**	35,829
Deferred income taxes (Note 12)	**57,551**	48,574
Property and equipment (Schedule 1)	**608,493**	641,808
Restricted cash - retirement allowance	**349,942**	306,847
Deferred pension benefit (Note 14)	**-**	18,964
	$ 72,214,957	$ 62,653,252
LIABILITIES		
Overdrafts in financial institutions (Note 6)	**$ -**	$ 769,982
Accounts payable and accrued liabilities	**528,129**	440,067
Employee benefits payable	**245,098**	218,347
Income taxes payable	**-**	120,612
Accrued interest payable	**232,538**	183,781
Member deposits (Note 13)	**59,533,962**	48,991,223
Share deposits	**4,211,184**	4,910,866
Retirement allowance payable	**349,942**	306,847
Deferred pension obligation (Note 14)	**104,336**	-
	65,205,189	55,941,725
Commitment (Note 15)		
MEMBERS' EQUITY		
Members' shares (Statement 4)	**19,030**	15,540
Accumulated other comprehensive income (Statement 4)	**403,136**	539,036
Undistributed earnings (Statement 4)	**6,587,602**	6,156,951
	7,009,768	6,711,527
	$ 72,214,957	$ 62,653,252

ON BEHALF OF THE BOARD

J. Gary McNally _Director_

Megan Chenvecki _Director_

Notes 1 - 25 are an integral part of these financial statements

Statement of Changes in Member's Equity

SOURIS CREDIT UNION

Year Ended December 31, 2019

	2019	2018
Members' shares (Note 16)		
Balance - beginning of year	**$ 15,540**	$ 15,785
Issuance of members' shares, net of redemption	**3,490**	(245)
Balance - end of year	**19,030**	15,540
Accumulated other comprehensive income		
Balance - beginning of year	**539,036**	332,736
Actuarial gain (loss) on defined pension plan (Statement 5)	**(135,900)**	206,300
Balance - end of year	**403,136**	539,036
Undistributed earnings		
Balance - beginning of year	**6,156,951**	5,812,324
Net income (Statement 5)	**430,651**	344,627
Balance - end of year	**6,587,602**	6,156,951
Members' equity	**$ 7,009,768**	$ 6,711,527

Notes 1 - 25 are an integral part of these financial statements

Statement of Comprehensive Income

SOURIS CREDIT UNION

Year Ended December 31, 2019

	2019	2018
Income		
Interest and investment	**$ 3,397,366**	$ 2,812,522
Cost of capital and borrowing (Note 17)	**1,388,538**	1,066,001
Financial margin	**2,008,828**	1,746,521
Other		
Commissions	**540,169**	566,740
Miscellaneous	**59,208**	51,224
	599,377	617,964
	2,608,205	2,364,485
Expenses		
Advertising and promotions	**75,677**	91,677
Amortization of property and equipment	**33,315**	31,673
Automated teller machines	**160,287**	146,569
Board honorarium	**19,084**	17,355
Data processing	**87,648**	92,264
Director training	**6,775**	100
Dues and memberships	**2,607**	3,206
Insurance	**115,058**	91,745
Loss on disposal of property and equipment	**-**	8,348
Meetings	**3,361**	5,853
Office	**126,474**	129,920
Pension (Note 14)	**67,600**	76,700
Premises	**72,780**	59,473
Professional fees	**34,184**	36,593
Provision for impaired loans	**156,809**	53,883
Service fees	**269,820**	237,293
Telephone	**13,532**	14,932
Travel	**15,656**	13,223
Wages and wage levies	**817,138**	774,751
	2,077,805	1,885,558
Income before income taxes and other comprehensive income	**530,400**	478,927
Income taxes		
Current (Note 18)	**108,726**	169,869
Deferred	**(8,977)**	(35,569)
	99,749	134,300
Net income	**430,651**	344,627
Other comprehensive gain (loss)		
Actuarial gain (loss) on defined pension plan (Note 14)	**(135,900)**	206,300
Net comprehensive income	**$ 294,751**	$ 550,927

