

**SYDNEY CREDIT UNION LIMITED**  
**Financial Statements**  
*December 31, 2019*

# Independent Auditor's Report

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To the Members of Sydney Credit Union Limited

## Opinion

We have audited the financial statements of Sydney Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at December 31, 2019, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

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

## Other Matter

The financial statements of the Credit Union for the year ended December 31, 2018 were audited by MGM & Associates, Chartered Professional Accountants of Sydney, Nova Scotia, Canada, prior to its merger with MNP LLP. MGM & Associates, Chartered Professional Accountants expressed an unmodified opinion on those statements on March 19, 2019.

## 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 related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

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

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Sydney, Nova Scotia

April 28, 2020

*MNP LLP*

Chartered Professional Accountants

# SYDNEY CREDIT UNION LIMITED

## Financial Statements

Year ended December 31, 2019

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# SYDNEY CREDIT UNION LIMITED


## Statement of Financial Position

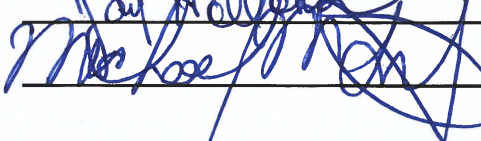
December 31, 2019, with comparative figures for 2018

	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents (note 5)	\$ 9,497,165	\$ -
Investments and deposits (note 6)	22,466,628	19,169,281
Loans to members (note 7)	178,528,043	177,927,203
Income taxes receivable	114,297	-
Other assets (note 9)	764,968	522,788
Property, buildings and equipment (note 10)	3,290,719	3,333,228
Deferred income tax liability (note 13)	-	8,000
	<u>\$ 214,661,820</u>	<u>\$ 200,960,500</u>
<b>LIABILITIES</b>		
Liabilities to members		
Deposits (note 11)	\$ 191,847,275	\$ 177,975,694
Accrued interest on deposits	745,744	411,211
Accrued patronage rebate (note 12)	210,003	260,357
	<u>192,803,022</u>	<u>178,647,262</u>
Liabilities to non-members		
Bank indebtedness (note 5)	-	1,104,374
Accounts payable and accrued liabilities	733,704	786,977
Deferred income tax liability (note 13)	40,600	-
Income taxes payable	-	202,013
	<u>774,304</u>	<u>988,990</u>
	<u>193,577,326</u>	<u>179,636,252</u>
<b>MEMBERS' EQUITY</b>		
Equity shares (note 14)	86,560	88,130
Retained earnings	19,674,389	18,808,199
Contributed surplus	1,323,545	1,323,545
Accumulated other comprehensive income	-	-
	<u>21,084,494</u>	<u>20,219,874</u>
	<u>\$ 214,661,820</u>	<u>\$ 200,960,500</u>

See accompanying notes to financial statements.

On behalf of the Board:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

# SYDNEY CREDIT UNION LIMITED

## Statement of Comprehensive Income

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
<b>INCOME</b>		
Interest on loans (note 12)	\$ 7,787,771	\$ 7,319,523
Investment income	580,593	368,841
	<u>8,368,364</u>	<u>7,688,364</u>
<b>INTEREST EXPENSE</b>		
Interest on members' deposits (note 15)	1,912,723	992,345
Loan interest and referral fees	171,813	302,304
	<u>2,084,536</u>	<u>1,294,649</u>
Financial margin	6,283,828	6,393,715
Other income (note 16)	2,061,431	2,158,730
	<u>8,345,259</u>	<u>8,552,445</u>
<b>EXPENSES</b>		
Personnel	3,278,166	3,318,646
Members' security (schedule)	207,483	191,860
General business (schedule)	2,558,327	2,502,470
Occupancy (schedule)	379,141	360,435
Provision for loan losses	622,428	698,487
Depreciation	177,957	179,413
	<u>7,223,502</u>	<u>7,251,311</u>
Income before income taxes	1,121,757	1,301,134
Income taxes (note 13)		
Current	206,967	428,345
Deferred	48,600	(20,400)
	<u>255,567</u>	<u>407,945</u>
<b>NET INCOME</b>	866,190	893,189
<b>OTHER COMPREHENSIVE INCOME</b>	-	-
<b>COMPREHENSIVE INCOME</b>	<u>\$ 866,190</u>	<u>\$ 893,189</u>

See accompanying notes to financial statements.

# SYDNEY CREDIT UNION LIMITED

## Statement of Changes in Members' Equity

Year ended December 31, 2019, with comparative figures for 2018

	Equity shares	Retained earnings	Contributed surplus	Accumulated other comprehensive income	Total
<b>BALANCE, DECEMBER 31, 2017</b>	\$ 86,880	\$ 17,667,317	\$ 1,323,545	\$ -	\$ 19,077,742
Comprehensive income	-	893,189	-	-	893,189
Shares issued	6,635	-	-	-	6,635
Shares redeemed	(5,385)	-	-	-	(5,385)
Allowance for impaired loans transition adjustment	-	247,693	-	-	247,693
<b>BALANCE, DECEMBER 31, 2018</b>	88,130	18,808,199	1,323,545	-	20,219,874
Comprehensive income	-	866,190	-	-	866,190
Shares issued	4,825	-	-	-	4,825
Shares redeemed	(6,395)	-	-	-	(6,395)
<b>BALANCE, DECEMBER 31, 2019</b>	\$ 86,560	\$ 19,674,389	\$ 1,323,545	\$ -	\$ 21,084,494

See accompanying notes to financial statements.

