

2017

Annual
Report



**CREDIT
UNION**

SOURIS

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2017 Highlights

Assets: **\$56,315,388**

Deposits: **\$44,463,179**

Loans: **\$43,338,093**

Membership: **3,852**

Back to Members

\$
304K

Back to Communities

\$
45K



Assets

17.1%

Deposits

21.2%

Loans

7.0%

Avg. Member Savings

18.2%

New Members

145

Members Online

1.6K

Mission

To provide outstanding service and professional advice to enable our members to reach their financial goals.

Values

Honest
Passionate
Holistic
Spiritual
Evolutionary
Simplistic
Inclusive

Vision for the Future

To make money easy for everyone to understand and use.



“We strive to be the leading source of information and inspiration for our members to make more money.”

Board of Directors

Tammy Daley
President



Denis McNally
Vice-President



Megan Cheverie
Secretary



Shelly Manning



Nova Maclsaac



Gail Jennings



Walter Bruce



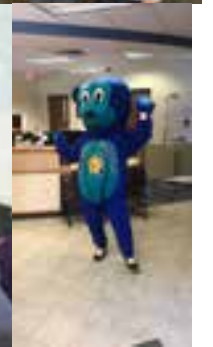
Glen Cameron



Dale Cahill



Staff



President's Report



It has truly been a privilege and honour for me to serve as President of the Credit Union and to represent our members on the Board of Directors.

The Board's role is to be responsible for representing the interests of members and incorporating those interests into the strategic governance of the credit union. In addition to our annual exercise, we have been committed to monthly meetings. In these meetings, everyone's opinions are valued, and we strive to be as progressive as possible and to ensure that we are benefiting our fellow members in the best way possible.

When speaking of Souris Credit Union, one must first attribute this year's success to our members. Without your support, input and dedication our achievements would be near impossible.

This leads me to praise the advancement the Credit Union has seen this year with our online and mobile payment technology. We're proud to have launched Lock'N'Block to both our mobile and online banking platforms. This innovative feature allows members to instantly control their debit card's access, especially useful when you've misplaced your debit card. Our mobile banking app has also been enhanced with fingerprint authentication, making it safer and easier to log in to your account. Using your fingerprint to verify your identity is quickly becoming the new

industry standard for personal verification and we're proud to be on forefront of this trend for our members. Its these small conveniences that our members are coming to expect from there financial institution, they are no longer nice to haves, they are necessary if we want to put our members first.

Every year brings some extent of challenges and this year was no exception. With the advancement and success we have had in terms of our mobile connectedness, we are now faced with the task of making these mobile services forefront to our members. We hope to take great strides in 2018 with more members accessing the mobile services and finding them simple to navigate.

Building on the success on 2017, we look to expand our relationship with youth. We recognize that youth are our future and we have dedicated a considerable amount of resources to the development of products, services, and programs that are extremely relevant to today's generation. We want the credit union to be their first choice, well-knowing that we have the best products and services for their needs.

In conclusion, I am happy to present that with

the growth we achieved this year we have declared a 0.50% dividend for the fiscal year ended on December 31st, 2017. On behalf of the Board of Directors I would like to thank the staff of the Credit Union for their friendly and professional service but also their commitment to bettering our community.

Respectfully submitted,

Tammy Daley
President

Manager's Report



As General Manager of the Credit Union it is my pleasure to speak to this past fiscal year and the upward trend of success the credit union has seen.

This year we have seen great growth in our mobile services and our ability to be the most convenient banking choice. Working with other credit unions has allowed us to keep up with consumer demands and to make a positive impact on our member's financial wellbeing. As we continue to compete with banks, our ability to adapt to newer technologies has allowed us to remain user-friendly but to also provide our members with the level of service and latest features they have come to expect from their financial institution.

Looking at the last year I am very pleased with our financial growth. As of December 31, 2017, our assets have reached \$ 56.3 million, which is a growth of \$8.2 million or 17%. Our loans have increased significantly by \$ 2.84 million and make up 77% of our current assets. Alongside our growth in loans, we have also experienced an increase of \$7.8 million in member deposits. This growth in our member deposits translates into more liquidity for the credit union. Undistributed income has also increased by \$233,116 which is the income remaining after dividends, interest rebates and taxes for the year. In addition, equity is currently exceeding 10%, over double the equity required in the Credit Union Act.