Notes 1 - 25 are an integral part of these financial statements

Statement of Cash Flow

SOURIS CREDIT UNION
Year Ended December 31, 2019

	2019	2018
Cash flows from operating activities		
Net comprehensive income	**$ 294,751**	$ 550,927
Items not affecting cash:		
Amortization of property and equipment	**33,315**	31,673
Deferred income taxes	**(8,977)**	(35,569)
Loss on disposal of property and equipment	**-**	8,348
	319,089	555,379
Changes in non-cash working capital:		
Investments	**(572,465)**	4,999,882
Accounts receivable	**(283,730)**	(128,671)
Income taxes recoverable	**(181,758)**	127,198
Prepaid expense	**573**	(3,325)
Accounts payable and accrued liabilities	**88,062**	53,458
Employee benefits payable	**26,751**	10,850
Accrued interest payable	**48,756**	43,413
	(873,811)	5,102,805
	(554,722)	5,658,184
Cash flows from investing activities		
Increase in member loans and mortgages	**(2,204,892)**	(8,484,843)
Increase in restricted cash - retirement allowance	**(43,095)**	(38,574)
Purchase of property and equipment	**-**	(50,073)
Proceeds on disposal of property and equipment	**-**	1,500
	(2,247,987)	(8,571,990)
Cash flows from financing activities		
Increase in member deposits	**10,542,739**	4,528,044
Increase (decrease) in share deposits and members' shares	**(696,192)**	103,982
Increase in deferred pension obligation	**123,300**	(223,100)
Increase (decrease) in retirement allowance payable	**43,095**	38,574
	10,012,942	4,447,500
Increase in cash and cash equivalents	**7,210,233**	1,533,694
Cash and cash equivalents - beginning of year	**3,585,048**	2,051,354
Cash and cash equivalents - end of year	**$ 10,795,281**	$ 3,585,048
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 10,795,281**	$ 4,355,030
Overdraft in financial institutions	**-**	(769,982)
	$ 10,795,281	$ 3,585,048

Cash flow supplementary information (Note 19)

Notes 1 - 25 are an integral part of these financial statements

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. The Credit Union's head office is located at 129 Main Street, Souris, PE.

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 were authorized for issue by the Board of Directors on February 18, 2020.

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 or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents is comprised of cash on hand, cash in financial institutions, and term deposit investments that have a maturity of less than three months. Cash and cash equivalents are carried at amortized cost.

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.

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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

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

Impairment

The Credit Union applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 for the financial assets measured at amortized cost.

The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of the credit deterioration since origination:

• Stage 1 - where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

• Stage 2 - when a financial instrument experiences a credit risk subsequent to origination but it is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

• Stage 3 - financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The probability of default (PD), exposure at default (EAD) and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical inputs are as follows:

• PD - the probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life.

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

• EAD - the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.

• LGD - the loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral and the impact of forward-looking macroeconomic factors. Common assessments for credit risk include management judgment, delinquency, and monitoring.

When measuring expected credit loss, the Credit Union considers the maximum contractual period over which the Credit Union is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment and extension and rollover options. 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.

The Credit Union considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

• Significant financial difficulty of the borrower;

• Default or delinquency in interest or principal payments;

• High probability of the borrower entering a phase of bankruptcy or a financial reorganization;

• Measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Credit Union considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

The Credit Union writes off an impaired financial asset, either partially or fully, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

(continues)

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Credit Union assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are recorded, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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 year end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction 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 year 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.

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

Contributions to the defined contribution plan are recognized as an expense in the year that the relevant employee services are rendered. During the year, the contributions by the Credit Union to the defined contribution pension plan were $9,703 (2018 - $8,076).

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 2019 was 0.5% (2018 - 0.5%), and was based on the average of the lowest monthly share balances.

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.

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, fair value through other comprehensive income (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 or prior year.

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.

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets and financial liabilities *(continued)*

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 lass 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.

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

Amortized cost - cash and cash equivalents, held-to-maturity investments, accounts receivable, member loans and mortgages, member and share deposits, accounts payable and accrued liabilities

Fair value through other comprehensive income - available-for-sale investments

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)

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Changes in accounting standards

In January, 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases, and requires a lessee to recognize an asset for the right to use the leased item and a liability for the present value of its future lease payments. IFRS 16 will generally result in all operating leases being recorded on the statement of financial position as a right-of-use (ROU) asset with a corresponding lease liability.

The Credit Union adopted the standards in IFRS 16 with an effective date of January 1, 2019. There was no impact to the Credit Union's financial statements as a result of adopting these standards as the Credit Union has no material leases.