# SYDNEY CREDIT UNION LIMITED

## Statement of Cash Flows

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
<b>CASH FLOWS FROM OPERATIONS</b>		
Net income	\$ 866,190	\$ 893,189
Items not involving cash		
Depreciation	177,957	179,413
Deferred income taxes	48,600	(20,400)
Loss on disposal of capital assets	502	-
Change in opening allowance for IFRS 9 adoption	-	226,793
Change in non-cash operating working capital		
Increase in loans to members	(600,840)	(17,583,535)
Increase in income taxes receivable	(114,297)	-
Decrease (increase) in other assets	(242,180)	178,439
Increase in deposits	13,871,581	9,813,447
Increase in accrued interest on deposits	334,533	218,788
Increase (decrease) in accrued patronage rebate	(50,354)	60,350
Decrease in accounts payable and accrued liabilities	(53,273)	(27,588)
Increase (decrease) in income taxes payable	(202,013)	130,209
	14,036,406	(5,930,895)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in equity shares, net	(1,570)	1,250
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Increase in investments and deposits	(3,297,347)	(805,430)
Purchase of property, buildings and equipment	(135,950)	(119,277)
	(3,433,297)	(924,707)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	10,601,539	(6,854,352)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>		
	(1,104,374)	5,749,978
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>		
	\$ 9,497,165	\$ (1,104,374)
<b>Supplemental cash flow information</b>		
Cash paid during the year for		
Interest on members' deposits	\$ 1,568,505	\$ 752,134
Income taxes	523,277	298,136
Cash received during the year for		
Dividends and interest on investments	571,781	390,683
Interest on loans to members	7,838,800	7,291,007

See accompanying notes to financial statements.



# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2019

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## 1. REPORTING ENTITY

The Credit Union was incorporated November 16, 1935 under the Credit Union Act of Nova Scotia and its principal activity is providing financial services to members. For financial reporting and regulating matters, the Credit Union is under the authority of the Superintendent of Credit Unions of Nova Scotia.

The Credit Union's registered office is located at 95 Townsend Street, Sydney, Nova Scotia, Canada.

## 2. BASIS OF PREPARATION

### *Statement of compliance*

These financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial statements for the year ended December 31, 2019 were authorized for issue by the Board of Directors on April 28, 2020.

### *Basis of preparation*

These financial statements are presented in Canadian dollars which is the Credit Union's functional currency. They are prepared on the historical cost basis except for certain financial instruments that are measured at amortized cost, as explained in the significant accounting policies of the Credit Union.

### *Use of significant accounting judgments, estimates and assumptions*

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from estimates made in these financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 2. BASIS OF PREPARATION (continued)

The most significant use of judgments and estimates are as follows:

a) Judgments

Judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements are as follows:

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.

b) Assumptions and estimation uncertainties

Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended December 31, 2019 are as follows:

Impairment of financial instruments: assessment of whether credit risk of the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit loss.

Impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

Determination of the fair value of financial instruments with significant unobservable inputs.

Recognition of deferred tax assets to the extent that it is probable that taxable income will be available against which carry forward tax losses can be utilized.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events based on forward-looking information. Management believes the estimates used in preparing these financial statements are reasonable. Actual results in the future may differ from those reported.

*New standards and interpretations not yet adopted*

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 applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Credit Union.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of material accounting policies adopted by the Credit Union in the preparation of the financial statements. The accounting policies have been consistently applied.

### (a) Financial instruments

#### i) Recognition and initial measurement

The Credit Union initially recognizes loans to members and deposits liabilities on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Credit Union becomes a party to the contractual provisions of the instrument.

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.

#### ii) Classification

##### Financial assets

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

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as a fair value through profit or loss:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

#### *Business model assessment*

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Credit Union management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

*Assessment whether contractual cash flows are solely payments of principal and interest*

For the purposes of this assessment 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

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

*Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated. There were no changes to any of the Credit Union business models during the current year (2018 - nil).

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### iii) Derecognition

#### Financial assets

The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Credit Union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial 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 other comprehensive income is recognized in profit or loss.

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

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 value of the transferred asset.

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

#### Financial liabilities

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

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### iv) Modifications of financial assets and financial liabilities

#### Financial assets

If the terms of a financial asset are modified, the Credit Union evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Credit Union recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

#### Financial liabilities

The Credit Union derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

### v) Impairment

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

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

No impairment loss is recognized on equity investments.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Credit Union considers a debt security to have a low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month expected credit losses are the portion of the expected credit loss that result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### *Measurement of expected credit loss*

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

- financial assets that are not credit-impaired of the reporting date: as the present value of all cash shortfalls;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to received; and
- financial guarantee contracts: the expected payments to reimburse the holder less amounts that the Credit Union expects to recover.

