



2017

Annual Report

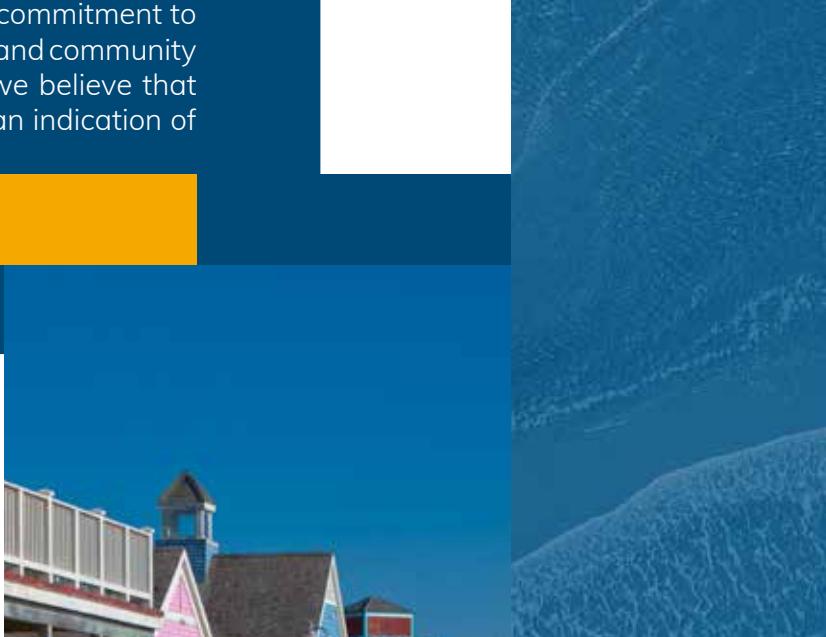


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Mission At Consolidated Credit Union, we are focused on you: your community, your future, your prosperity. We want to be a partner in your success. We're committed to providing outstanding financial service and wise financial guidance that will enable you, our members, to reach your financial goals.

We pride ourselves in our commitment to serving you, our members, and community as best as possible, and we believe that this annual report will be an indication of that commitment.



Values
Honest
Passionate
Holistic
Spiritual
Evolutionary
Simplistic
Inclusive



2017 Highlights

Assets: **\$191,620,519**
Deposits: **\$183,672,589**
Loans: **\$154,715,830**
Membership: **7,550**

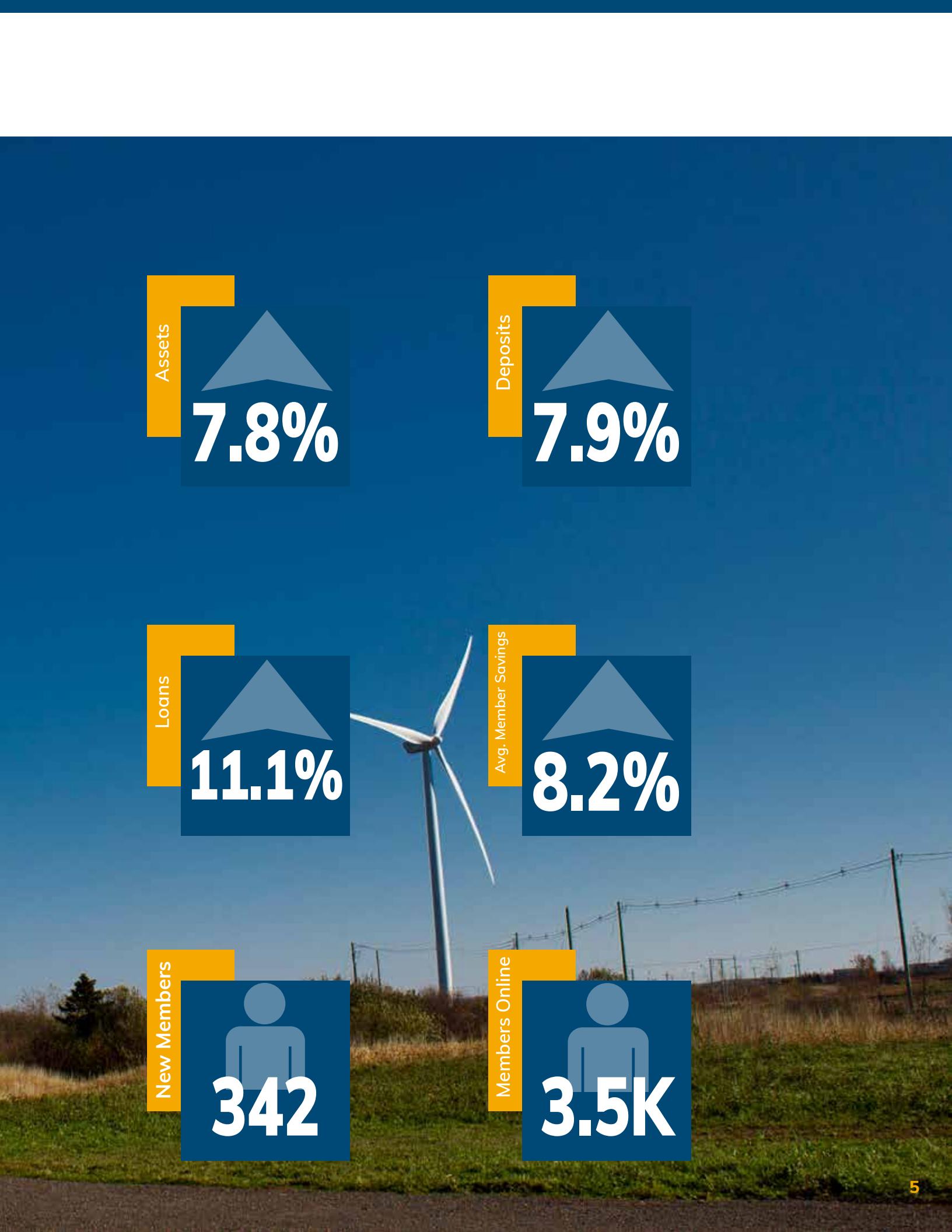
Back to Members

\$
44K

Back to Communities

\$
124K



A photograph of a wind turbine standing in a grassy field under a clear blue sky. The wind turbine has three blades and is positioned in the center-left of the frame. In the background, there are some utility poles and wires. The overall scene is outdoors and suggests a focus on renewable energy or sustainable practices.