Due to a successful 2017 Souris Credit Union again paid out both Share and Patronage Dividends in the amount of \$304,297, the 6th consecutive year of doing so. When

“While traditional services remain important, we see the banking wants and needs of our membership changing.”

you take into consideration the additional \$ 45,200 that was given out in donations to local causes, Souris Credit Union gave back 60 % of its profits in 2017. During the last 6 years we have given back in the form of dividends or donated 2.1 million dollars to our Members and the community. Think of this when comparing financial institutions for your next investment, loan, mortgage, or account.

Much of the success of the last year can be attributed to our Members. Without their constant support and input we would not be able to easily achieve our set goals for the year. Much like our members, we are heavily reliant on our staff and they have been nothing short of exceptional. The work of the staff has been influential on the credit union, from their positive attitudes to their adaptability to change in this ever growing market. We are very fortunate to also have the expertise of our numerous board members. Their willingness to volunteer their time has been essential to our success as a financial institution.

Respectfully submitted,

Paul MacNeill

General Manager

Investing in our Community

As Souris Credit Union made donations in the amount of \$ 45,200 in 2017.

- We invested in education by granting \$ 10,800 in bursaries to Members and their children.
- We invested in local health care with a donation of \$ 10,000 to Souris Hospital (the 4th of 5 installments of \$ 10,000, part of the \$ 50,000 commitment made in 2015)
- We invested in Health and recreation with a \$ 5,000 commitment to Eastern Kings Sportsplex, the first half of a total commitment of \$ 10,00.00
- We invested in youth sport, donating to football, soccer, ringette, and hockey.
- We invested in local business, sponsoring business forums and the Tuna Cup
- We invested in safety, co funding defibrillator in both Souris schools.
- We invested in the arts, sponsoring concerts and events

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

Scholarships

Souris Credit Union was pleased to grant 6 bursaries in 2017 totaling \$ 10,800 to the following recipients:

The Abby Chaisson Memorial Bursary



Bailee Ford

The Wayne D Kane Honorarium



Alex Chapman

The Eleanor Clinton Memorial Bursary



Breanna Allen

The Margaret MacDonald Memorial Bursary



Kaitlin McInnis

The Souris Credit Union Bursary

Not pictured: Nick Deagle



Heather Jennings

Including this year, we will have given
\$ 174,300.00
to Eastern Kings students.

\$2.1 Million

back to our members and community
over the last 6 years.

It Pays to be a Member

The Board of Directors of Souris Credit Union Ltd. are pleased to declare a Patronage Dividend for the fiscal year ending December 31st, 2017.

This dividend was calculated based on the following criteria:

- 12% rebate of the interest paid on loans
- 15% rebate of the service charges paid on accounts
- 15% bonus on the amount of interest received on the majority of our investment products during the fiscal year ending December 31st, 2017.

This is the 6th year Souris Credit Union returned the majority of its profits back to our Members & community in the form of dividends and donations, for a cumulative total of approximately \$ 2.1 Million. We invest in our local schools, community groups, and healthcare. This total includes a five year \$50,000.00 commitment to the Eastern Kings Health Foundation supporting the purchase of x-ray equipment for the Souris Hospital.

The amount of the Patronage Dividend is proportionate to the amount of financial services we provide to you, so the more business with us the more the potential reward.

Where do you bank? Does your bank's profits flow back to you and your community, or are they used to increase the dividend for their corporate shareholders? Are you rewarded for your patronage?

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.

Credit unions are committed to a more physically active

Physically active community on PEI



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 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.

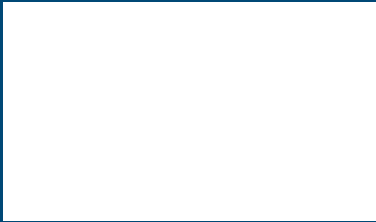
Ultimately, Stolen was a great success in creating a new and innovative way to explain different financial topics.



Commercial Accounts

2017 marked the launch of our new Commercial Accounts, bringing over many of the features of our personal products. Our new Operating and Investment Accounts bring the ease of use, and new money saving features such as free Me-to-Me Online transfers, Merchant discounts, and lower fee options for Not-For-Profits.

Our new accounts also change the way we charge for business deposits. Now, those who don't need the service avoid any overcharges, while still offering the lowest fees in our industry for those that do .