#### *Restructured financial assets*

If the terms of a financial asset are renegotiated or modified or an existing financial asset 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 and expected credit losses are measured as follows:



# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

#### *Credit impaired financial assets*

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

In making an assessment of whether an investment in debt securities is credit-impaired, the Credit Union considers the following factors:

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- the market's assessment of credit worthiness as reflected in bond yields;
- the rating agencies' assessments of creditworthiness;
- the issuer's ability to access the capital markets for new debt issuance; and
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

#### *Presentation of allowance for expected credit loss in the statement of financial position*

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Credit Union cannot identify the expected credit loss on the loan commitment component separately from those on the drawn component: the Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the loss amount of the drawn component is presented as a provision; and
- debt instruments measured at fair value through other comprehensive income: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

#### *Write-off*

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. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with Atlantic Central, excluding segregated liquidity deposits, and short-term deposits with original maturities of three months or less. Cash and cash equivalents are used by the Credit Union in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

### (c) Investments and deposits

The 'investments and deposits' caption in the statement of financial position includes:

- debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

The Credit Union elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

(d) Loans to members

Loans to members include personal loans, mortgages and lines of credit. All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

(e) Property, buildings and equipment

Property, buildings and equipment are measured on the cost basis less depreciation and impairment losses. The carrying amount of property, buildings and equipment is reviewed annually for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

(f) Depreciation

Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property, buildings and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

Depreciation of property, buildings and equipment for the current and comparative periods is based on their estimated useful life using the following annual rates:

Asset	Basis	Rate
Building - Sydney	Declining balance	2%
Building - Sydney River	Declining balance	4%
Pavement	Declining balance	5%
Furniture and equipment	Declining balance	10%
Vehicle	Declining balance	30%

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# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Foreclosed assets

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

### (h) Deposits from members

Deposits from members are the Credit Union's main source of funding. They are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

### (i) Employee benefits

#### i) Short-term employee benefits

Short-term employee benefits include salaries and wages, employee benefits, allowances, bonuses and burdens. Short-term employee benefits are expensed as the related service is provided.

#### ii) Post-employment benefits

The Credit Union operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Credit Union by the employees and is recorded as part of personnel expense. Unpaid contributions are recorded as a liability.

### (j) Equity shares

Equity shares are presented in the statement of financial position as equity instruments in accordance with the substance of the contractual terms of the instruments. These shares qualify as capital for regulatory purposes. Payments of dividends on equity shares presented as equity are recognized as a distribution directly in equity.

Dividends are recorded when declared by the Board of Directors.

### (k) Revenue recognition

i) 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:

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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 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.

#### *Calculation of interest income and expense*

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to be amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

#### *Presentation*

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis; and
- interest on debt instruments measured at fair value through other comprehensive income on an effective interest basis.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- ii) Dividend income is recognized when the right to receive income is established. Dividends are presented in investment income on the statement of comprehensive income.
- iii) Other fees and commission income are recognized over the period the services are performed.

### (l) Income taxes

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the statement of financial position date.

Deferred income tax is provided on temporary differences at the statement of financial position date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- i) Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- ii) In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused income tax credits and unused income tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused income tax credits and unused income tax losses can be utilized except:

- i) Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- ii) In respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current income tax and deferred income tax relating to items recognized directly in equity are also recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

#### (m) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange at the statement of financial position date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation gains and losses are recognized immediately in profit or loss and are included in the other operating income line item in the statement of comprehensive income.



# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Under this method, the net identifiable assets acquired are measured at fair value as at the date of acquisition. Acquisition related transaction costs are expensed in the period in which such costs are incurred and the services received. The excess of the purchase price over the fair value of the net identifiable assets acquired, if any, is recognized as goodwill.

## 4. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### *Classification of financial assets and financial liabilities*

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments:

December 31, 2019			
	FVOCI	Amortized cost	Total carrying value
Loans to members	\$ -	\$ 178,528,043	\$ 178,528,043
Investments and deposits			
Debentures and segregated liquidity deposits	-	18,129,596	18,129,596
Share capital	4,337,032	-	4,337,032
Other assets	-	462,950	462,950
<b>TOTAL FINANCIAL ASSETS</b>	<b>\$ 4,337,032</b>	<b>\$ 197,120,589</b>	<b>201,457,621</b>
Liabilities to members	\$ -	\$ 192,803,022	\$ 192,803,022
Liabilities to non-members	-	733,704	733,704
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>\$ -</b>	<b>\$ 193,536,726</b>	<b>\$ 193,536,726</b>

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 4. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

December 31, 2018			
	FVOCI	Amortized cost	Total carrying value
Loans to members	\$ -	\$177,927,203	\$177,927,203
Investments and deposits			
Debentures and segregated liquidity deposits	-	14,866,356	14,866,356
Share capital	4,302,925	-	4,302,925
Other assets	-	386,064	386,064
<b>TOTAL FINANCIAL ASSETS</b>	<b>\$ 4,302,925</b>	<b>\$193,179,623</b>	<b>\$197,482,548</b>
Liabilities to members	\$ -	\$178,647,262	\$178,647,262
Liabilities to non-members	-	1,891,351	1,891,351
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>\$ -</b>	<b>\$180,538,613</b>	<b>\$180,538,613</b>

## 5. CASH AND CASH EQUIVALENTS

	2019	2018
Cash on hand	\$ 1,585,908	\$ 1,462,643
Accounts held at Atlantic Central	475,656	(2,656,940)
Cash management liquidity	7,303,441	89,923
Short-term deposits	132,160	-
	<b>\$ 9,497,165</b>	<b>\$ (1,104,374)</b>

The Credit Union has an authorized operating line of credit of \$5,024,000 with Atlantic Central at prime rate, which is secured by an assignment of members' loans. The line of credit balance was \$332,121 at December 31, 2019 (\$3,544,249 - 2018).