Assets

7.8%

Deposits

7.9%

Loans

11.1%

Avg. Member Savings

8.2%

New Members

342

Members Online

3.5K

Board of Directors



The Coady Award Winner

Consolidated Credit Union was named the winner of the 2017 Coady Award in recognition of the dedication and work we've invested into our community.

The Coady Award celebrates the many ways that credit unions give back to the places they live. Named in honour of Dr. Moses Coady, whose vision of independence and fairness shaped co-operatives and communities in Atlantic Canada, the award recognizes one credit union each year who gives back to their community in real ways. This credit union shows leadership in the areas of co-operation, volunteerism, education and environmental sustainability.

We couldn't be more proud of the work our board, our staff and our members all do in our community. This award recognizes the impact we've all had making our community a better place to live, work and grow.



President's Report



As the President and Chair of the Board of Directors, it is my privilege to present my report and share with you some of last year's highlights.

This past year was my ninth and final term as a board member and it has been an honor to be a part of such a forward thinking and professional group of individuals. Each board member, I have had the privilege to meet and serve with, are outstanding individuals and I will miss the comradery that we shared. Although Sarah will be providing you with this year's financial reports, as part of my report, I would like to share a bit of financial history with you since starting as a board member in 2008.

As per the Balance Sheet and Financial Statement as of September 30, 2008 the Consolidated Credit Union had assets of \$128,201,657; member deposits of \$124,741,395 and an equity level sitting at 1.28%. As of December 31, 2017 our assets are \$191,620,519, our member deposits are 183,672,589 and our equity now sits at 3.53%. Expenses in 2008 were \$7,496,579 and for 2017 expenses are \$6,036,625 (not including provisions for loan loss, share dividends or income tax). As you can see, the Consolidated Credit Union has grown substantially in the past nine years while decreasing its operating expenses by almost 1.5 million dollars. As Kelly Ellis, President of the board in 2008 stated "who would have imaged 40 years ago that Consolidated Credit Union would have become a 128

million dollar credit union". Well now in 2017, who would have imagined that in the past nine years we would be a 191 million dollar credit union – but we are and we did it! This is quite a feat and Sarah along with her staff, you – the members and the Board of Directors, are to be commended for not only their commitment but hard work to ensure the success of this Credit Union. As, a soon to be past board member, I am excited to see where the Consolidated Credit Union goes from here as we approach our 50th Anniversary.

Now to provide you with an update on what your Board and what we have been up to this past year. We met monthly and attended two semi annual Atlantic Central AGM's. The Board also held committee meetings and participated in training through CUDA (Credit Union Directors Achievement Program). Each Board member is required to obtain certification as a director in the Credit Union system. This training is provided by CuSource and delivers a customized and comprehensive profiling tool that tailors learning for Credit Union Directors and helps to strengthen credit union board governance. There are 3 levels and each board member must complete within the first two years of their term. Although being a board member requires time commitment, it is certainly worth it! The knowledge you obtain and the relationships you develop will last a life time. I

would like to encourage anyone that has an interest in being a part of this great group of people to take the leap and find out how you can become a Director.

I would like to take this opportunity to thank a few individuals and organizations who continue to support and assist the Consolidated Credit Union in its efforts to remain a reliable and financially viable business for all members and future members. They are: CUDIC our provincial regulator; Arsenault Best Cameron and Ellis, our auditors; and Atlantic Central and League Savings and Mortgage. To General Manager, Sarah Millar and her team of dedicated staff, thank you for not only the day to day responsibilities you provide to/for our members, but for the numerous hours of volunteer work you provide to our community. To my fellow Board members – Ron McLean, Ron Silliker, John MacIsaac, Scott Costain, David Olscamp, James Arsenault and Harvey Wedge – thank you for the fellowship, friendship and professionalism you have given me and this organization, I will miss all of you. And finally, but most importantly thanks to You, The Member, for your trust, support and sharing in the success of the Credit Union.

Congratulations to the recipients of the CCU Scholarship Awards from Three Oaks Senior High and Kinkora High School; to this year's honoree for the Member of the Year Award and to the staff who are receiving awards of dedication for their years of service.

In closing, the Consolidated Credit Union is your financial institution and without your interest and commitment, we would not be able to achieve the successes that we have produced this past year. On behalf of the Board of Directors, thank you for your belief and trust in the Consolidated Credit Union. We look forward to another great year, our 50th!

Lori Gandy
President

Manager's Report



For the past number of years it has been my privilege to report to you annually and to provide you with a summary of the previous year's financial performance along with an overview of significant events that occurred during the year. As Consolidated Credit Union's 49th year of operation, 2017 was by any standard a notable one.

Early in the year we adjusted our service delivery in our Borden-Carleton office and moved our staff to Summerside. This decision was made after careful consideration and evaluation. Banking is changing, and the way our members deal with us is changing as well. As your Credit Union, we had to acknowledge and respond to this. One year after the transition, we continue to be involved in the Town of Borden-Carleton with our ATM and Night Deposit offering. We have also continued to participate in community events and to donate to worthwhile causes in the community.

Along with service delivery changes, we had a number of significant staffing changes. In 2017, Judy Winchester, Sandra Reeves, Linda Hardy, Mary Lou Profitt, Garnet Gibson and Rod MacInnis chose to retire. Each of them had distinguished careers with Consolidated Credit Union and although they will be missed, we are excited for them and wish them well in their retirement. While we said goodbye to a number of co-workers and friends, we welcomed some new ones as well. Krista Ahern joined us as

“Banking is changing, and the way our members deal with us is changing as well. As your Credit Union, we had to acknowledge and respond to this.”

our new Credential Representative, Kathy Laughlin was hired in the role of Member Service Representative and Matthew Hankinson joined us as an IT Administrator. They have been wonderful additions to our Credit Union team. As you would expect, with this many significant changes in staffing, our existing staff's responsibilities had to change as well. Their efforts have been nothing short of remarkable. Words cannot express my appreciation for the effort they have put forward, and the challenges they have accepted. I thank each and every one of you.

As well in 2017, we spent a great deal of time assessing our properties, and working on potential changes for the future. In the spring, we purchased the Kelly's Flower Shoppe property adjacent to us. After a great deal of consultation with various groups, we deemed it to be structurally unsound and removed it in the fall. While nothing significant has been done with the space to date, it is our intent to re-visit it in the spring and to make changes that will add to the look and feel of the downtown core. We have also begun some much needed updates to our 305 Water Street building, and we are considering options for our aging Drive-thru. The drive-thru continues to be fundamental to our Member Service delivery, and any changes to it would only be to enhance the experience

that you are currently receiving today.