Financial Statements



INDEPENDENT AUDITOR'S REPORT

To the Members of Souris Credit Union Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Souris Credit Union Limited, which comprise the statement of financial position as at December 31, 2017 and the statements of comprehensive income, changes in members' equity and cash flow 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Souris Credit Union Limited as at December 31, 2017 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

MRSB Chartered Professional Accountants

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS

Charlottetown, PE

February 20, 2018


Souris Credit Union Limited

Statement of Financial Position


December 31, 2017

	2017	2016
Assets		
Cash and cash equivalents (Note 4)	\$ 2,051,354	\$ 212,424
Investments (Note 5)	10,016,909	6,466,626
Accounts receivable (Note 6)	528,222	459,652
Member loans and mortgages (Note 7)	43,338,093	40,495,596
Provision for impaired loans (Note 8)	(572,814)	(570,000)
Income taxes recoverable	6,586	-
Prepaid expense	32,505	31,960
Deferred income taxes (Note 10)	13,005	36,937
Property and equipment (Schedule 1)	633,255	665,234
Restricted cash - retirement allowance	268,273	296,501
	\$ 56,315,388	\$ 48,094,930
Liabilities		
Accounts payable and accrued liabilities	\$ 386,609	\$ 403,577
Employee benefits payable	207,497	197,850
Accrued interest payable	140,368	116,059
Income taxes payable	-	20,516
Member deposits (Note 11)	44,463,179	36,698,304
Share deposits	4,806,639	4,577,460
Retirement allowance payable	268,273	296,501
Deferred pension obligation (Note 12)	204,136	79,337
	50,476,701	42,389,604
Commitments (Note 13)		
Members' equity		
Members' shares (Statement 4)	15,785	15,940
Accumulated other comprehensive income (Statement 4)	332,736	432,336
Undistributed earnings (Statement 4)	5,490,166	5,257,050
	5,838,687	5,705,326
	\$ 56,315,388	\$ 48,094,930

ON BEHALF OF THE BOARD



Director



Director

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

Souris Credit Union Limited

Statement of Changes in Members' Equity

Year Ended December 31, 2017

	2017	2016
Members' shares (Note 14)		
Balance - beginning of year	\$ 15,940	\$ 15,985
Issuance of members' shares, net of redemption	<u>(155)</u>	<u>(45)</u>
Balance - end of year	<u>15,785</u>	<u>15,940</u>
Accumulated other comprehensive income		
Balance - beginning of year	432,336	665,836
Actuarial loss on deferred pension plan (Statement 5)	<u>(99,600)</u>	<u>(233,500)</u>
Balance - end of year	<u>332,736</u>	<u>432,336</u>
Undistributed earnings		
Balance - beginning of year	5,257,050	5,019,640
Net income (Statement 5)	<u>233,116</u>	<u>237,410</u>
Balance - end of year	<u>5,490,166</u>	<u>5,257,050</u>
Members' equity	<u>\$ 5,838,687</u>	<u>\$ 5,705,326</u>

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

Souris Credit Union Limited

Statement of Comprehensive Income

Year Ended December 31, 2017

	2017	2016
Income		
Interest and investment	\$ 2,246,394	\$ 2,104,843
Cost of capital and borrowings (Note 15)	<u>733,632</u>	662,075
Financial margin	1,512,762	1,442,768
Other income (Note 16)	<u>551,481</u>	582,187
	<u>2,064,243</u>	<u>2,024,955</u>
Expenses - by nature		
Advertising and promotions	86,607	72,387
Amortization of property and equipment	31,979	35,200
Automated teller machines	122,372	126,509
Board honorarium	18,524	12,290
Data processing	101,101	97,922
Director training	6,527	4,177
Dues and memberships	1,562	2,561
Insurance	76,954	85,669
Meetings	5,280	7,211
Office	108,229	114,609
Premises	101,076	53,306
Professional fees	38,078	31,048
Provision for impaired loans	6,375	9,321
Service fees	219,356	221,770
Telephone	16,314	15,131
Travel	15,284	13,193
Wages and wage levies	<u>802,879</u>	<u>797,558</u>
	<u>1,758,497</u>	<u>1,699,862</u>
Income before income taxes and other comprehensive income	<u>305,746</u>	<u>325,093</u>
Income taxes		
Current (Note 17)	48,698	55,276
Deferred	<u>23,932</u>	<u>32,407</u>
	<u>72,630</u>	<u>87,683</u>
Net income	233,116	237,410
Other comprehensive loss		
Actuarial loss on deferred pension plan	<u>99,600</u>	233,500
Net comprehensive income	<u>\$ 133,516</u>	<u>\$ 3,910</u>