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 6. INVESTMENTS AND DEPOSITS

	2019	2018
Amortized cost		
Debentures with Concentra Financial	\$ 660,800	\$ 856,349
Debentures with Central 1	2,000,000	-
Segregated liquidity deposits	15,468,796	14,010,007
	18,129,596	14,866,356
FVOCI		
Shares		
Atlantic Central - Common	1,712,970	1,747,700
Atlantic Central - Class Nova Scotia Provincial	441,000	441,000
Atlantic Central - Class League Savings and Mortgage	1,127,877	1,059,040
League Data Limited	54,100	54,100
Concentra Financial - Class A Preferred	1,000,000	1,000,000
Concentra Bank - Common shares	10	10
Other	1,075	1,075
	4,337,032	4,302,925
<b>Total investments and deposits</b>	<b>\$ 22,466,628</b>	<b>\$ 19,169,281</b>

The Credit Union designated its investments in Atlantic Central and League Data Limited equity securities as at fair value through other comprehensive income. The fair value through other comprehensive income designation was made because the shares in Atlantic Central and League Data Limited are a condition of membership in each entity. There is no active market for these shares as they are issued by virtue of membership. The shares are redeemable upon withdrawal of membership or at the discretion of Atlantic Central and League Data Limited. In addition, the member credit unions are subject to additional capital call as determined by the entity's Board of Directors. The shares may be surrendered upon withdrawal from membership for proceeds equal to the paid in value.

### Credit quality

All investments are considered to be low risk and the Credit Union has not recognized any allowance for impairment of investments and deposits (\$nil - 2018).

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 7. LOANS TO MEMBERS

	2019			2018		
	Gross carrying amount	Expected credit loss allowance	Carrying amount	Gross carrying amount	Expected credit loss allowance	Carrying amount
Personal loans	\$ 31,910,722	\$ 651,351	\$ 31,259,371	\$ 36,806,465	\$ 872,372	\$ 35,934,093
Residential mortgages	106,549,883	76,246	106,473,637	97,461,030	75,160	97,385,870
Lines of credit	16,999,608	156,050	16,843,558	17,788,158	98,321	17,689,837
Commercial loans	20,679,085	44,758	20,634,327	18,713,736	38,905	18,674,831
Commercial mortgages	3,326,010	8,860	3,317,150	8,242,572	-	8,242,572
<b>TOTAL LOANS</b>	<b>\$ 179,465,308</b>	<b>\$ 937,265</b>	<b>\$ 178,528,043</b>	<b>\$ 179,011,961</b>	<b>\$ 1,084,758</b>	<b>\$ 177,927,203</b>

### *Loan commitments*

The Credit Union has authorized lines of credit in the amount of \$15,699,725 which are unutilized at December 31, 2019 (\$15,179,167 - 2018).

The Credit Union was committed to the issuance of new loans to members of \$4,035,007 at December 31, 2019 (\$1,041,350 - 2018).

## 8. ALLOWANCE FOR IMPAIRED LOANS

### *Inputs, assumptions, and techniques used for estimating impairment*

#### *Significant increase in risk*

When determining whether the risk of default in 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 Unions historical experience and expert credit assessment and 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.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 8. ALLOWANCE FOR IMPAIRED LOANS (continued)

### *Credit risk grades*

The Credit Union considers each exposure to a credit risk based on a variety of data that is determined to be predictive of the risk of default and applying experience credit judgment. Credit risk is 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.

Exposure to credit risk is subject to ongoing monitoring, which may result in an increase in credit risk. The monitoring of risk typically involves the use of the following data:

- External data from credit reference agencies,
- Income and affordability metrics,
- Payment record,
- Information obtained during periodic review of member files such as financial statements, ratios, budgets and projections,
- Internally collected data on customer credit behavior.

### *Generating the term and structure of probability of default (PD)*

In order to determine whether credit risk has increased significantly, the Credit Union uses its expert credit judgment and, where possible, relevant historical experience. The Credit Union may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not be otherwise fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Credit Union considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined without consideration of any grace period that might be available to the borrower.

The Credit Union monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before exposure is in default.