Future accounting developments

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended December 31, 2019 and have not been adopted by the Credit Union in preparing these financial statements. These changes are not expected to have a material impact on the Credit Union's financial statements.

On October 22, 2018, the IASB issued a narrow-scope amendment to IFRS 3 Business Combinations. The amendments will help companies determine whether an acquisition is of a business or a group of assets. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. The amendments apply to transactions for which the acquisition date is on or after January 1, 2020, with earlier adoption permitted. The amendments will apply prospectively to new transactions.

(continues)

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest income and expense

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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Credit Union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the period the assumptions change. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

(a) Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. In assessing whether there has been a significant increase in credit risk, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. Future assessments of credit risk may be materially different from current circumstances which could result in a significant increase or decrease in the allowance for credit losses.

(b) Estimated useful lives of property and equipment

Management estimates the useful lives of property and equipment based on the period during which assets are expected to be available for use. The amounts and timing of recorded depreciation expense of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the Credit Union's property and equipment in the future.

(c) Income taxes

The actual amounts of income tax expense only become final upon filing and acceptance of the tax return by relevant authorities which occur subsequent to the issuance of the financial statements. Estimation of income taxes include evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. The assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

6. CASH AND CASH EQUIVALENTS

	2019	2018
Cash in financial institutions	**$ 10,380,499**	$ 4,000,000
Cash on hand	**414,782**	355,030
Overdraft in financial institutions	**-**	(769,982)
	$ 10,795,281	$ 3,585,048

7. INVESTMENTS

	2019	2018
Shares		
Atlantic Central Credit Union Limited - common shares	**$ 534,050**	$ 521,990
Concentra Financial - 20,000 Class D preferred shares	**500,000**	500,000
Atlantic Central Credit Union Limited - Class B preferred shares	**117,200**	117,200
Atlantic Central Credit Union Limited - 50,478 Class LSM preferred shares	**53,759**	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
	1,221,939	1,206,598
Debentures		
Atlantic Central Credit Union Limited liquidity deposit - 1.73%	**4,367,553**	3,810,429
	$ 5,589,492	$ 5,017,027

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.

8. ACCOUNTS RECEIVABLE

	2019	2018
Accrued interest - loans and mortgages	**$ 855,449**	$ 567,060
Other receivables	**76,694**	86,474
Accrued interest - investments	**8,480**	3,358
	$ 940,623	$ 656,892

9. MEMBER LOANS AND MORTGAGES

2019	Total loans	Loans allowance	Net loans
Commercial	$ 30,428,681	$ (85,155)	$ 30,343,526
Personal	8,843,746	(117,137)	8,726,609
Mortgages	6,515,268	(82,739)	6,432,529
LS&M high ratio mortgages	7,154,775	(2,115)	7,152,660
Lines of credit and overdrafts	1,169,981	(48,132)	1,121,849
	$ 54,112,451	$ (335,278)	$ 53,777,173

2018	Total loans	Loans allowance	Net loans
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
	$ 51,808,060	$ (235,779)	$ 51,572,281

10. PROVISION FOR IMPAIRED LOANS

	2019	2018
Provision for impaired loans - beginning of year	**$ 235,779**	$ 250,655
Provision for impaired loans - current year	**156,809**	53,883
Recovery of loans written off	**2,799**	38,857
Loans written off - current year	**(60,109)**	(107,616)
Provision for impaired loans - end of year	**$ 335,278**	$ 235,779

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.

11. LOANS IN ARREARS

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

	2019	2018
31 to 60 days	$ 110,909	$ 116,713
61 to 90 days	2,400	9,505
91 to 180 days	-	17,341
181 days - 1 year	-	4,098
	$ 113,309	$ 147,657

12. 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:

	2019	2018
Deferred income tax asset		
Property and equipment	$ 5,052	$ 2,960
Retirement allowance	52,499	45,614
	$ 57,551	$ 48,574

13. MEMBER DEPOSITS

	2019	2018
Call deposits	$ 20,761,913	$ 15,969,744
Chequing accounts	14,340,742	11,956,679
Registered Retirement Savings Plan (RRSP) deposits	7,344,492	7,494,001
Tax Free Savings Account (TFSA) deposits	7,095,915	5,010,347
Registered Retirement Income Fund (RRIF) deposits	5,077,293	3,859,903
Term deposits	4,913,607	4,700,549
	$ 59,533,962	$ 48,991,223