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

	2017	2016
Cash flows from operating activities		
Net comprehensive income	\$ 133,516	\$ 3,910
Items not affecting cash:		
Amortization of property and equipment	31,979	35,200
Deferred income taxes (recovery)	23,932	32,407
	<u>189,427</u>	<u>71,517</u>
Changes in non-cash working capital:		
Investments	(3,550,283)	973,513
Accounts receivable	(68,570)	154,568
Prepaid expense	(544)	352
Accounts payable and accrued liabilities	(16,968)	13,714
Employee benefits payable	9,647	(7,741)
Accrued interest payable	24,309	(62,455)
Income taxes payable	(27,102)	14,664
	<u>(3,629,511)</u>	<u>1,086,615</u>
	<u>(3,440,084)</u>	<u>1,158,132</u>
Cash flows from investing activities		
Increase in member loans and mortgages	(2,839,684)	(4,308,376)
(Increase) decrease in restricted cash - retirement allowance	28,228	(36,226)
Purchase of property and equipment	-	(20,438)
	<u>(2,811,456)</u>	<u>(4,365,040)</u>
Cash flows from financing activities		
Increase in member deposits	7,764,875	1,280,272
Increase in share deposits and members' shares	229,024	309,246
Increase in deferred pension obligation	124,799	245,784
Increase (decrease) in retirement allowance payable	(28,228)	36,226
	<u>8,090,470</u>	<u>1,871,528</u>
Increase (decrease) in cash and cash equivalents	<u>1,838,930</u>	<u>(1,335,380)</u>
Cash and cash equivalents - beginning of year	<u>212,424</u>	<u>1,547,804</u>
Cash and cash equivalents - end of year	<u>\$ 2,051,354</u>	<u>\$ 212,424</u>
Cash flow supplementary information		
Interest received	\$ 2,179,639	\$ 2,078,306
Interest paid	405,300	374,649
Income taxes paid	75,800	40,609

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

Notes to the Financial Statements

Souris Credit Union Limited
Year Ended December 31, 2017

1. DESCRIPTION OF BUSINESS

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

These financial statements were authorized for issue by the Board of Directors on February 20, 2018.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with and are in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in Note 3.

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in Note 3. These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and cash in financial institutions.

Investments

Investments for which there are quoted prices in an active market are carried at fair value by the Credit Union. Unrealized gains or losses are reported as part of net comprehensive income. Investments for which there is not an active market are carried at amortized cost, except when it is established that their value is impaired. Impairment losses, or reversal of previously recognized impairment losses, are reported as part of net comprehensive income.

Accounts receivable

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

(continues)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loans and mortgages

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

Member loans and mortgages are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans and mortgages.

Impairment

Loans and mortgages are considered impaired when there has been deterioration in credit quality. 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 followed by a measurable decrease in the estimated future cash flows from a loan or mortgage. Deterioration of estimated future cash flows is determined considering the financial condition of the borrower, payment history and security pledged.

The Credit Union first assesses whether objective evidence of impairment exists individually for member loans and mortgages. If it is determined that no objective evidence of impairment exists for individual assets, the asset is included in a group of financial assets with similar credit characteristics and that group is assessed collectively for impairment. Assets that are individually assessed for impairment are not included in the collective assessment. The expected cash flows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience, future estimates based on current events and objective evidence of impairment similar to those in the portfolio.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recorded impairment loss is reversed. Any subsequent reversal of impairment loss is recognized in net income.

Member loans and mortgages considered uncollectible are written off.

Interest on an impaired loan or mortgage continues to be recognized in earnings on an accrual basis and is provided for in the provision for impaired loans. At December 31, 2017 interest accrued on impaired loans and mortgages totals \$NIL (2016 - \$189).

Non-financial assets are assessed for impairment at least annually and, where impairment exists, the carrying value is reduced to the recoverable amount.

(continues)

Notes to the Financial Statements

Souris Credit Union Limited
Year Ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income taxes

Income tax expense comprises current and deferred tax.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current period and any adjustment to income taxes payable in respect of previous periods. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the period end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allows the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the period end date and are expected to apply when the liabilities/assets are settled/recovered.