### *Definition of default*

The Credit Union considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Credit Union in full, without recourse by the Credit Union to actions such as realizing security.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 8. ALLOWANCE FOR IMPAIRED LOANS (continued)

- The borrower is past due more than 90 days on any material credit obligation to the Credit Union.
- The Credit Union agrees to a distressed restructuring resulting in a material credit related diminished asset stemming from such actions as material forgiveness or postponement of payments.
- The Credit Union has filed for the borrower's bankruptcy in connection with the credit obligation.
- The borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

In assessing whether the borrower is in default, the Credit Union considers indicators that are qualitative, quantitative and based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

### *Incorporation of forward-looking information*

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of expected credit loss. The Credit Union has identified key drivers of credit risk and credit losses on its portfolio and, using the analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. Key forward-looking indicators include unemployment rates, real estate market information and interest rates.

### *Measurement of expected credit losses*

The key inputs into the measurement of expected credit losses (ECL) are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- 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 and the expert judgment of the Credit Union.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 8. ALLOWANCE FOR IMPAIRED LOANS (continued)

PD estimates are estimates at a certain date, which are calculated based on qualitative and quantitative factors. Where it is available, market data may also be used to derive PD. PD is estimated considering contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of 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. The LGD models consider the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The EAD of a financial asset includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations.

### *Allowance for impairment*

The following table shows the reconciliations from the opening to the closing balance of the allowance for impairment.

	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at December 31, 2018	\$ 528,773	\$ 117,216	\$ 438,769	\$ 1,084,758
Transfer to 12-month ECL	104,566	(15,731)	(88,835)	-
Transfer to lifetime ECL not credit-impaired	(48,922)	55,069	(6,147)	-
Transfer to lifetime ECL credit-impaired	(203,366)	-	203,366	-
Net remeasurement of loss allowance	626,956	(51,734)	47,206	622,428
Write-offs	(658,853)	-	(209,779)	(868,632)
Recoveries of amounts previously written off	98,711	-	-	98,711
Balance at December 31, 2019	\$ 447,865	\$ 104,820	\$ 384,580	\$ 937,265

### *Credit quality analysis*

The following table sets out information about the credit quality and expected credit loss (ECL) of loans to members measured at amortized cost. Unless specifically indicated, the amounts in the table represent the gross carrying amounts.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 8. ALLOWANCE FOR IMPAIRED LOANS (continued)

				2019	2018
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total	Total
<i>Loans to members</i>					
Low-fair risk	\$175,815,940	\$ -	\$ -	\$175,815,940	\$175,706,365
Watch list	-	2,511,008	-	2,511,008	2,239,919
Doubtful or impaired	-	-	1,138,360	1,138,360	1,065,677
Total	175,815,940	2,511,008	1,138,360	179,465,308	179,011,961
Allowance for impairment	430,044	104,820	384,580	919,444	1,065,992
Carrying amount	175,385,896	2,406,188	753,780	178,545,864	177,945,969
<i>Loan commitments</i>					
Low-fair risk	15,699,725	-	-	15,699,725	15,179,167
Allowance for impairment	17,821	-	-	17,821	18,766
Carrying amount	15,681,904	-	-	15,681,904	15,160,401
	\$191,067,800	\$ 2,406,188	\$ 753,780	\$194,227,768	\$193,106,370

## 9. OTHER ASSETS

	2019	2018
Accounts receivable	\$ 222,600	\$ 149,232
Accrued interest receivable	240,350	236,832
Prepaid expenses	90,296	79,142
Foreclosed asset	211,722	57,582
	\$ 764,968	\$ 522,788



# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 10. PROPERTY, BUILDINGS AND EQUIPMENT

	2019			
	Balance beginning of year	Additions/ depreciation expense	Disposals/ Adjustments	Balance end of year
<b>Cost</b>				
Land	\$ 855,767	\$ -	\$ -	\$ 855,767
Buildings	3,401,718	109,080	(147,093)	3,363,705
Furniture and equipment	2,913,365	26,870	(257,522)	2,682,713
Pavement	85,020	-	(2,756)	82,264
Fence	3,745	-	-	3,745
Vehicle	38,870	-	-	38,870
	7,298,485	135,950	(407,371)	7,027,064
<b>Accumulated depreciation</b>				
Buildings	1,424,243	63,497	(147,094)	1,340,646
Furniture and equipment	2,466,972	110,980	(257,019)	2,320,933
Pavement	34,628	2,520	(2,756)	34,392
Fence	3,745	-	-	3,745
Vehicle	35,669	960	-	36,629
	3,965,257	177,957	(406,869)	3,736,345
	\$ 3,333,228	\$ (42,007)	\$ (502)	\$ 3,290,719
	2018			
	Balance beginning of year	Additions/ depreciation expense	Disposals/ Adjustments	Balance end of year
<b>Cost</b>				
Land	\$ 855,767	\$ -	\$ -	\$ 855,767
Buildings	3,357,768	43,950	-	3,401,718
Furniture and equipment	2,838,038	75,327	-	2,913,365
Pavement	85,020	-	-	85,020
Fence	3,745	-	-	3,745
Vehicle	38,870	-	-	38,870
	7,179,208	119,277	-	7,298,485
<b>Accumulated depreciation</b>				
Buildings	1,360,188	64,055	-	1,424,243
Furniture and equipment	2,355,638	111,334	-	2,466,972
Pavement	31,976	2,652	-	34,628
Fence	3,745	-	-	3,745
Vehicle	34,297	1,372	-	35,669
	3,785,844	179,413	-	3,965,257
	\$ 3,393,364	\$ (60,136)	\$ -	\$ 3,333,228

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 11. DEPOSITS

	2019	2018
Chequing	\$ 48,336,806	\$ 47,523,002
Savings	71,143,913	69,842,868
Term deposits	27,378,101	22,927,094
Registered retirement savings plans	16,473,440	14,113,167
Registered retirement income funds	6,332,454	5,147,688
Tax-free savings	22,182,561	18,421,875
	<u>\$191,847,275</u>	<u>\$177,975,694</u>

Subject to certain limitations, members' deposits are insured by the Nova Scotia Credit Union Deposit Insurance Corporation.

