1. REPORTING ENTITY

Eagle River Credit Union Limited (the “Credit Union”) is incorporated under The Credit Union Act, 2009 and provides financial services to residents of the Province of Newfoundland and Labrador. Membership in the Credit Union is open to residents of Newfoundland and Labrador. The registered head office of the Credit Union is L'anse Au Loup, Newfoundland and Labrador.

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") as issued by the International Accounting Standards Board. References to IFRS are based on Canadian generally accepted accounting principles ("GAAP") as defined in Part 1 of the CPA Canada Handbook - Accounting (IFRS). The financial statements for the year ended December 31, 2018 were authorized for issue by the Credit Union's Board of Directors on April 2, 2019.

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 financial instruments at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI), which are stated at their fair values.

Use of significant accounting judgments, estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgements, 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially 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.

Judgements made by management in the application of IFRS have a significant effect on these financial statements. Outlined below are areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Credit Union's financial statements:

(a) Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives, discount rates and prepayment rates. The valuation of financial instruments is discussed in more detail in Note 15.

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2. BASIS OF PREPARATION *(continued)*

(b) Impairment Losses on Loans and Advances Under IFRS 9 - Financial Instruments ("IFRS 9")

The measurement of impairment losses on loans to members is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Please see the impairment of financial assets section of Note 3 for further detail on these. A number of significant judgements are also required in applying the account requirements for measuring the expected credit loss ("ECL"), such as:

- Determining the criteria for significant increase of credit risk: IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Credit Union takes into account qualitative and quantitative reasonable and supportable information.

- Choosing appropriate models and assumptions: The Credit Union uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

- When measuring ECL, the Credit Union uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers.

- Probability of default ("PD"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, and assumptions/expectations of future conditions.

- Loss Given Default ("LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

The impairment loss on loans to members is disclosed in more detail in Note 6.

(c) Economic Lives of Property, Plant and Equipment

Management determines the estimated useful lives of its property, plant and equipment based on historical experience of the actual lives of property, plant and equipment of similar nature and functions, and reviews these estimates at the end of each reporting period.

(d) Provisions

The amount recognized as accounts payable and accrued liabilities is the best estimate of the consideration required to settle the related liability, taking into account the risks and uncertainties surrounding the obligation.

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

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2. BASIS OF PREPARATION *(continued)*

New standards implemented

(a) Financial Instruments

From January 1, 2018, the Credit Union has applied IFRS 9 and classifies its financial instruments in the following measurement categories: FVTPL; FVTOCI; or amortized cost.

Management determines the classification of its financial instruments at initial recognition. IFRS 9 replaces IAS 39 - *Financial Instruments: Recognition and Measurement.* ("IAS 39")

The Credit Union has adopted IFRS 9 with a date of transition of January 1, 2018, which resulted in changes in the Credit Union's policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets, and an adjustment to the amount previously recognized in the financial statements for the allowance for expected losses on loans to members.

As permitted by the transitional provisions of IFRS 9, the Credit Union elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained surplus of the current period.

The Credit Union has applied the requirements of IFRS 9 to instruments that have not been derocognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as of January 1, 2018. Comparative amounts in relation to instruments that have not been derecognized as of January 1, 2018 have been restated where appropriate.

Classification and measurement - Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Financial liabilities are classified in a similar manner to under IAS 39 except that for financial liabilities measured at fair value, fair value changes due to changes in the Credit Union's credit risk are presented in other comprehensive income (loss) instead of profit or loss unless this would create an accounting mismatch.

Impairment - The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Credit Union. Further details on the specific IFRS 9 accounting policies applied are described in more detail in Note 3.

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2. BASIS OF PREPARATION *(continued)*

(i) Classification and measurement of financial instruments

The measurement categories of financial assets and liabilities in accordance with IAS 39 and IFRS 9 as at January 1, 2018 are compared as follows:

Financial Instrument	Category IAS 39	Category Under IFRS 9
Cash and cash equivalents	Loans and receivables (amortized cost)	Amortized cost
Investments:		
Equity investments	Available for sale	FVTPL
Liquidity reserve deposits	Loans and receivables (amortized cost)	Amortized cost
Loans and mortgages	Loans and receivables (amortized cost)	Amortized cost
Other assets:		
Accounts receivable	Loans and receivables (amortized cost)	Amortized cost

There were no changes to the classification and measurement of financial liabilities, as the financial liabilities which were classified as other liabilities (amortized cost) remain as other financial liabilities (amortized cost).

(ii) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9*

The Credit Union performed an analysis of its business models for managing financial assets and their cash flow characteristics. Refer to Note 3 for more detailed information regarding the new classification requirements of IFRS 9.