As we enter our 50th year, we continue to work with our Provincial, Regional and National partners, to enhance the “Credit Union Experience”, and to ensure that the next 50 years are as prosperous as the last 50. Once again I would like to thank Arsenault Best Cameron Ellis for their professionalism in preparing our year-end statements, PEI CUDIC for their continued support, and our partner companies Atlantic Central, League Savings and Mortgage, and League Data for the essential role they play in our success.

I would like to conclude by thanking my Board of Directors for your guidance, leadership and support. You are a wonderful group of community minded individuals. As well, thank you to you - our Members. Consolidated Credit Union is your organization. It only exists because of the faith and loyalty that you put in to it. You have been the backbone of our organization for the last 50 years, and will be for the next 50.

Thank you,

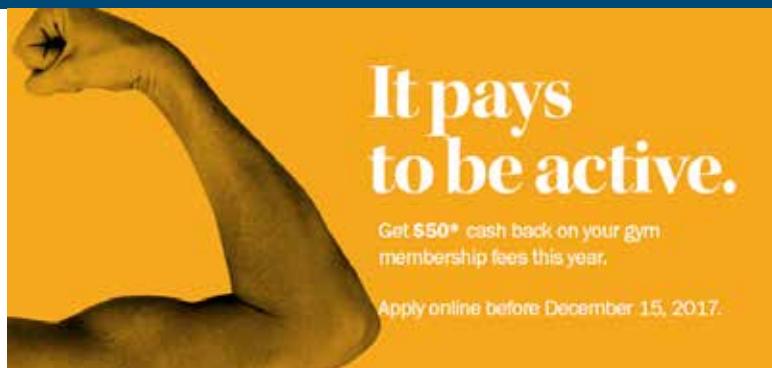
Sarah Millar
General Manager

Credit unions are committed to a more physically active province

Get Active

2017 marked the launch of our new social cause across Island credit unions – where we are committed to more physically active communities on PEI. This initiative was conceptualized around the 2016 Public Health Officer's Report which reported that over half of Islanders consider themselves physically inactive. Physical inactivity leads to a staggering decrease in overall health resulting in a higher risk factor for the development of health conditions including stroke, heart disease, obesity and type 2 diabetes. This decrease in health can negatively impacts a household's finances, especially in the retirement stages where income is fixed.

Gym Rebate Program



Our commitment to this cause has first been demonstrated by our Get Active Gym Program where we offered \$50 cash back to any of our members who paid gym membership fees in 2017. This resulted in close to \$4,000 being rebated to our members who show a dedication to their physical wellbeing.

Physically Inclusive Community on PEI



Storm Basketball

Continuing with our flagship social cause of inspiring Islanders to get up and get active, Credit Unions signed on as a major sponsor of the Island Storm for the 2017-2018 season.

Teaming up with the professional NBL team has given us many unique opportunities including two Under 25 Free games, where anyone 25 and under was able to attend the Storm game for free. The first of our Under 25 Free game saw 1,028 free tickets distributed to fans – resulting in a savings of \$11,500 for the local community!



Credit Union Place

Since the opening of Credit Union Place in Summerside in 2007 credit unions on the Island have maintained a strong relationship with the multi purpose facility lead by Consolidated Credit Union.

As a fixture to both the Summerside community and the Island as a whole, 2017 marked a new 10-year agreement that all PEI credit unions have invested in. The naming rights of the facility have been immeasurable in true value as Credit Union Place continues to be a top Atlantic Canadian venue for high-end entertainment and sporting events.

Alongside the naming rights, credit union members receive discounts on services offered by the facility – to date this has saved our membership \$75,000 yearly in user fees. We're thrilled to have signed-on for another 10 years and look forward to our future with Credit Union Place.



Cash Dash 3

The Cash Dash, our amazing-race styled summer event, returned for it's third consecutive year!

Continuing with our two-day event, four teams of two raced across the three maritime provinces tackling over 30 different challenge stops.

This year our stops were centered around the Game of Life – and all of the impromptu and sometimes inconvenient challenges that will be thrown your way. With this being our third year under our belt and a \$5,000 grand prize we noticed a strong increase in general interest as well as high numbers in social interactions as people checked in to cheer on their favourite team!



Scholarships

We are pleased to announce 7 Consolidated Credit Union Scholarship Recipients for 2017. Each scholarship recipient received \$1,500 towards furthering their education. In total, Consolidated Credit Union distributed \$10,500.

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



Alexis Oulett



Brett DesRoche



Brittany Peters



Dawson Drummond



Erin McDonald



Kaleigh Clow



Malone MacArthur



Financial Lit. Escape Room

In 2017 we brought financial literacy to life by jumping on the crazed trend of escape rooms.

Our free murder mystery escape room; "Stolen", intertwined the excitement of a frantic mystery plot while subtly teaching the importance of credit reports, using strong passwords and how to spot fraudulent transactions. Stolen operated out of a local warehouse where we were able to transform a portion of their offices into the run-down living quarters of our villain. Stolen functioned as a retail operation for two weeks with our 60 time-slots being 90% booked in the first 24 hours, resulting in more than 220 thrill-seeking individuals visiting the space.

Ultimately, Stolen was a great success in creating a new and innovative way to explain different financial topics.

Junior Achievement

For the last two years' credit unions on the Island have held a valuable partnership with JA PEI. Working off JA's already well-received programming we teamed up to enhance their Economics for Success program with the additional knowledge of a financial expert.

Economics for Success focuses on the importance of financial literacy and teaches students budgeting skills which they'll need for the future. Through the growing popularity of the program we have currently been able to instruct over 2,400 students at 14 different Island high-schools. With having signed on as a partner again in 2018, we look forward to reaching more students and continuing the conversation about financial literacy!

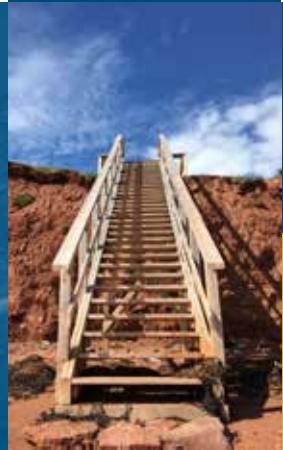
FilltheYuMob Toy Drive



In December our fifth Annual #FilltheYuMob took place outside of Toys'R'Us.