### *Term deposits*

Term deposits for periods of one to five years generally may not be withdrawn, prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

### *Registered retirement plans*

Concentra Trust is the trustee for the registered retirement plans offered to members. Under an agreement with Concentra Trust, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members, or the parties designated by them, by the Credit Union, on behalf of Concentra Trust.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 12. ACCRUED PATRONAGE REBATE

The patronage rebate is authorized by the Board of Directors and is allocated to members annually based on the volume of business transacted by each member with the Credit Union during the year. The patronage rebate has reduced income and increased expenses as follows:

	2019	2018
Income		
Interest on loans		
Interest on loans	\$ 46,555	\$ 76,715
Interest on mortgages	40,741	56,317
	87,296	133,032
Service charges	74,378	88,681
	161,674	221,713
Expenses		
Interest on members' deposits	48,329	38,644
	\$ 210,003	\$ 260,357

## 13. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 31.0% (2018 - 31.0%) to income before income taxes. The reasons for the differences and related tax effects are as follows:

	2019	2018
Income before income taxes	\$ 1,121,757	\$ 1,301,134
Tax at applicable tax rate	\$ 347,745	\$ 403,352
Tax effect resulting from application of rate reductions for small business income	(95,000)	(90,000)
Tax effect resulting from non-deductible expenses	3,008	3,409
Tax effect resulting from equity adjustment for IFRS 9	-	91,247
Other	(186)	(63)
Income taxes	\$ 255,567	\$ 407,945

The tax effects of temporary differences that give rise to deferred income tax assets and deferred income tax liabilities at December 31, 2019 and 2018 are presented below:

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 13. INCOME TAXES (continued)

	2019	2018
<b>Deferred income tax assets</b>		
Accounts payable and accrued liabilities, due to accrual of personnel costs for financial reporting purposes	\$ 90,700	\$ 109,500
Loans to members, due to difference in allowance for financial reporting and tax purposes	154,000	181,200
Foreclosed assets, due to provision for impairment in value	10,900	10,900
Total gross deferred income tax assets	255,600	301,600
<b>Deferred income tax liabilities</b>		
Property, buildings and equipment, difference in net book value and undepreciated capital cost	159,500	156,900
Investments, difference in cost bases of shares	136,700	136,700
Total gross deferred income tax liabilities	296,200	293,600
Net deferred income tax asset (liability)	\$ (40,600)	\$ 8,000

## 14. EQUITY SHARES

The Credit Union has an unlimited number of authorized equity shares. The shares have a \$5.00 par value, are redeemable at \$5.00 each and have no entitlement to interest or dividends. Dividends may be paid at the discretion of the Board of Directors. Equity shares are not insured by the Nova Scotia Credit Union Deposit Insurance Corporation.

A continuity of equity shares is as follows:

	2019	2018
Equity shares, beginning of year	17,626	17,376
Issued during the year	965	1,327
Redeemed during the year	(1,279)	(1,077)
Equity shares, end of year	17,312	17,626

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 15. INTEREST ON MEMBERS' DEPOSITS

	2019	2018
Chequing	\$ 858	\$ 1,329
Savings	399,729	341,888
Term deposits	694,252	242,437
Registered retirement savings plans	311,542	153,234
Registered retirement income funds	124,407	61,255
Tax-free savings	381,935	192,202
	<u>\$ 1,912,723</u>	<u>\$ 992,345</u>

## 16. OTHER INCOME

	2019	2018
Service charges	\$ 1,322,297	\$ 1,328,248
Commissions	310,623	332,059
Electronic fees	56,829	59,113
Referral fees	4,458	11,440
Applied Wealth Strategies	106,981	136,751
Other	260,243	291,119
	<u>\$ 2,061,431</u>	<u>\$ 2,158,730</u>

## 17. PENSION PLAN

The Credit Union maintains a defined contribution pension plan for its current and retired employees. The total expense recognized in the statement of comprehensive income for the defined contribution plan is \$207,464 (\$217,293 - 2018), which represents the total cash amount paid or payable by the Credit Union to the plan during the year.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 18. RISK MANAGEMENT