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2. BASIS OF PREPARATION *(continued)*

The following table reconciles the carrying amounts of financial assets from their previous measurement category under IAS 39 to their new measurement category upon transition to IFRS 9 on January 1, 2018:

	IAS 39 carrying amount December 31, 2017	Remeasurements	IFRS 9 carrying amount January 1, 2018
	Loans and receivables		
Cost	(amortized cost)		Amortized Cost
Cash and cash equivalents	$ 11,549,985		$ 11,549,985
Investments	$ 38,121,861		$ 38,121,861
Loans and mortgages receivable (a)	$ 99,966,367	($282,486)	$ 99,683,881
	$ 149,638,213	($282,486)	$ 149,355,727
	Available for sale(cost)		Fair value through profit or loss
Investments			
Atlantic Central shares	$ 1,639,580		$ 1,639,580
Concentra shares	$ 250,000		$ 250,000
League Savings and Mortgage shares	$ 106,250		$ 106,250
Other investments	$ 210		$ 210
	$ 1,996,040		$ 1,996,040
Total financial assets measured at amortized cost and fair value	$151,634,253	($282,486)	$ 151,351,767

(a) *Remeasurement of the allowance for expected credit losses on loans to members (Note 6)*

The total remeasurement loss of $282,486 was recognized in opening retained earnings at January 1, 2018.

(b) Revenue for Contracts with Customers

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers* ("IFRS 15") which replaces IAS 11 - *Construction Contracts,* IAS 18 - *Revenue* and IFRIC 13 - *Customer Loyalty Programmes*, as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 also contained enhanced disclosure requirements.

It is applied retroactively for annual periods beginning on or after January 1, 2018. The implementation of the IFRS 15 standard did not affect the Credit Union.

IFRS 15 covers only revenue arising from contracts with customers. Under IFRS 15, a member of the Credit Union is a party that has contracted with the Credit Union to obtain goods or services that are an output of the Credit Union's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IFRS 9.

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2. BASIS OF PREPARATION *(continued)*

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to the existing standards have been issued by the IASB but are not yet effective for the year ended December 31, 2018, and have not been applied in preparing these financial statements:

(a) Leases

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), which replaces IAS 17, *Leases* ("IAS 17") and related interpretations. This new standard includes a comprehensive model for the identification and treatment of lease arrangements in the financial statements of both the lessee and lessor. From a lessee perspective, this new standard eliminates the classification of leases as operating or finance leases, and instead requires the recognition of all leases on the statement of financial position, subject to limited exceptions. From an income statement perspective, depreciation and interest expense will be recorded for leases in a manner similar to that for current finance leases. IFRS 16 will be applied retroactively for annual periods beginning on or after January 1, 2019. The Credit Union is assessing the potential impact of this standard.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

The accounting policies from January 1, 2018 related to the financial assets and liabilities are as follows:

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

Recognized financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

(a) *Financial assets*

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding, are subsequently measured at amortized cost;

The measurement and classification categories of financial assets in accordance with IFRS 9 are outlined in Note 2 under *New Standards Implemented, Financial Instruments.* The Credit Union has no debt instruments that are subsequently measured at FVTOCI.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Credit Union determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Credit Union's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Credit Union has business models for managing its financial instruments which reflect how the Credit Union manages its financial assets in order to generate cash flows. The Credit Union's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Credit Union considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Credit Union does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios.

(b) *Debt instruments at amortized cost*

The Credit Union assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Credit Union's business model for managing the asset.

For an asset to be classified and measured at amortized cost, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

At initial recognition of a financial asset, the Credit Union determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Credit Union reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period, the Credit Union has not identified a change in business models.

Debt instruments are measured at amortized cost using the effective interest method, and are subject to impairment. See the Impairment section below. Interest income on debt instruments at amortized cost is recognized in interest on loans to members and investment income on the statement of profit and other comprehensive income.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The effective interest method is a method of calculating the amortized cost of a financial asset or liability, and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any loan loss allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When the Credit Union revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in net income.

(c) *Financial assets at FVTPL*

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 15.

(d) *Impairment*

The Credit Union assesses loss allowances for expected credit losses ("ECLs") on its financial instruments that are not measured at FVTPL. Loss allowances are recognized on loans to members (Note 6).

No impairment loss is recognized on equity investments.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECLs that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECLs that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided below.

ECLs are an estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Credit Union under the contract and the cash flows that the Credit Union expects to receive, discounted at the asset's effective interest rate (EIR).

The Credit Union measures ECL on an individual basis. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i). Credit-impaired financial assets

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. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Credit Union assesses whether debt instruments that are financial assets measured at amortized cost are credit-impaired at each reporting date.

(ii) Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see below).

The Credit Union considers the following as constituting an event of default:

- the borrower is past due more than 90 days on the credit obligation to the Credit Union; or

- the credit union considers the borrower to be unlikely to pay the loan to the credit union in full, without recourse by the credit union to actions such as realizing security

The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Credit Union takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset. For example, in commercial lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status, are key inputs in this analysis.

(iii) Significant increase in credit risk

The Credit Union monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Credit Union will measure the loss allowance based on lifetime rather than 12-month ECL. The Credit Union's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Credit Union monitors all financial assets that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Credit Union compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the date when the financial instrument was first recognized. In making this assessment, the Credit Union considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Credit Union allocates its loans to members to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:
-the remaining lifetime PD at the reporting date; with
-the remaining lifetime PD that was estimated based on facts and circumstances at the time of initial recognition.