As a direct result of the general public's generosity, we filled the SUV to top in under 4 hours, a new record.

All the toys were given to Santa's Angels, a volunteer group that delivers the toys on Christmas Day to over 300 local families in need. Thank you to everyone who participated in this notable cause.





Financial Statements



February 28, 2018

Independent Auditor's Report

To the Members of Consolidated Credit Union Ltd.

We have audited the accompanying financial statements of **Consolidated Credit Union Ltd.**, which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Consolidated Credit Union Ltd.** as at December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ArsenaultBestCameronEllis

Chartered Professional Accountants

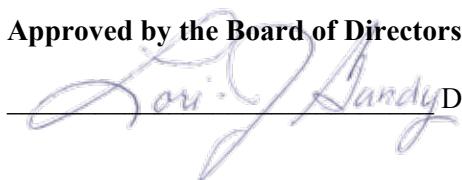
Consolidated Credit Union Limited

Statement of Financial Position

December 31, 2017

	2017 \$	2016 \$
Assets		
Cash and cash equivalents	8,940,832	10,568,585
Accounts receivable	54,546	89,638
Loans and mortgages (notes 7 and 15)	154,715,830	139,270,904
Prepaid expenses	620,293	501,305
Asset held for sale (note 7)	163,198	245,046
Income taxes receivable	-	24,547
Property and equipment (note 8)	2,239,673	2,189,491
Investments (note 9)	<u>24,886,147</u>	<u>24,793,128</u>
	<u>191,620,519</u>	<u>177,682,644</u>
Liabilities		
Member deposits (notes 10 and 11)	183,672,589	170,249,184
Accrued interest payable	861,405	877,592
Other liabilities	320,955	284,543
Income taxes payable	49,383	-
Deferred income taxes (note 12)	<u>48,010</u>	<u>46,750</u>
	<u>184,952,342</u>	<u>171,458,069</u>
Members' Equity		
Undistributed income	<u>6,668,177</u>	<u>6,224,575</u>
	<u>191,620,519</u>	<u>177,682,644</u>

Approved by the Board of Directors

 Lori Sandy Director

 Scott Gaskins Director

Consolidated Credit Union Limited
Statement of Changes in Members' Equity
Year Ended December 31, 2017

	2017 \$	2016 \$
Undistributed income - Beginning of year	6,224,575	5,877,381
Net earnings for the period	<u>443,602</u>	<u>347,194</u>
Undistributed income - End of year	<u>6,668,177</u>	<u>6,224,575</u>

Consolidated Credit Union Limited

Statement of Comprehensive Income

Year Ended December 31, 2017

	2017 \$	2016 \$
Revenue		
Loan interest	5,284,458	5,099,397
Investment	315,376	300,379
Service fees	666,442	684,285
Commissions	352,671	395,373
Property rentals	20,110	43,347
Other income	54,352	53,606
	<hr/>	<hr/>
	6,693,409	6,576,387
Expenses		
Staff (notes 13 and 15)	1,884,826	2,032,156
Premises	184,539	185,823
Insurance	273,767	252,658
Office	208,636	228,455
Service fees	834,031	845,920
General	656,168	580,210
Cost of capital	1,891,753	1,868,836
Amortization	102,905	104,681
	<hr/>	<hr/>
	6,036,625	6,098,739
Operating earnings	<hr/>	<hr/>
	656,784	477,648
Other expense		
Share dividends	(44,668)	(45,437)
Provision for loan losses (note 7)	(68,074)	(33,876)
	<hr/>	<hr/>
	(112,742)	(79,313)
	<hr/>	<hr/>
	544,042	398,335
Provision for income taxes (note 12)		
Current	99,180	40,961
Deferred	1,260	10,180
	<hr/>	<hr/>
	100,440	51,141
Net earnings for the year	<hr/>	<hr/>
	443,602	347,194

Consolidated Credit Union Limited

Statement of Cash Flow

Year Ended December 31, 2017

	2017 \$	2016 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the year	443,602	347,194
Items not affecting cash		
Amortization	102,905	104,681
Deferred income taxes	1,260	10,180
Provision for loan losses	<u>68,074</u>	<u>33,876</u>
	615,841	495,931
Net change in non-cash working capital items		
Decrease in accounts receivable	35,092	135,592
Increase in loans and mortgages	<u>(15,513,000)</u>	<u>(13,233,462)</u>
Increase in prepaid expenses	(118,988)	(164,922)
Decrease (increase) in income taxes receivable	24,547	(24,547)
Decrease (increase) in assets held for resale	81,848	(160,901)
Decrease in accrued interest payable	<u>(16,187)</u>	<u>(20,465)</u>
Increase (decrease) in other liabilities	36,412	(65,590)
Increase (decrease) in income taxes payable	<u>49,383</u>	<u>(50,026)</u>
	<u>(14,805,052)</u>	<u>(13,088,390)</u>
Financing activity		
Increase in member deposits	<u>13,423,405</u>	<u>10,278,893</u>
Investing activities		
Purchase of property and equipment	(153,087)	(77,839)
Increase in investments	<u>(93,019)</u>	<u>(1,101,303)</u>
	<u>(246,106)</u>	<u>(1,179,142)</u>
Decrease in cash and cash equivalents	(1,627,753)	(3,988,639)
Cash and cash equivalents - Beginning of year	<u>10,568,585</u>	<u>14,557,224</u>
Cash and cash equivalents - End of year	<u>8,940,832</u>	<u>10,568,585</u>
Supplementary disclosure		
Interest received	5,568,527	5,423,294
Interest paid	1,907,158	1,888,072
Dividends paid	45,437	58,269
Income taxes paid	49,798	117,789

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

1 General information

Consolidated Credit Union Ltd. (the "Credit Union") is incorporated under the Prince Edward Island Credit Unions Act. Its principal business activities include financial and banking services for credit union members.

The Credit Union's head office is located in Summerside, Prince Edward Island.

2 Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These financial statements have been approved for issue by the Board of Directors on February 28, 2018.