- (a) The types of risk inherent in the Credit Union environment include credit, foreign currency, liquidity and interest rate risk.
- i) Credit risk is the potential for loss due to the failure of a borrower to meet its financial obligations. The Credit Union mitigates its lending credit risk exposure by defining its target market area, limiting the principal amount of credit to a borrower at any given time, providing credit analysis prior to approval of the loan, obtaining collateral when appropriate, and employing risk based pricing. Along with other credit unions in the Province of Nova Scotia, the Credit Union is restricted in making larger commercial loans without prior approval of Atlantic Central Lending Services.
  - ii) Foreign currency risk refers to the potential impact of changes in foreign currency exchange amounts when foreign currency financial assets are not matched with foreign currency liabilities. The Credit Union is not exposed to significant foreign currency risk.
  - iii) Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. To mitigate this risk, Atlantic Central requires the Credit Union to maintain, at all times, liquidity that is adequate in relation to the business carried on. The level of liquidity is based on a prescribed percentage of total deposit liabilities. At December 31, 2019, the prescribed liquidity requirement was 10% and the actual liquidity was 15.4% (2018 - 10.1%) of total deposit liabilities.
  - iv) Interest rate risk refers to the potential impact on the Credit Union's earnings and net asset values due to changes in interest rates. Interest rate risk results primarily from differences in the maturity or repricing dates of assets and liabilities. The Credit Union monitors interest rate risk inherent in the portfolio of assets and liabilities to measure the impact of interest rate changes with the objective of managing the impact of interest rate changes within self-imposed limits, thus minimizing fluctuations of income during periods of changing interest rates. The Credit Union's major source of income is the financial margin between the income earned on investments and loans to members, and the interest paid to members on their deposits.

Based on actual balances at December 31, 2019 and budgeted balances for 2020, if interest rates were to decrease by 100 basis points in January 2020, after-tax net income would decrease \$258,200. If interest rates were to increase by 100 basis points in January 2020, after-tax net income would increase \$253,600. This estimate is based on the Credit Union's current and budgeted mix of variable and fixed rate loans and deposits.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within six months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 18. RISK MANAGEMENT (continued)

repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

	Financial statement amounts		
	Assets	Liabilities and members' equity	Net asset/ liability mismatch
<1 year	\$ 96,616,810	\$ 106,878,672	\$ (10,261,862)
1-2 years	30,858,599	12,573,173	18,285,426
2-3 years	31,321,537	4,249,673	27,071,864
3-4 years	25,887,999	10,844,586	15,043,413
4-5 years	20,867,539	9,023,736	11,843,803
>5 years	2,356,958	-	2,356,958
Not interest sensitive	6,752,378	71,091,980	(64,339,602)
	\$ 214,661,820	\$ 214,661,820	\$ -

Interest-sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity, nor would a perfect match be desirable. One of the roles of a Credit Union is to intermediate between the expectations of borrowers and depositors.

Information regarding weighted average rates (when available) and balances is shown below:

	Amount	Rate
Loans to members		
Personal and commercial loans	\$ 52,589,807	5.8%
Residential and commercial mortgages	109,875,893	3.6%
Lines of credit	16,999,608	5.9%
	\$ 179,465,308	
Deposit liabilities		
Chequing	\$ 48,336,806	0.1%
Savings	71,143,913	0.5%
Term deposits	27,378,101	2.6%
Registered retirement plans	22,805,894	2.1%
Tax-free savings	22,182,561	1.7%
	\$ 191,847,275	

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 18. RISK MANAGEMENT (continued)

### (b) Fair value of financial assets and liabilities

The following is a breakdown of how financial instruments have been classified by the Credit Union by category, showing the carrying amount, the fair value and the difference of each financial asset and liability. The maximum credit risk exposure to the below financial assets is their carrying amounts. Fair values are based on market conditions at a specific point in time and may not be reflective of future fair values.

	Carrying amount	Fair value	Fair value difference
<b>Financial Assets</b>			
Amortized cost			
Segregated liquidity deposits	\$ 15,468,796	\$ 15,468,796	\$ -
Investments - debentures	2,660,800	2,658,268	2,532
Loans to members	178,528,043	176,967,178	1,560,865
Accounts receivable	222,600	222,600	-
Accrued interest on loans to members	220,273	220,273	-
Accrued interest on investments	20,077	20,077	-
FVOCI			
Investments - shares	4,337,032	4,337,032	-
	<b>\$ 201,457,621</b>	<b>\$ 199,894,224</b>	<b>\$ 1,563,397</b>
<b>Financial Liabilities</b>			
Amortized cost			
Deposits	\$ 191,847,275	\$ 192,682,081	\$ (834,806)
Accrued interest on deposits	745,744	745,744	-
Accrued patronage rebate	210,003	210,003	-
Accounts payable and accrued liabilities	733,704	733,704	-
	<b>\$ 193,536,726</b>	<b>\$ 194,371,532</b>	<b>\$ (834,806)</b>

The above estimates were determined by management using the assumptions outlined below. Fair values are an estimate based on current market conditions and may not be reliable due to the use of assumptions.



# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 18. RISK MANAGEMENT (continued)

Interest rate sensitivity is the main reason for changes in fair values of the Credit Union's financial instruments. With the exception of available-for-sale financial instruments, the carrying value is not adjusted to reflect fair value, as it is the Credit Union's intention to realize their value over time.

The following are the methods and assumptions used to estimate the fair value of financial instruments:

The carrying values of cash, liquidity deposits, accounts receivable and accrued interest receivable, as well as accrued interest on deposits, accrued patronage rebate and accounts payable and accrued liabilities, approximate their fair values due to the relatively short periods to maturity of the instruments.