The PDs used are forward looking and the Credit Union uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. For corporate lending there is particular focus on assets that are included on a 'watch list', given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending, the Credit Union considers events such as bankruptcy and consumer proposals.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop, when an asset becomes 30 days past due, the Credit Union considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime EGL, unless the Credit Union has reasonable and supportable information that demonstrates otherwise.

More information about significant increase in credit risk is provided in Note 16.

(iv) Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

These figures are generally derived from internally developed statistics models and other historical data and they are adjusted to reflect forward-looking information, where applicable.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is largely based on historical default rates by category of loan product and credit rating. PDs are estimated considering the contractual maturities of exposures. The estimation is based on current conditions, adjusted where applicable to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account cost of realization of collateral. LGD models for unsecured assets consider time of recovery and recovery rates. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Credit Union's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, and changes in utilization of undrawn commitments. The Credit Union uses EAD models that reflect the characteristics of the portfolios.

The Credit Union measures ECL considering the risk of default over the maximum contractual period over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as revolving credit facilities that include both a loan and an undrawn commitment component, the Credit Union's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Credit Union's exposure to credit losses to the contractual notice period. For such financial instruments the Credit Union measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period.

(v) Write-offs

Loans are written off when the Credit Union has no reasonable expectations of recovering the financial asset. This is 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. A write-off constitutes a derecognition event. The Credit Union may apply enforcement activities to financial assets written off. Recoveries resulting from the Credit Union's enforcement activities will result in impairment gains.

(vi) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;

- where a financial instrument includes both a drawn and an undrawn component, such as a line of credit, and the Credit Union cannot identify the ECL 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 gross amount of the drawn component is presented as a provision.

(e) *Modification and derecognition of financial assets*

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified, the Credit Union assesses whether this modification results in derecognition. In accordance with the Credit Union's policy, a modification results in derecognition when it gives rise to substantially different terms.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Credit Union determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

-the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with

-the remaining lifetime PD at the reporting date based on the modified terms.

The Credit Union derecognizes a financial asset only when the contractual rights to the asset's cash flows expire, or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Credit Union recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Credit Union retains substantially all the risks and rewards of ownership of a transferred financial asset, the Credit Union continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost other than in its entirety (e.g. when the Credit Union retains an option to repurchase part of a transferred asset), the Credit Union allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized is recognized in income.

(f) *Financial Liabilities*

The Credit Union is required to classify all financial liabilities as either financial liabilities 'at FVTPL' or 'other financial liabilities'. All of the Credit Union's financial liabilities are classified as other financial liabilities.

(g) *Other Financial Liabilities*

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

(h) *Derecognition of financial liabilities*

The Credit Union derecognizes financial liabilities when, and only when, the Credit Union's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The accounting policies from January 1, 2017 to December 31, 2017 and the year then ended related to the financial assets and liabilities was as follows:

Loans and receivables

Loans to members, accounts receivable and contract deposits with Central are classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Available for sale financial assets ("AFS")

Shares in Central are classified as AFS. AFS investments are financial assets that are not classified as loans and receivables, FVTPL or held to maturity.

AFS financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in consolidated other comprehensive income. If an AFS financial asset is determined to be impaired, the cumulative gain or loss previously recognized in consolidated other comprehensive income is reclassified to consolidated net income.

Interest is calculated using the effective interest method, and dividends on AFS equity instruments are recognized in the consolidated statement of net income and comprehensive income in investment income when the right to receive payment is established.

Financial liabilities

The Credit Union classifies members' deposits, accounts payable, members' shares and shares to be issued as other financial liabilities. Other financial liabilities are initially recognized at fair value including transaction costs and subsequently measured at amortized cost using the effective interest rate method.

Allowance for loan loss

The Credit Union maintains allowances for loan losses that reduce the carrying value of loans identified as impaired to their estimated realizable amounts. A loan is considered impaired if there is objective evidence that the full amount of the principal and interest will not be collected in accordance with the terms of the loan agreement. Estimated realizable amounts are determined by estimating the fair value of security underlying the loans and deducting costs of realization, and by discounting the expected future cash flows at the financial asset's original effective interest rate.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics (on the basis of the Credit Union's grading process that considers characteristics of each loan portfolio, industry, past-due status, historical write-off experience and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the member's ability to pay all amounts due according to the contractual terms of the loans being evaluated.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Credit Union and historical loss experience for loans with credit risk characteristics similar to those in the Credit Union. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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 against the related allowance for loan loss. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

the consolidated statement of net income and comprehensive income in the allowance for loan loss.

The following accounting policies were applicable for the years ended December 31, 2018 and December 31, 2017:

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and Atlantic Central and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost which is considered equivalent to fair value due to the short-term nature of these assets.