(b) Basis of measurement

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in note 3.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses during the period. 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments that have the most significant effect on the amounts recognized in the financial statements are detailed in note 4.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

3 Summary of significant accounting policies

(a) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between cost in the functional currency at the beginning of the period, and the cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on the translation are recognized in the statement of comprehensive income.

(b) Financial instruments

i) Recognition and measurement

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued. At initial recognition, the Credit Union classifies its financial instruments as follows:

- Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL through the statement of comprehensive income are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term, if so designated by management or it is a derivative that is not designated and effective is a hedging instrument.

Financial assets carried at fair value through the statement of comprehensive income are initially recognized, and subsequently carried at fair value, with changes recognized in the statement of comprehensive income. Transaction costs are expensed.

Assets in this category include cash and cash equivalents and investments in the liquidity reserve deposit.

- Held to maturity 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 FVTPL or as available for sale.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

Held to maturity investments are carried at amortized cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held to maturity investments would result in the reclassification of all held to maturity investments as available for sale, and would prevent the Credit Union from classifying investment securities as held to maturity for the current and the following two financial years. However sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value.
- Sales or reclassifications after the Credit Union has collected substantially all of the asset's original principal.
- Sales or reclassifications attributable to non-recurring isolated events beyond the Credit Union's control that could not have been reasonably anticipated.

Assets in this category include investments in term deposits.

- Available for sale ("AFS")

Available for sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available for sale investments are recognized initially at fair value plus transaction costs, and are subsequently carried at fair value, other than the Credit Union's investment in certain shares as their fair value cannot be reliably measured. These shares are measured at cost. Upon such time that their fair value can be reliably measured, the carrying amount of these financial assets will be adjusted to fair value. Gains and losses arising from remeasurement are recognized in other comprehensive income.

Dividends or distributions on available for sale investments are recognized in the statement of comprehensive income as investment income, when the Credit Union's right to receive payment is established.

Assets in this category include investments in credit union and co-operative type shares.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recorded at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

Assets in this category include accounts receivable and loans and mortgages.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

- Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

Liabilities in this category include member deposits, accrued interest payable and other liabilities.

ii) Impairment of financial assets

The Credit Union assesses, at each statement of financial position 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.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as conditions that correlate with defaults in the group.

- Financial assets classified as loans and receivables

For the purposes of individual evaluation of impairment, the amount of the impairment loss on a loan or receivable is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. The calculation of the carrying value reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are categorized on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties’ ability to pay all amounts due according to contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

The Credit Union adjusts the inputs to its collective allowance methodology on an ongoing basis, taking into account factors such as historical loss experience and adjusting for current observable data that did not impact the period which the historical loss experience was based on. Estimates of changes in future cash flows from groups of assets reflects and are directionally consistent with changes in related observable data from period to period.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off after all the necessary procedures have been completed and the amount of loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in provision for loan loss expense.

Loans that were past due and either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are not longer considered to be past due but are treated as new loans. In subsequent years, if the loan becomes past due, this will be disclosed only if renegotiated again.

- Assets classified as available for sale

At each statement of financial position date, the Credit Union assesses if there is objective evidence that an AFS financial asset or a group of AFS financial assets may be impaired. A significant or prolonged decline in the fair value of an AFS security below its costs is considered objective evidence in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is reclassified from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

(d) Assets held for resale

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure on loans that are in default. Foreclosed properties are classified as assets held for sale and are measured at the lower of the carrying amount and the fair value less costs to sell.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

(e) Property and equipment

Furniture, equipment and computer and pavement are stated at cost less accumulated amortization. Land and buildings were stated at fair value on October 1, 2010 which subsequently became the cost basis (see note 4). Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost can be measured reliably. Repairs and maintenance costs are charged to expenses during the financial period in which they are incurred.

Land is not depreciated. Building depreciation is calculated on a straight-line method over 40 years. All other property and equipment is amortized using the declining balance method at the following annual rates:

Buildings	2.5%
Furniture and equipment	20%
Computers	30%
Pavement	8%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were identified as impaired as at December 31, 2017.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds to the net book value of the asset and are presented as a gain or loss on disposal in the statement of comprehensive income.

(f) Revenue recognition

i) Loan interest

Interest on loans and mortgages is recognized on an amortized cost basis using the effective interest rate method. The effective rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan and mortgage to the net carrying amount of the loan and mortgage. When estimating the future cash flows the credit union considers all contractual terms of the loan and mortgage excluding any future credit losses. The calculation includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium or discounts. Mortgage prepayment fees are recognized in income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the expected remaining term of the original mortgage using the effective interest rate method. All interest is recognized on an accrual basis.

ii) Investment and other income

Investment and other income is recognized as revenue on an accrual basis.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

iii) Service fees

Service fees are recognized on an accrual basis in accordance with the service agreement.

iv) Commissions

Commissions income is recognized when the event creating the commission takes place.

v) Property rentals

Property rental income is recognized in the month the rent is earned.

(g) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly to equity.

i) Current income tax

Current income tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous periods.

ii) Deferred income tax

Deferred income tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are comprised primarily of differences between the carrying amounts and the income tax basis of the Credit Union's loans outstanding and property and equipment. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

(h) Related parties

A related party is a person or an entity that is related to the Credit Union.

A person or a close member of that person's family is related to the Credit Union if that person:

- i) Has control or joint control over the Credit Union, with the power to govern the Credit Union's financial and operating policies;
- ii) Has significant influence over the Credit Union, participating in financial and operating policy decisions, but not control over these policies; or

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

iii) Is a member of the key management personnel of the Credit Union. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director of the Credit Union.

(i) Capital disclosures

The Credit Union considers its capital to be its members' equity. The Credit Union's objectives when managing its capital are to safeguard its ability to continue as a going concern in order to provide services to its members. Capital is under the direction of the Board with the objective of minimizing risk and ensuring adequate liquid investments are on hand to meet the Credit Union's national standards.

(j) Standards issued but not yet effective

As at December 31, 2017, a number of standards and interpretations had been issued by IASB which are not effective for these financial statements and have not yet been adopted by the Credit Union. Other than the introduction of IFRS 9, these changes are not expected to have a material impact on the financial statements.

IFRS 9 - Financial instruments

On July 24, 2014, IASB issued the complete version of IFRS 9. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets are to be measured at fair value through profit and loss (FVTPL) unless certain conditions are met which permit measurement at amortized cost or fair value through other comprehensive income. The classification and measurement of liabilities remain generally unchanged, with the exception of liabilities recorded at FVTPL.