14. 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:

	2019	2018
Changes in accrued benefit obligation:		
Balance - beginning of year	**$ 2,903,600**	$ 3,094,100
Current service	**66,800**	68,600
Interest on liabilities	**117,600**	106,500
Employee contributions	**20,200**	21,400
Actuarial (gains) losses due to financial experience	**458,500**	(283,300)
Benefits paid	**(103,700)**	(103,700)
Balance - end of year	**3,463,000**	2,903,600
Change in fair value of plan assets:		
Balance - beginning of year	**2,922,564**	2,889,964
Employer contributions	**80,200**	93,500
Employee contributions	**20,200**	21,400
Expected investment return	**116,800**	98,400
Actual gains (losses) due to financial experience	**322,600**	(77,000)
Benefits paid	**(103,700)**	(103,700)
	3,358,664	2,922,564
Deferred pension (benefit) obligation	**$ 104,336**	$ (18,964)

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:

	2019	2018
Discount rate	**3.10 %**	4.00 %
Expected return on plan assets	**4.00 %**	3.40 %
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: CPM2014-Private Table with Improvement Projected by MI-2017

(continues)

14. DEFERRED PENSION PLAN *(continued)*

		2019		2018
The expense for the Credit Union's defined benefit plan is as follows:				
Current service costs	**$**	**66,800**	$	68,600
Interest on liabilities		**117,600**		106,500
Expected investment return		**(116,800)**		(98,400)
Pension expense recognized in net income	**$**	**67,600**	$	76,700
Actuarial gain (loss) in other comprehensive income	**$**	**(135,900)**	$	206,300
Cumulative actuarial gains recognized in comprehensive income	**$**	**403,136**	$	539,036

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, 2019 is as follows:

Cash and cash equivalents	5.10 %	$	171,716
Canadian equities	15.90 %		532,954
US equities	18.70 %		627,005
International equities	24.10 %		808,836
Fixed income	29.80 %		1,001,337
Federal bonds	1.10 %		35,359
Provincial bonds	1.30 %		42,920
Municipal bonds	0.20 %		6,672
Commercial bonds	2.70 %		92,067
Commercial mortgages	1.20 %		39,798
	100 %	**$**	**3,358,664**

Liabilities at December 31, 2019:

Extrapolated present value of benefit obligation	**$**	**3,463,000**

Sensitivity of liabilities at December 31, 2019:

1.0% increase in discount rate	**$**	**2,923,800**
1.0% decrease in discount rate	**$**	**4,101,700**
1.0% increase in rate of salary increase	**$**	**3,652,100**
1.0% decrease in rate of salary increase	**$**	**3,283,700**

Maturity profile of liabilities at December 31, 2019:

Weighted average duration of liabilities	**17.0 years**

The Credit Union expects employer contributions of approximately $79,000 to be paid for the next fiscal year.

15. COMMITMENT

The Board has approved approximately $46,000 in capital expenditures for the purchase and installation of solar panels the in Spring of 2020. The Credit Union anticipates a rebate recovery of approximately $5,500 from the Province of Prince Edward Island to offset some of the costs.

16. MEMBERS' SHARES

	Number of shares	**December 31 2019**	Number of shares	December 31 2018
Balance - beginning of year	**3,108**	**$ 15,540**	3,157	$ 15,785
Shares issued, net of redemption	**698**	**3,490**	(49)	(245)
Balance - end of year	**3,806**	**$ 19,030**	3,108	$ 15,540

17. COST OF CAPITAL AND BORROWINGS

	2019	2018
Interest and service charges	**$ 965,880**	$ 707,454
Patronage dividends	**406,032**	339,631
Share dividends	**16,626**	18,916
	$ 1,388,538	$ 1,066,001

18. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 25.92% (2018 - 24.79%) to the income for the year and is reconciled as follows:

	2019	2018
Income before income taxes and other comprehensive income	**$ 530,400**	$ 478,927
Income tax expense at the combined basic federal and provincial tax rate	**$ 137,480**	$ 118,726
Increase (decrease) resulting from:		
Small business deduction	**(71,752)**	(77,120)
Capital cost allowance claimed in excess of amortization	**645**	(2,421)
Non-deductible expenses	**715**	1,490
Tax reserves	**(23,211)**	75,209
Provision for loan loss reserve	**40,645**	13,360
Recovery of loans previously written off	**726**	9,634
Loans written off in the current year	**15,580**	26,683
Employee future benefits	**7,898**	4,308
Effective tax expense	**$ 108,726**	$ 169,869

The effective income tax rate is 20.50% (2018 - 35.47%).