Loans to members

Loans to members include personal loans, lines of credit, mortgages and commercial loans, and are recognized when the cash is advanced to the borrower. All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables which are subsequently measured at amortized cost using the effective interest method.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Deposits from members

Deposits from members are disclosed in Note 8 and represent 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.

Provisions

Provisions are recognized when the Credit Union has a present obligation (legal or constructive), as a result of a past event, it is probable that the Credit Union will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(continues)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Membership shares

The Credit Union's membership shares are presented in the Statement of Financial Position as financial liabilities in accordance with the substance of the contractual terms of the instruments. These shares qualify as capital for regulatory purposes. All membership shares of the Credit Union are classified as liabilities. Payments of dividends on membership shares presented as a financial liability are recognized as a distribution of profit or loss. Dividends are recorded when declared by the Board of Directors.

Revenue recognition

Interest income is accrued monthly by reference to the principal outstanding at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income is recognized when the right to receive payment is established. Dividends are included in investment income in the Statement of Comprehensive Income.

Other investment income and commission income include account service fees, investment management fee, and insurance fees which are recognized over the period the services are performed, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

Income taxes

Income tax expense comprises current and deferred tax.

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

Deferred income tax assets and liabilities are recognized in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the Statement of Comprehensive Income.

Foreign currency translation

The financial statements are presented in Canadian dollars ($).

Transactions in foreign currencies are initially translated into Canadian dollars at the rate of exchange in effect at the date of the transaction.

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.

Translation gains and losses are recognized immediately in profit or loss and are included in the "other income" line item in the Statement of Comprehensive Income.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivatives

The Credit Union enters into derivative contracts including index-linked deposits. The premium related to the derivative transaction, which is included in other assets, is recognized over the term of the derivative contract as an adjustment to interest expense.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated amortization and any accumulated impairment losses. When components of property, plant and equipment have different useful lives, they are accounted for as separate assets. Assets under construction are not amortized until they are available for use. Property, plant and equipment is amortized over its estimated useful life at the following rates and methods:

Paved areas	8%	declining balance method
Buildings	5%	declining balance method
Furniture and equipment	5 years	straight-line method
Computer equipment	3 years	straight-line method
Vehicles	20%	straight-line method
HVAC in building (Happy Valley Goose Bay)	20 years	straight-line method
Roof on building (Happy Valley Goose Bay)	25 years	straight-line method

Land is not subject to depreciation and is carried at cost. The residual value, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Impairment reviews are performed when there are indicators that the recoverable amount of an asset may be less than the carrying value. The recoverable amount is determined as the higher of an asset's or cash generating unit's fair value less cost of disposal and value in use. Impairment is recognized in the consolidated statement of net income and comprehensive income, when there is an indication that an asset may be impaired. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in the statement of comprehensive income at that time.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of net income and comprehensive income in the period the asset is derecognized.

4. CASH AND CASH EQUIVALENTS

The Credit Union's current accounts are held with Atlantic Central and positive balances are non-interest bearing.

	2018	2017
Cash and cash equivalents	**$ 2,572,912**	$ 4,024,549
Short term deposits with Atlantic Central	**15,041,119**	6,500,000
Atlantic Central cash management account	**1,044,628**	1,025,436
	$ 18,658,659	$ 11,549,985

The Credit Union has available short-term borrowings of $2,500,000 with Atlantic Central, bearing interest at prime less 0.5%, of which $0 was used at December 31, 2018 (2017 - $0). As security for the operating line of credit, the Credit Union has provided a continuing, specific and fixed first security interest, mortgage, hypothec and charge over all Property as defined in the line of credit agreement dated November 1, 2013.

5. INVESTMENTS

The following table provides information on the investments held by the Credit Union.

	2018	2017
	$	$
Term deposits, liquidity and mortgage pools		
Atlantic Central mandatory liquidity	9,142,976	8,856,277
Atlantic Central term deposits	8,000,000	10,145,000
League Savings and Mortgage term deposit	1,697,100	1,697,100
Valley Credit Union term deposit	1,349,898	
Concentra Financial term deposit	5,000,000	10,000,000
Concentra Financial mortgage pools	7,887,196	7,267,482
Accrued interest	160,628	90,822
Investment in shares		
Atlantic Central common shares	1,444,960	1,330,580
Atlantic Central Class NS shares	18,000	18,000
Atlantic Central Class B shares	192,000	192,000
Atlantic Central Class NL shares	99,000	99,000
League Data Limited - Class B preferred shares	65,180	65,180
Concentra Financial Services Association - Class D shares	250,000	250,000
League Savings and Mortgage shares	106,250	106,250
Other shares	220	210
	35,413,408	40,117,901

The Credit Union is required under the Credit Union Regulations, 2009 of the Credit Union Act, 2009 to maintain an amount equal to 6% of the total liabilities as at each month end. Note 16 provides the Credit Union's position in this regard. At maturity, these deposits are reinvested at market rates for various terms as determined by management. The deposit can be withdrawn only if there is a sufficient reduction in the Credit Union's assets or upon withdrawal of membership from Atlantic Central. At December 31, 2018, the Credit Union held liquidity deposits of $9,142,976 (2017 - $ 8,856,277)

Equity instruments

Equity investments are recorded at cost as they do not have available quoted market prices in an active market. The shares in Atlantic Central, issued at par value, are required as a condition of membership and are redeemable at par value upon withdrawal of membership or at the discretion of the Board of Directors of Atlantic Central. The common shares of Atlantic Central are subject to an annual re-balancing mechanism. Dividends on these shares are at the discretion of the Board of Directors of Atlantic Central.