IFRS 9 also introduces a new loss impairment model for all financial assets not at FVTPL, which results in credit losses being recognized regardless of whether a loss event has occurred. This expected credit loss (ECL) model replaces the current "incurred loss" model and requires an entity to recognize expected credit losses at all times and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of financial instruments.

IFRS 9 is effective January 1, 2018 and will be applied retrospectively. The Credit Union is currently analyzing the potential effects of adopting this new standard.

4 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 area which require significant estimates are described below:

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

(a) Fair value of land and building

On October 1, 2010, the Credit Union increased the carrying value of land and building by \$212,112. The fair value of the property and equipment was determined by an independent third party appraisal.

(b) Provision for loan losses

The Credit Union regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of members in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

(c) 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 amortization 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.

(d) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using specific valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. To the extent practical, models use only observable data.

For investments in co-operatives and credit unions, consideration is given as to whether or not par value is equal to redemption value and whether the co-operative or credit union have the right to redeem those shares at their discretion. To the extent that the redemption value of those shares is equal to their par value, then these shares will also be designated as AFS at fair value with fair value equal to (or in the case of potential impairment, less than) par value. In certain cases, the fair value of co-operative or credit union investments exceeds par value when applying a discounted cash flow method of valuation and using market rates of return for similar investments available in public markets. Despite fair value exceeding par value, these investments are reported at par value on the basis that they are not liquid investments and have a limited number of potential purchasers. Where fair value cannot be reliably measured, those investments are recorded at cost.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

(e) 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.

5 Risk management

The Credit Union's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market, interest rate and operational risk. Authority for all risk-taking activities rests with the Board of Directors (the "Board"), which approves risk management policies, delegates limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Credit Union manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

(a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Credit Union's commercial and consumer loans and advances, and loan commitments arising from such lending activities.

Credit risk is the single largest risk for the Credit Union's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is done by management who reports to the Board.

The Credit Union's maximum exposure to credit risk at the balance sheet date in relation to each class of recognized financial assets 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 (i) insurance and mortgages over residential lots and properties, (ii) recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and (iii) 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.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

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

	2017 \$	2016 \$
Cash and cash equivalents	8,940,832	10,568,585
Accounts receivable	54,546	89,638
Loans and mortgages	154,715,830	139,270,904
Investments	<u>24,886,147</u>	<u>24,793,128</u>
	<u>188,597,355</u>	<u>174,722,255</u>

Cash and cash 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's underwriting methodologies and risk modelling is customer based rather than product based. The Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing risk.

(b) Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations associated with financial liabilities as they come due. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/or market events.

The Credit Union's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

Exposure to liquidity risk:

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to deposits. For this purpose, liquid assets may comprise of the following:

	2017 \$	2016 \$
Cash and cash equivalents	<u>8,940,832</u>	<u>10,568,585</u>

The Credit Union is required to maintain 6% of the prior quarter's assets in liquid investments of which 100% must be held by Atlantic Central. The Credit Union was in compliance with this requirement at December 31, 2017.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	2017 Total \$
Member deposits	126,213,817	46,335,369	-	172,549,186
Share accounts	11,123,403	-	-	11,123,403
Accrued interest payable	861,405	-	-	861,405
Other liabilities	320,955	-	-	320,955
	138,519,580	46,335,369	-	184,854,949

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	2016 Total \$
Member deposits	118,739,241	41,524,891	-	160,264,132
Share accounts	9,985,052	-	-	9,985,052
Accrued interest payable	877,592	-	-	877,592
Other liabilities	284,543	-	-	284,543
	129,886,428	41,524,891	-	171,411,319

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

(c) Market risk

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Credit Union as part of its normal trading activities. As the Credit Union does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk. The objective of market rate risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For the Credit Union, mismatches in the balances of assets, liabilities and off-balance sheet financial instruments that mature and reprice in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the Credit Union manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the credit union to enhance profitability.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming no further hedging is undertaken. These measures are based on assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's management initiatives.

	Net interest income change 2017	Net interest income change 2016
	\$	\$
Before tax impact of		
1% increase in interest rates	74,300	92,900
1% decrease in interest rates	(213,400)	(172,600)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

(f) Capital management

The primary objective of the Credit Union's capital management is to ensure that it maintains a healthy financial position in order to support its business. The Credit Union manages its capital structure and makes changes to it in light of changes in economic conditions.

The Credit Union has agreed to maintain an equity level at least equal to 5% of the total assets.

In accordance with the recommendations of the Canadian Chartered Professional Accountants related to the financial statement presentation of financial instruments, the ownership shares are presented in the balance sheet as financial liabilities. At December 31, 2017, the equity level for regulatory purposes is as follows:

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

	2017	2016
	\$	\$
Ownership shares (note 11)	40,340	40,125
Members' equity	<u>6,668,177</u>	<u>6,224,575</u>
Total regulatory equity	<u>6,708,517</u>	<u>6,264,700</u>
Total assets	<u>191,620,519</u>	<u>177,682,644</u>
Equity level	<u>3.50%</u>	<u>3.53%</u>
	2017	2016
	#	\$
Opening, January 1, 2017	8,025	40,125
Net increase	43	215
Closing, December 31, 2017	<u>8,068</u>	<u>40,340</u>

The Credit Union has not met its equity level of 5%.

Notes to the Financial Statements

Consolidated Credit Union Limited

Year Ended December 31, 2017

6 Financial instruments

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2017		2016
	Carrying amount \$	Fair value \$	Carrying amount \$
Assets carried at fair value			
Financial assets held for trading -			
Cash and cash equivalents	8,940,832	8,940,832	10,568,585
Liquidity reserve deposit (note 9)	11,581,118	11,581,118	10,578,183
	20,521,950	20,521,950	21,146,768
Assets carried at amortized cost			
Accounts receivable	54,546	54,546	89,638
Loans and mortgages	154,715,830	154,715,830	139,270,904
Investments - held to maturity (note 9)	11,165,119	11,165,119	12,115,275
Investments - available for sale (note 9)	2,139,910	2,139,910	2,099,670
	168,075,405	168,075,405	153,575,487
Liabilities carried at amortized cost			
Member deposits	183,672,589	183,672,589	170,249,184
Accrued interest payable	861,405	861,405	877,592
Other liabilities	320,955	320,955	284,543
	184,854,949	184,854,949	171,411,319

The fair value of financial assets held for trading is determined by their quoted market value at the reporting date.