19. CASH FLOW SUPPLEMENTARY INFORMATION

	2019	2018
Interest received	**$ 3,103,857**	$ 2,674,597
Interest paid	**914,941**	662,812
Income taxes paid	**290,280**	42,671
Dividends paid	**422,658**	358,547

20. LINE OF CREDIT AVAILABILITY

The Credit Union has an approved line of credit with Atlantic Central Credit Union Limited of $1,566,000, 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.

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 year 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:

	2019	2018
Short-term employee benefits	**$ 365,422**	$ 346,777
Contributions to a retirement pension plan	**34,866**	33,299
Mortgages, loan balances, and lines of credit due from key management at December 31	**41,372**	45,755
Deposit balances due to key management at December 31	**8,511**	7,924

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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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.

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.

The Credit Union's maximum exposure to credit risk at the reporting date in relation to each class of recognized financial asset is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities or parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements the Credit Union holds as security for loans include: insurance and mortgages over residential lots and properties, recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and recourse to liquid assets, guarantees and securities. The value of collateral held against individual exposures is generally only assessed at the time of borrowing and when a specific review of that exposure is undertaken in accordance with policy.

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

	2019	2018
Cash and cash equivalents	$ 10,795,281	$ 3,585,048
Investments	5,589,492	5,017,027
Accounts receivable	940,623	656,892
Member loans and mortgages, net of provision	53,777,173	51,572,281
Restricted cash - retiring allowance	394,942	306,847
	$ 71,497,511	$ 61,138,095

(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.

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22. RISK MANAGEMENT *(continued)*

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 as follows:

	Under 1 year	Over 1 to 5 years	Over 5 years	Total
2019	$ 55,973,002	$ 9,189,564	$ 42,625	$ 65,205,191
2018	$ 49,777,104	$ 6,068,713	$ 95,908	$ 55,941,725

The Credit Union expects that many members will not request repayment on the earliest date the Credit Union could be required to pay.

The following is a maturity analysis of financial instruments on the statement of financial position that contain a current and non-current portion as of December 31, 2019:

	Under 1 year	Over 1 to 5 years	Over 5 years	Total
Investments	$ 4,367,553	$ -	$ 1,221,939	$ 5,589,492
Member loans and mortgages	$ 2,670,975	$ 50,997,765	$ 108,433	$ 53,777,173
Retirement allowance	$ 242,815	$ 64,502	$ 42,625	$ 349,942
Member deposits	$ 50,434,236	$ 9,099,726	$ -	$ 59,533,962

(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. At December 31, 2019, the Credit Union had cash and bank balances of $14,944 USD (2018 - $19,647 USD) and member accounts of $5,910 USD (2018 - $7,006 USD).

(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.

Before tax impact on net interest income of:	2019	2018
1% increase in interest rates	$ 117,595	$ 80,119
1% decrease in interest rates	$ (235,907)	$ (195,710)

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Souris Credit Union Limited has evaluated the fair value of its financial instruments based on the current interest rate environment, market values and the actual prices of financial instruments with similar terms. Fair value represents the amount at which a financial investment could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Credit Union's financial instruments.

A three-tier hierarchy is used as a framework for disclosing fair values based on inputs used to value the Credit Union's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

Level 1 - Quoted prices for active markets for identical financial instruments that the entity can access at the measurement date.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

24. 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, 2019 amounted to $54,112,451 (2018 - $51,808,060).

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.

	2019	2018
Members' shares	**$ 19,030**	$ 15,540
Accumulated other comprehensive income	**403,136**	539,036
Undistributed earnings	**6,587,602**	6,156,951
Total regulatory equity	**7,009,768**	6,711,527
Total assets	**72,214,957**	62,653,252
	9.71 %	10.71 %

(continues)

24. CAPITAL MANAGEMENT *(continued)*

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.