6. LOANS AND MORTGAGES RECEIVABLE

				2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Consumer				
Loan	20,242,870	11,357	577,813	20,832,040
Mortgage	59,528,319	259,232	188,496	59,976,047
Line of credit	6,204,402	16,574	145,614	6,366,590
Commercial				
Loan	4,108,572	-	197,344	4,305,916
Mortgage	8,340,055	-	-	8,340,055
Line of credit	889,265		19,403	908,668
Accrued interest	155,358	1,356	40,522	197,236
Gross carrying amount	99,468,841	288,519	1,169,192	100,926,552
Allowance for impaired loans	(12,537)	(3,012)	(619,860)	(635,409)
Carrying amount	99,456,304	285,507	549,332	100,291,143

Allowance for impaired loans

The allowance for impaired loans is recognized in the period and is affected by a variety of factors, such as:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent " step up" or "step down" between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in probability of default (PD), exposure at default (EAD) and loss given default (LGD) in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period

(continues)

6. LOANS AND MORTGAGES RECEIVABLE *(continued)*

At December 31, 2018, loans to members are presented net of allowances for ECLs totalling $635,409. The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Credit Union's maximum exposure to credit risk on these assets.

				2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	
	$	**$**	**$**	
Allowance for doubtful loans as at January 1, 2018	13,984		689,123	703,107
Transfer to stage 1				
Transfer to stage 2				
Transfer to stage 3				-
New financial assets originated (1)	148	2,699	75,299	78,146
Financial assets derecognized during the period (2)			(99,421)	(99,421)
Other (i.e. change in loan balance, change in credit				-
score that doesn't affect staging)	(1,596)	313	(45,140)	(46,423)
Allowance for doubtful loans as at December 31, 2018	12,536	3,012	619,861	635,409

The following changes in gross carrying amount are provided to help explain their significance to the changes in the loss allowance shown in the above table:

(1) The gross carrying amount of new loans to members originated during fiscal 2018 amounted to $568,136 as at December 31, 2018.

(2) The gross carrying amount of loans to members derecognized during fiscal 2018 amounted to $102,188 as at December 31, 2018.

At December 31, 2017, loans to members are presented net of specific allowances for doubtful loans totalling $420,621.

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6. LOANS AND MORTGAGES RECEIVABLE *(continued)*

	Gross loan balance	Allowances	Net loan balance
	$	$	$
Consumer			
Loans	24,406,101	(367,180)	24,038,921
Mortgages	57,725,880	(29,973)	57,695,907
Lines of credit	6,977,679	(22,683)	6,954,996
Commercial			-
Loans	3,553,481	(785)	3,552,696
Mortgages	6,413,694		6,413,694
Lines of credit	1,069,012		1,069,012
	100,145,847	(420,621)	99,725,226
Accrued interest	241,141		241,141
	100,386,988	(420,621)	99,966,367

(continues)

6. LOANS AND MORTGAGES RECEIVABLE *(continued)*

The change in the allowance for doubtful loans is as follows:

			2017
	Consumer	Commercial	
	Allowances	Allowances	Total
	$	$	$
Balance, beginning of year	305,924	-	305,924
Provision for impaired loans	206,446	47,198	253,644
Loans written off in the year	138,947	-	(138,947)
Balance, end of year	373,423	47,198	420,621

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 one day and greater but not classified as impaired because they are either fully secured or collection efforts are reasonably expected to result in repayment.

					2017
	1-30 days	31-60 days	61-89 days	90 days and greater	Total
	$	$	$	$	$
Consumer	1,165,942	210,161	68,518	755,688	2,200,309
Commercial		158,372		215,735	374,107
	1,165,942	368,533	68,518	971,423	2,574,416

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees, and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies to monitor the degree of concentration in the collateral supporting its credit exposure.

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6. LOANS AND MORTGAGES RECEIVABLE *(continued)*

Credit Quality of Loans

Security held on a portfolio basis is as follows:

	December 31, 2018	December 31, 2017
	$	$
Mortgages secured by property	**68,399,140**	64,232,588
Other secured loans	**22,764,208**	25,973,741
Unsecured loans	**9,763,204**	10,180,659
	100,926,552	100,386,988

Mortgages are repayable in monthly blended principal and interest instalments over a maximum term of five years. Mortgages are secured by residential properties.

Personal loans are repayable to the Credit Union in monthly blended principal and interest instalments over a period acceptable by provincial law, except for line of credit loans, which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

Mortgages Under Administration

Loans and mortgages receivable include $47,008,704 (2017: $45,369,473) that are administered by League Savings and Mortgage Company.