7 Loans and mortgages

(a) Summary

	Total	Impaired Loans \$ (included in total)	Specific Provision \$	Net \$	2017	2016
Personal	22,025,647	-	-	22,025,647	18,938,304	
Business	5,147,427	-	-	5,147,427	6,930,380	
Mortgage - personal	83,358,897	-	-	83,358,897	70,413,362	
Mortgage - business	37,991,959	-	-	37,991,959	33,864,913	
Lines of credit and overdrafts	5,751,387	-	-	5,751,387	8,692,533	
Student loans	113,543	-	-	113,543	185,089	
Accrued loan interest	326,970	-	-	326,970	246,323	
	154,715,830	-	-	154,715,830	139,270,904	

Mortgages and loans

Mortgages are secured by realty mortgages with interest rates of 2.69% - 4.74% (2016 - 2.2% - 4.74%). Non-mortgage loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 0.50% - 18.0% (2016 - 2.2% - 18.0%) on personal and business loans, 0.00% - 30.0% (2016 - 0.00% - 30%) on line of credits and overdrafts and 0.00% - 12.5% (2016 - 0.00% - 12.5%) on student loans. The loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities.

The Credit Union's prime lending rate

The Credit Union's prime lending rate is set by the Board based on the prime interest rate of chartered banks in Canada. The rate as at December 31, 2017 was 3.20% (2016 - 2.70%).

(b) Continuity of allowance for impaired loans

	2017	2016
	\$	\$
Balance - Beginning of year	-	701,468
Increase in allowance	68,074	33,876
Amounts written off during the year	(81,506)	(750,563)
Recoveries of loans previously written off	13,432	15,219
Balance - End of year	-	-

Notes to the Financial Statements

Consolidated Credit Union Limited

Year Ended December 31, 2017

(c) Provision for loan losses

	2017 \$	2016 \$
Increase in allowance	68,074	33,876
Recoveries of loans previously written off	-	-
	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
	68,074	33,876

(d) Members' loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired:

	\$
December 31, 2017	348,910
December 31, 2016	583,809

(e) Foreclosed properties

During the period, the Credit Union foreclosed on a mortgage totaling nil (2016 - \$154,500). Expenses related to the upkeep of the foreclosed properties have been added to the cost of the properties, and it is management's expectation that the foreclosed properties will be sold in the near future. At December 31, 2017, the Credit Union has \$163,197 (2016 - \$245,046) in foreclosed properties that are classified as assets held for sale in the statement of financial position.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

8 Property and equipment

	Land \$	Buildings \$	Furniture, equipment and computer \$	Pavement \$	Total \$
Recorded amount					
Balance - Beginning of period	572,000	1,576,000	602,490	97,679	2,848,169
Additions	92,144	-	60,943	-	153,087
Disposals	-	-	(11,590)	-	(11,590)
Balance - End of period	664,144	1,576,000	651,843	97,679	2,989,666
Accumulated amortization					
Balance - Beginning of period	-	246,250	336,340	76,088	658,678
Current period amortization	-	39,400	61,778	1,727	102,905
Disposals	-	-	(11,590)	-	(11,590)
Balance - End of period	-	285,650	386,528	77,815	749,993
Carrying value					
December 31, 2016	572,000	1,329,750	266,150	21,591	2,189,491
December 31, 2017	664,144	1,290,350	265,315	19,864	2,239,673

9 Investments

	2017 \$	2016 \$
Financial assets		
<i>Fair value through profit or loss:</i>		
Liquidity reserve deposit	11,581,118	10,578,183
<i>Held to maturity:</i>		
Term deposits	11,165,119	12,115,275
<i>Available for sale:</i>		
Atlantic Central shares	2,042,500	2,002,260
League Savings & Mortgage shares	22,680	22,680
League Data shares	71,730	71,730
Co-operative membership	3,000	3,000
	2,139,910	2,099,670
Total investments	24,886,147	24,793,128

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

Liquidity reserve deposit

In order to meet the Credit Union national standards, the Credit Union is required to maintain on deposit in Atlantic Central an amount equal to 6% of the prior quarter's assets (note 5b). The deposit bears interest at a variable rate.

Term deposits

Term deposits are invested with the League Savings & Mortgage Company, Atlantic Central and Concentra and are carried at cost which approximates fair value. These term deposits have the following maturity dates and rates of return:

	Amount \$	Rate of Return	Maturity
	1,269,455	1.45%	July 16, 2018
	2,483,866	1.45%	August 8, 2018
	2,000,000	1.75%	August 7, 2018
	2,298,251	1.50%	September 13, 2018
	2,113,547	1.50%	September 28, 2018
	<u>1,000,000</u>	1.45%	October 17, 2019
Total	<u>11,165,119</u>		

Available for sale

No market exists for the available for sale shares except that they may be surrendered on withdrawal from membership for proceeds equal to the paid-in value.

10 Member deposits

	2017	2016
	\$	\$
Ownership shares and share accounts (note 11)	11,123,403	9,985,052
Savings and Plan 24	18,842,254	19,996,211
Chequing accounts	57,968,114	49,979,312
Term deposits	54,688,274	48,819,694
RRSP and RRIF	<u>41,050,544</u>	<u>41,468,915</u>
	<u>183,672,589</u>	<u>170,249,184</u>

Ownership share and share accounts include the \$5 membership share plus individual members' deposits.

Ownership share and share accounts pay members a dividend return at the discretion of the Board. Privileges of the shares are under the authority of the Board. The member dividend rate declared and paid for 2017 was 0.5% (2016 - 0.5%) based on the average minimum monthly share balance throughout the period.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

Savings and Plan 24 are deposits on a call basis that pay holders a variable interest rate ranging from 0.00% - 1.70% (2016 - 0.00% - 1.70%) and 0.00% - 0.35% (2016 - 0.00% - 0.35%), respectively.

Chequing accounts are held on a call basis and pay the account holders interest at the Credit Union's stated rates, 0.00% - 1.75% (2016 - 0.00% - 1.75%).

Term deposits are 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.

Withdrawal privileges on all member deposit accounts are subject to the overriding right of the Board to impose a waiting period.

Fixed *term deposits* bear interest at various rates ranging from 0.00% - 4.45% (2016 - 0.00% to 5.00%) and extend for a term of up to five years.