	2019	2018
Total assets	**$ 72,214,957**	$ 62,653,252
Liquid assets	**17,325,396**	10,028,949
	23.99 %	16.01 %

25. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current period's presentation.

SOURIS CREDIT UNION LIMITED
Schedules to Financial Statements (Schedule 1)
Statement of Property and Equipment
Year Ended December 31, 2019

	Cost beginning of year	Additions	Disposals and write downs	Cost end of year	Accum amort beginning of year	Amort in the year	Disposals and write downs	Accum amort end of year	Net book value
2019									
Land	$ 179,291	$ -	$ -	$ 179,291	$ -	$ -	$ -	$ -	$ 179,291
Building	999,384	-	-	999,384	608,181	19,558	-	627,739	371,645
Furniture and equipment	200,933	-	-	200,933	187,687	2,650	-	190,337	10,596
ATMs	50,073	-	-	50,073	5,007	9,014	-	14,021	36,052
Computer hardware	132,962	-	-	132,962	128,180	1,435	-	129,615	3,347
Pavement	38,670	-	-	38,670	30,450	658	-	31,108	7,562
	$ 1,601,313	$ -	$ -	$ 1,601,313	$ 959,505	$ 33,315	$ -	$ 992,820	$ 608,493
2018									
Land	$ 179,291	$ -	$ -	$ 179,291	$ -	$ -	$ -	$ -	$ 179,291
Building	999,384	-	-	999,384	587,588	20,593	-	608,181	391,203
Furniture and equipment	200,933	-	-	200,933	184,376	3,311	-	187,687	13,246
ATMs	55,654	50,073	(55,654)	50,073	45,807	5,006	(45,806)	5,007	45,066
Computer hardware	132,962	-	-	132,962	126,131	2,049	-	128,180	4,782
Pavement	38,670	-	-	38,670	29,736	714	-	30,450	8,220
	$ 1,606,894	$ 50,073	$ (55,654)	$ 1,601,313	$ 973,638	$ 31,673	$ (45,806)	$ 959,505	$ 641,808

Notes 1 - 25 are an integral part of these financial statements

Schedules to Financial Statements **(Schedule 2)**

Interest Rate Sensitivity

Year Ended December 31, 2019

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	$ 10,747,176	$ -	$ -	$ 48,105	$ 10,795,281
Effective interest rate	1.76 %	- %	- %	- %	
Investments	4,367,553	-	-	1,221,939	5,589,492
Effective interest rate	1.73 %	- %	- %	- %	
Accounts receivable	-	-	-	940,623	940,623
Personal and commercial loans and mortgages	1,500,994	50,997,765	108,434	-	52,607,193
Effective interest rate	4.07 %	6.03 %	6.81 %	- %	
Lines of credit and overdrafts	1,169,980	-	-	-	1,169,980
Effective interest rate	8.19 %	- %	- %	- %	
Income taxes recoverable	-	-	-	61,146	61,146
Prepaid expense	-	-	-	35,256	35,256
Deferred income taxes	-	-	-	57,551	57,551
Property and equipment	-	-	-	608,493	608,493
Restricted cash - retirement allowance	-	-	-	349,942	349,942
	$ 17,785,703	$ 50,997,765	$ 108,434	$ 3,323,055	$ 72,214,957
LIABILITIES AND MEMBERS' EQUITY					
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 528,129	$ 528,129
Employee benefits payable	-	-	-	245,098	245,098
Accrued interest payable	-	-	-	232,538	232,538
Member deposits	38,431,934	9,099,726	-	12,002,302	59,533,962
Effective interest rate	2.13 %	2.64 %	- %	- %	
Share deposits	4,211,184	-	-	-	4,211,184
Effective interest rate	0.50 %	- %	- %	- %	
Retirement allowance payable	-	-	-	349,942	349,942
Pension liability	-	-	-	104,336	104,336
Members' shares	19,030	-	-	-	19,030
Effective interest rate	0.50 %	- %	- %	- %	
Accumulated other comprehensive income	-	-	-	403,136	403,136
Undistributed earnings	-	-	-	6,587,602	6,587,602
	$ 42,662,148	$ 9,099,726	$ -	$ 20,453,083	$ 72,214,957

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, 2019, Souris Credit Union Limited's net interest spread was 2.42%. 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 - 25 are an integral part of these financial statements

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