7. PROPERTY, PLANT AND EQUIPMENT

	2018								
	Land	Buildings	Roof	Paved areas	HVAC	Furniture & Equipment	Computers	Vehicle	Total
	$	$	$	$	$	$	$	$	$
Rate									
Cost									
Balance,beginning	230,080	3,821,707	155,501	207,529	227,288	1,220,230	295,920	17,540	**6,175,795**
Additions		-	-	-	-	7,674	36,569	-	**44,243**
Disposals	-	-		-		- 97,037	- 188,124	-	**- 285,161**
Balance, ending	230,080	3,821,707	155,501	207,529	227,288	1,130,867	144,365	17,540	**5,934,877**
Accumulated depreciation									
Balance,beginning	-	1,695,687	24,552	97,633	44,708	989,766	268,286	16,663	**3,137,295**
Depreciation	-	123,810	-	8,792	-	69,227	21,414	877	**224,120**
Adjustments	-	-	-	-	-	- 97,037	- 188,124	-	**- 285,161**
Balance, ending	-	1,819,497	24,552	106,425	44,708	961,956	101,576	17,540	**3,076,254**
Net book value	**230,080**	**2,002,210**	**130,949**	**101,104**	**182,580**	**168,911**	**42,789**	**-**	**2,858,623**

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2017								
	Land	Buildings	Roof	Paved areas	HVAC	Furniture & Equipment	Computers	Vehicle	Total
	$	$	$	$	$	$	$	$	$
Rate									
Cost									
Balance,beginning	230,080	3,821,707	155,501	207,529	227,288	1,220,230	295,920	17,540	6,175,795
Additions		-	-	-	-	-	-	-	-
Disposals	-	-		-		-	-	-	-
Balance, ending	230,080	3,821,707	155,501	207,529	227,288	1,220,230	295,920	17,540	6,175,795
Accumulated depreciation									
Balance,beginning	-	1,695,687	24,552	97,633	44,708	989,766	268,286	16,663	3,137,295
Depreciation	-	-	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-	-	-
Balance, ending	-	1,695,687	24,552	97,633	44,708	989,766	268,286	16,663	3,137,295
Net book value	**230,080**	**2,126,020**	**130,949**	**109,896**	**182,580**	**230,464**	**27,634**	**877**	**3,038,500**

8. MEMBERS' DEPOSITS

	December 31, 2018	December 31, 2017
	$	$
Chequing accounts	**55,954,272**	56,146,605
Term deposits plus accrued interest	**18,562,605**	19,053,172
Savings accounts	**44,154,887**	41,204,060
RRSP funds plus accrued interest	**16,999,884**	17,398,329
Equity shares	**1,921,089**	1,919,534
RRIF funds administered by Concentra Financial plus accrued interest	**1,338,350**	1,182,220
Tax-free savings accounts	**10,130,130**	8,780,760
Non-equity share accounts	**1,303,616**	1,340.129
	150,364,833	**147,024,809**

Terms and Conditions

Term deposits

Term deposits for periods of 30 days to 5 years generally may not be withdrawn prior to maturity. Term deposits bear fixed rates of interest which can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits at December 31, 2018 range from 0.20% to 1.75%.

Savings accounts

Savings accounts are due on demand. The portfolio consists of variable rates up to 1.00%.

Chequing accounts

Chequing accounts are due on demand and bear interest at a variable rate up to 0.15% at December 31, 2018. Included in chequing deposits at December 31, 2018 is $30,428 (2017: $22,097) denominated in US dollars.

RRSP accounts

Registered retirement savings plans ("RRSP") accounts can have fixed or variable rates. RRSPs have terms ranging from one to five years and variable rates of 0.25% and fixed rates up to 1.75%.

RRIF accounts

Registered retirement income funds ("RRIF") accounts consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semi-annual or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements. RRIF accounts have variable rates of 0.25% and fixed rates up to 1.75%.

(continues)

8. MEMBERS' DEPOSITS *(continued)*

Equity shares

Member equity shares consist of 20 shares per member at a par value of five dollars ($5.00) per share. The holders of member equity shares have all of the rights and privileges and are subject to the restrictions of a member as provided for in the Credit Union Act and Regulations and in the By-Laws of the Credit Union. Currently there are 7,163 (2017: 7,296) fully paid equity share accounts with an aggregate dollar value of $717,582 (2017: $731,107).

Since membership shares are redeemable on demand, they are presented as a liability on the Credit Union's Statement of Financial Position.

Share accounts are not insured by the Credit Union Deposit Guarantee Corporation; however, they do qualify as capital for regulatory purposes, notwithstanding their financial statement classification as liabilities.

Dividends and patronage refunds

The financial statements reflect the recording of patronage refunds payable of $91,570 (2017- $92,734) and dividends payable on share accounts of $71,758 (2017- $73,111.) Of the total $91,570 patronage refunds, $67,987 (2017- $71,256) was netted against interest income and $23,583 (2017 - $21,478) was included as additional deposit interest in the statement of comprehensive income.Any amounts unpaid from the prior year are included in income.