RRSP and RRIF

Concentra Financial is the Trustee for the registered savings plans offered to owners. Under an agreement with the trust company, members' contributions to the 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 designed by them, by the credit union, on behalf of the trust company. RRSP and RRIF term deposits bear interest at various rates ranging from 0.00% - 4.45% (2016 - 0.00% to 5.00%).

11 Share accounts

An unlimited number of membership shares are available for issuance, with a par value of \$5 each. These shares are non-transferable, redeemable by the Credit Union, retractable by shareholders 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 Insurance Corporation. Dividends on membership shares are payable at the discretion of the Board.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

12 Income taxes

Tax rate reconciliation

	2017 \$	2016 \$
Income before income taxes	<u>544,042</u>	<u>398,335</u>
Taxes at statutory rates - 31.00% (2016 - 31.00%)	168,653	123,484
Impact of the 16% (2016 - 16%) small business deduction and additional deduction for credit unions	(75,000)	(63,734)
Permanent differences and other	<u>(5,104)</u>	<u>(18,789)</u>
	<u>88,549</u>	<u>40,961</u>

(b) Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 15% (2016 - 15%), as follows:

	2017 \$	2016 \$
Balance - Beginning of period	46,750	36,570
Comprehensive income statement recovery	<u>1,260</u>	<u>10,180</u>
Balance - End of period	<u>48,010</u>	<u>46,750</u>

Deferred income tax liabilities are attributable to the following items:

	2017 \$	2016 \$
Deferred income tax assets (liabilities)		
Property and equipment	<u>48,010</u>	<u>46,750</u>

13 Pension plan

The Credit Union provides employees with a voluntary defined contribution pension plan in which the Credit Union matches employee contributions to the plan, within specified limits. During the period, the Credit Union expensed \$82,986 (2016 - \$89,830) in contributions to the plan. This expense is included with staff expenses on the Statement of Comprehensive Income.

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

14 Related party transactions

The Credit Union provides financial services to members. These members hold the loans and mortgages and member deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

15 Composition of key management

Key management includes the Board of Directors, general manager, operations manager, commercial credit manager, front office manager, consumer credit manager and compliance officer. Compensation awarded to key management included:

(a) Key management, excluding directors

	2017	2016
	\$	\$
Salaries and short-term employee benefits	611,233	633,920

(b) Directors' remuneration

	2017	2016
	\$	\$
Honorariums	25,800	23,300
Payment for expenses while on credit union business	4,660	8,554

(c) Loans to directors and key management personnel

	2017	2016
	\$	\$
Loans outstanding - Beginning of year	2,503,208	3,137,463
Loans issued during the year	463,127	154,500
Loan repayments during the year	(685,636)	(798,848)
Net increase in line of credits	-	10,093
Loans outstanding - End of year	<u>2,280,699</u>	<u>2,503,208</u>
Interest income earned	75,072	77,921

The loans issued to directors and key management personnel and close family members during the year of \$463,127 (2016 - \$154,500) are repayable over 0 - 7 years and have interest rates ranging from 2.7% - 4.7% (2016 - 2.2% to 3.7%).

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

16 Interest rate sensitivity

The following table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the company'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, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

	2017				
	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
Cash and equivalents	4,701,002	-	-	4,239,830	8,940,832
Effective interest rate	0.44%				
Accounts receivable	-	-	-	54,546	54,546
Investments	23,886,147	1,000,000	-	-	24,886,147
Effective interest rate	1.06%	1.75%			
Loans and mortgages	63,679,960	84,628,400	6,080,500	-	154,388,860
Effective interest rate	3.97%	3.51%	4.13%		
Accrued loan interest receivable	-	-	-	326,970	326,970
Prepaid expenses	-	-	-	620,293	620,293
Asset held for sale	-	-	-	163,198	163,198
Property and equipment	-	-	-	2,239,673	2,239,673
 Total assets	 92,267,109	 85,628,400	 6,080,500	 7,644,510	 191,620,519
 Liabilities and surplus					
Member deposits	102,606,384	46,335,369	-	34,730,836	183,672,589
Effective interest rate	0.94%	2.00%			
Accrued interest payable	-	-	-	861,405	861,405
Other liabilities	-	-	-	320,955	320,955
Income taxes payable	-	-	-	49,383	49,383
Deferred income taxes	-	-	-	48,010	48,010
Undistributed earnings	-	-	-	6,668,177	6,668,177
 Total liabilities and surplus	 102,606,384	 46,335,369	 -	 42,678,766	 191,620,519
 Interest rate sensitivity gap	 (10,339,275)	 39,293,031	 6,080,500	 (35,034,256)	 -

Notes to the Financial Statements

Consolidated Credit Union Limited
Year Ended December 31, 2017

	2016				
	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
Cash and cash equivalents	6,702,388	-	-	3,866,197	10,568,585
Effective interest rate	0.44%				
Accounts receivable	-	-	-	89,638	89,638
Investments	16,746,853	8,046,275	-	-	24,793,128
Effective interest rate	0.94%	1.48%			
Loans and mortgages	61,431,881	76,594,600	998,100	-	139,024,581
Effective interest rate	3.84%	3.66%	4.90%		
Accrued loan interest receivable	-	-	-	246,323	246,323
Prepaid expenses	-	-	-	501,305	501,305
Income taxes receivable	-	-	-	24,547	24,547
Asset held for sale	-	-	-	245,046	245,046
Property and equipment	-	-	-	2,189,491	2,189,491
Total assets	84,881,122	84,640,875	998,100	7,162,547	177,682,644
Liabilities and surplus					
Member deposits	100,158,910	41,524,894	-	28,565,380	170,249,184
Effective interest rate	1.14%	2.13%			
Accrued interest payable	-	-	-	877,592	877,592
Other liabilities	-	-	-	284,543	284,543
Deferred income taxes	-	-	-	46,750	46,750
Undistributed earnings	-	-	-	6,224,575	6,224,575
Total liabilities and surplus	100,158,910	41,524,894	-	35,998,840	177,682,644
Interest rate sensitivity gap	(15,277,788)	43,115,981	998,100	(28,836,293)	-

As at December 31, 2017, the Credit Union's net interest spread was 2.05% (2016 - 2.07%). 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.

17 Commitments

The Credit Union had lines of credit and loans and mortgages approved but not disbursed at December 31, 2017 amounting to \$15,732,717.

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