The fair values of equity investments are their carrying amounts because fair value could not be measured reliably due to a lack of quoted prices in an active market. The fair value of long-term debenture investments is determined by discounting the expected future cash flows of these financial instruments at current market rates for products with similar terms and credit risks.

The fair values of loans to members and members' deposits are determined by two methods. Variable rate loans to members and members' deposits are estimated to be at fair value, as the interest rates of these financial instruments vary with market interest rates. Fixed rate loans to members and members' deposits' fair value is determined by discounting the expected future cash flows of these financial instruments at current market rates for products with similar terms and credit risks.

- (c) Fair value measurements can be classified in a hierarchy in order to discern the significance of management assumptions and other inputs incorporated into the measurements. The three levels of fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 18. RISK MANAGEMENT (continued)

Level 3 - Inputs for the asset or liability that are not based on observable market data. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments are required to reflect differences between the instruments.

The Credit Union has no financial instruments carried at fair value that are classified as Level 1. The Credit Union's financial instruments carried at amortized cost are all classified as Level 2.

### (d) Capital management

The Credit Union's objectives when managing capital are:

To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for members and benefits for other stakeholders, and

To provide an adequate return to members by pricing products and services commensurately with the level of risk and market forces.

The Credit Union manages its capital through a set of formalized management policies and through corporate governance at the level of the Board of Directors and related committees. Due to the nature of the Credit Union, capital is also managed through the maintaining of liquidity deposits at Atlantic Central (note 18(a)iii)).

In addition, the Credit Union Act requires the Credit Union to maintain at all times a prescribed capital base. The required level of capital, consisting of members' equity, is 5% of the total assets. The actual capital base at December 31, 2019 is 9.8% (2018 - 10.1%) of the total assets.

### (e) Concentration of risk

The Credit Union has an exposure to risk related to individual loans which account for a sizable portion of the total loan portfolio. The Credit Union's most sizable loans which account for 10% of the total loan portfolio amount to 15 loans ranging from \$457,896 to \$3,261,195 (2018 - 14 loans ranging from \$630,573 to \$9,916,758). These loans are secured by real property with appraised values greater than the borrowed amount at the time of disbursement.

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 19. RELATED PARTY TRANSACTIONS

Key management personnel, directors and their related parties have outstanding balances with the Credit Union at December 31 as follows:

	2019	2018
Loans to members	\$ 670,413	\$ 475,251
Members' deposits	488,184	758,357
Equity shares	180	155

The interest rates charged on balances outstanding from directors and their related parties are the same as those charged in an arm's length transaction. The interest rates charged on balances outstanding from key management and their related parties are 1% less than those charged in an arm's length transaction, subject to a minimum equal to prime rate. Loan and mortgage balances are secured as per the Credit Union's lending policies.

There was no allowance for impaired loans required in respect of these loans as at December 31, 2019.

Key management personnel and their related parties received compensation in the year which comprised of:

	2019	2018
Salaries and other short-term employee benefits	\$ 314,848	\$ 294,695
Post-employment benefits	23,085	19,588
	\$ 337,933	\$ 314,283

Directors received the following amounts for serving the Credit Union:

	2019	2018
Directors' expenses	\$ 5,604	\$ 18,433
Directors' remuneration	34,906	34,465
	\$ 40,510	\$ 52,898

# SYDNEY CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 20. SUBSEQUENT EVENT

Subsequent to year end, the COVID-19 pandemic is causing significant economic and social dislocation. The situation is dynamic with various organizations and governments responding in different ways to address the outbreak. The Credit Union continues to monitor the situation to assess the impact the pandemic may have on its operations and the value of its financial assets, including its members' ability to service and repay loans. The extent of the effect of the COVID-19 pandemic on the Credit Union is uncertain at this time.

# SYDNEY CREDIT UNION LIMITED

## Schedule of Expenses

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
<b>MEMBERS' SECURITY</b>		
Deposit insurance	\$ 166,565	\$ 154,639
Bonding insurance	40,918	37,221
	<b>\$ 207,483</b>	<b>\$ 191,860</b>
<b>GENERAL BUSINESS</b>		
Service fees and charges	\$ 1,087,543	\$ 1,108,467
Data processing	324,449	325,273
Advertising and promotion	272,319	252,056
Miscellaneous	253,214	236,414
Central assessment and dues	230,569	227,195
Educational	108,755	87,442
Office and stationery	65,553	63,858
Service contracts and maintenance	59,268	44,687
Postage	55,936	57,405
Telephone	42,368	48,517
Professional fees	40,655	34,381
Scholarships	9,900	9,600
Administrative fees - RRSP	7,798	7,175
	<b>\$ 2,558,327</b>	<b>\$ 2,502,470</b>
<b>OCCUPANCY</b>		
Municipal taxes	\$ 122,055	\$ 122,174
Heat, lights and water	75,573	82,122
Repairs and maintenance	74,296	49,835
Janitorial and cleaning supplies	74,234	74,272
Insurance	32,983	32,032
	<b>\$ 379,141</b>	<b>\$ 360,435</b>