Both the patronage dividends and the dividends paid on share accounts are subject to ratification at the annual general meeting to be held in April 2019.

Deposit Referrals

The Credit Union refers deposits to League Savings and Mortgage which are not recorded on the Statement of Financial Position. The balance outstanding at December 31, 2018 was $349,517 (2017 $414,672.) The Credit Union earns referral fees based on this deposit portfolio.

Concentration of Risk

Individual or related groups of members' deposits which exceed 1% of total deposits total $ 6,522,939 (2017 $4,443,281).

9. CORPORATE SOCIAL RESPONSIBILITY RESERVE

ERCU is committed to the implementation of a Cooperative Social Responsibility Policy that supports the way in which it integrates social, environmental and economic concerns into its values, culture, decision making, strategy and operations, establishing better practices within the credit union, and improving the communities in which it operates.

The activities and projects will be planned, purposeful and targeted. Projects could include items such as assistance with rent subsidy for the local food banks, contributions to the "Kids Eat Smart" breakfast program in local schools, and funding for Junior Achievement, elder abuse presentations, financial literacy, etc.

Allocations from retained earnings to the CSR reserve are made to fund activities in the next year. The Credit Union has added to the CSR reserve $25,169 (2017: $23,736), bringing the reserve to $67,274 as at December 31, 2018. (2017: $64,699)

The following table outlines the activitiy in this reserve for 2017 and 2018:

	2018	2017
	$	$
Balance, beginning of the year	**64,699**	64,894
Allocation from retained earnings	**25,169**	23,736
Funds utilized during the year	**(22,594)**	(23,931)
	67,274	64,699

10. CAPITAL ADEQUACY

Capital Management

The Credit Union is subject to capital requirements set out in the Credit Union Act of Newfoundland and Labrador (the Act). The Credit Union is required to hold a capital reserve equal to 5% of total assets consisting of equity shares and retained earnings with the minimum retained earnings requirement being 3% of total assets. Alternatively, a risk weighted approach may be used. The Credit Union follows the percentage of total assets method.

As at December 31, 2018 the Credit Union's total capital as a percentage of assets was 5.89%. Therefore, the Credit Union has exceeded its minimum capital requirement as at December 31, 2018.

The Credit Union's objectives when managing capital are to ensure the long term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses, and to comply at all times with the capital requirements set out in the Act.

The Credit Union management ensures compliance with capital adequacy through the following: setting policies for capital management, monitoring and reporting; setting policies for related areas such as asset liability management; reporting to the Board of Directors or its committees regarding financial results and capital adequacy; reporting to the Credit Union Deposit Guarantee Corporation ("CUDGC") on its capital adequacy; and setting budgets and reporting variances to those budgets.

Should the Credit Union not comply with its legislated capital adequacy requirements the following actions would result: the Chief Executive Officer would immediately notify the Board Chair, the Audit Committee Chair and CUDGC; the Board of Directors would be informed at their next scheduled meeting; an explanation and action plan would be presented and enacted; and the Credit Union may be subjected to intervention by the CUDGC as provided for in the Act.

11. FINANCIAL REVENUE - MEMBERS' LOANS & MORTGAGES

	2018	2017
Personal loans	**$ 1,967,660**	$ 2,344,388
Residential mortgages	**963,745**	802,488
RMOP	**1,527,590**	1,482,675
Commercial loans and mortgages	**242,598**	228,392
	$ 4,701,593	$ 4,857,943

12. INTEREST ON MEMBERS' DEPOSITS

	2018	2017
Term deposit interest	**$ 277,602**	$ 283,648
RRSP	**207,208**	231,440
High interest savings	**140,739**	79,901
Your saving "free"	**65,340**	63,704
Tax fee savings account - term deposit	**60,900**	61,110
Tax-free savings account	**47,693**	23,741
YC chequing	**37,373**	35,858
RRIF	**12,891**	12,394
Fat cat	**2,385**	3,269
Monthly savings plan	**1,398**	1,405
Head start	**565**	853
	$ 854,094	$ 797,323

13. INCOME TAXES

The provision for income taxes reported for the year ended December 31 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

	2018	2017
Income before income taxes	**$ 561,634**	$ 483,648
Increase (decrease) resulting from:`		
Deductible dividends paid	**(71,758)**	(60,796)
Non-deductible expenses	**11,175**	17,343
Temporary differences	**21,779**	23,191
IFRS adjustment to opening retained earnings	**(282,486)**	-
Taxable income	**$ 240,344**	$ 463,386
Income taxes	**$ 31,245**	$ 60,894
Income tax rate	**13.00 %**	13.14 %

14. RELATED PARTY TRANSACTIONS

At December 31, 2018 the aggregate amount of loans and mortgages outstanding to members of the Board of Directors and key management personnel totaled $1,109,299 (2017: $829,940) and the aggregate amount of deposits totaled $430,064 (2017: $567,048). These loans and mortgages have been advanced, and deposits receipted on the same terms and conditions as have been accorded to other members of the Credit Union.

No provision for impairment was necessary with respect to the loans.

(continues)

14. RELATED PARTY TRANSACTIONS *(continued)*

The Credit Union's compensation, including the employers' portion of benefits, to key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management was $667,119 (2017 $570,072). The directors also received reimbursement for the year ended December 31, 2018 of $21,666 (2017: $29,923) for their travel, meals and other out of pocket expenses.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value

The fair value of the Credit Union's financial instruments are calculated using the valuation methods and assumptions described below. The fair values do not reflect the value of assets that are not considered financial instruments such as prepaid expenses and property, plant and equipment assets.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The fair values of cash and cash equivalents, certain other assets and certain other liabilities are assumed to approximate their carrying values, due to their short-term nature.

The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposits and capital accounts at current market rates for products with similar terms and credit risks.

The fair value of investments is based on quoted market values where available. (See Note 5)

(continues)

15. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Investments in credit union related entities such as Atlantic Central, League Data Limited, Concentra and League Savings and Mortgage are measured at cost, less any identified impairment losses at the end of each reporting period. These investments are classified as Level 2 as they do not have a quoted price in an active market and their fair value cannot be reliably measured.

There has been no significant transfer of amounts between Level 1, Level 2 and Level 3 financial instruments for the years ended December 31, 2018 and 2017.

Additionally, there are no financial instruments classified in Level 3.

16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how the Credit Union manages its exposure to these risks.

Credit risk

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet its contractual obligations.

The Board of Directors of the Credit Union oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

The Credit Union uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist the Credit Union in implementing a prudent and effective process to assess the borrower's ability to repay.

The Credit Union mitigates credit risk by obtaining quality collateral. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. The Credit Union’s internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union are, but are not limited to, the following: member’s personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements and personal guarantees.

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies.

Liquidity risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

The Credit Union’s objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational and regulatory requirements and provide contingency funding for significant deposit withdrawals.

The Board is ultimately responsible for the liquidity risk management policy. Management reports regularly to the Board, the Credit Union’s compliance with the policy and regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

(continues)

16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS *(continued)*

The Act requires credit unions to maintain investments equal to a minimum of 6% of liabilities for adequate liquidity. Assets held by the Credit Union for such purposes are investments and demand deposits held with Atlantic Central in the amount of $9,142,976. (December 31, 2017: $8,856,277) 6% of liabilities total $9,110,051 with excess liquidity being $32,925.

Contractual maturities of financial liabilities are shown under interest rate risk.

Market risk

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates. The Credit Union is exposed to this market risk in its investing and asset/liability management activities.

Senior management is responsible for managing market risk in accordance with the Credit Union’s Asset and Liability Management and Investment policy set by the Board. Senior management reports regularly to the Board its compliance with the policy and regulatory requirements; dollar volume and yields of all investments; and the particulars of all investment transactions entered into by the Credit Union. All exceptions noted are reported to the Board.

The Board is responsible for monitoring significant variances and ensuring that corrective measures are implemented.

Interest rate risk

The Credit Union's major source of income is its financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits. Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union’s earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets or which are priced on a different basis. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the Board of Directors.

The following schedule shows the Credit Union's sensitivity to interest rate changes. A significant amount of loans and deposits can be settled before maturity and a penalty may apply, but no adjustment has been made for payments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together regardless of maturity.

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by maturity dates:

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16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS *(continued)*

	Assets	Liabilities	Asset/ Liability Gap
	$	$	$
Variable	9,644	81,417	- 71,773
3 months	17,225	9,683	7,542
6 months	11,458	4,596	6,862
9 months	12,898	3,042	9,856
12 months	13,190	4,398	8,792
1-5 years	85,589	16,108	69,481
> 5 years	1,595	-	1,595
Not interest sensitive	7,843	40,198	- 32,355
	159,442	159,442	-

Interest rate risk sensitivity

At December 31, 2018, if interest rates at that date had been 100 (2017 - 100) basis points lower with all other variables held constant, net income before income tax for the year would have been $155,000 lower. If interest rates had been 100 basis points higher, with all other variables held constant, net income before income tax would have been $120,000 higher.

Foreign currency exchange risk

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings when balances of its foreign currency liabilities are not matched with the balances of its foreign currency assets. It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets. The Credit Union does not hold foreign investments beyond cash required to meet daily operational requirements.

17. COMMITMENTS

In the normal course of business, the Credit Union enters into various credit commitments to meet the requirements of its members. These commitments include lines of credit available on a revolving basis. These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts set out below represent the maximum future cash requirements should the contracts be fully drawn. However, many of these arrangements will expire or terminate without being fully drawn. At December 31, 2018, the unused authorized lines of credit totalled $8,807,781 (2017: $7,408,957)

18. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation. In particular, patronage refunds for 2017 as disclosed in Note 8, were previously reported as dividends. As noted in Note 8, they are now reported as additions to interest expense or a reduction of interest income as appropriate.