Property and equipment

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

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

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

Finance charges

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

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee future benefits

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

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

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

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

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

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

Member deposits

Deposits are measured at fair value on recognition net of transaction costs directly attributable to issuance. Subsequent measurement is at amortized cost using the effective interest method. Chequing accounts, call deposits and term deposits are on a call basis and earn interest at various rates.

Share deposits pay a dividend return at the discretion of the Board of Directors. Privileges of the shares are under the authority of the Board of Directors. The dividend rate declared and paid for 2017 was 0.5% (2016 - 0.5%), and was based on the average of the lowest monthly share balances.

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Notes to the Financial Statements

Souris Credit Union Limited
Year Ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share deposits

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

As at the financial statement date, the Credit Union has 3,157 member shares issued and outstanding with a value of \$15,785 (2016 - 3,188 shares with a value of \$15,940).

Revenue and expense recognition

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

Operating expenses are recognized upon the utilization of the services or at the date of their origin. Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in the statement of comprehensive income, as a reduction to income over the expected life of the relevant loans and mortgages.

Foreign currency translation

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

Foreign exchange gains and losses on monetary assets and liabilities are included in the determination of net income.

(continues)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The estimates and underlying assumptions are continually reviewed on an ongoing basis based on historical experience, best knowledge of current events, and conditions and other factors that are believed to be reasonable under the circumstances, including expectations of future events. The resulting accounting estimates will, by definition, seldom equal the related actual results, and actual results may ultimately differ from these estimates.

Revisions to accounting estimates are recorded in the period in which the estimate is reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include the provision for impaired loans, measurement of pension and employee benefits and the estimates of useful lives for depreciation of property and equipment.

Financial instruments

The Credit Union classifies its financial assets and liabilities according to their characteristics and management's intentions related thereto for the purposes of ongoing measurements. Financial assets and liabilities are initially recognized at fair value regardless of classification choice and are subsequently accounted for based on their classification as described below.

Financial assets must be classified as fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity (HTM), or loans and receivables (L&R). Financial liabilities are required to be classified as FVTPL or other financial liabilities (OFL). All financial instruments, including all derivatives, are measured at fair value on the statement of financial position with the exception of loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

A financial asset is derecognized when the contractual rights to the cash flows from the asset have expired, or the Credit Union transfers the contractual rights to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to a third party and the Credit Union has transferred all of the risks and rewards of ownership of that asset to a third party. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Changes in fair value of financial assets and financial liabilities classified as FVTPL are reported in earnings, while the changes in value of available for sale financial assets are reported within other comprehensive income (OCI) until the financial asset is disposed of, or becomes impaired.

Accumulated OCI is reported on the statement of financial position as a separate component of members' equity. It includes, on a net of taxes basis, the net unrealized gains and losses on available for sale financial assets. The Credit Union has classified its equity investments as AFS; however, because there is no active market for these investments and their fair value cannot be estimated reliably, the Credit Union has not recorded any other comprehensive income as a result of these.

(continues)

Notes to the Financial Statements

Souris Credit Union Limited
Year Ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Credit Union has classified its financial instruments as follows:

FVTPL	Cash and cash equivalents
AFS	Investments - shares
HTM	Investments - debentures
L&R	Member loans and mortgages and accounts receivable
OFL	Accounts payable and accrued liabilities, employee benefits payable, accrued interest payable and member and share deposits

The Credit Union utilizes settlement date accounting for all purchases and sales of financial assets in its investment portfolio. Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are added to the fair value of the financial asset or liability on initial recognition and amortized using the effective interest method.

Fair value of financial instruments

The determination of the fair value of financial instruments requires the exercise of judgement by management. The fair value of financial instruments traded in active markets at the financial statement date is based on their quoted market prices. Where independent quoted market prices do not exist, fair value may be based on other observable current market transactions or based on a valuation technique which maximizes the use of observable market inputs.

For certain types of equity instruments, fair value is assumed to approximate carrying value where the range of reasonable valuation techniques is significant and the probabilities of such valuation techniques cannot be reasonably assessed. In such instances, fair value may not be reliably measurable due to the equity instruments' unique characteristics, including trading restrictions or that quoted market prices for similar securities are not available.

Changes in accounting standards

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2017 and have not been adopted by the Credit Union in preparing these financial statements. Other than the introduction of IFRS 9, these changes are not expected to have a material impact on the financial statements.

The IASB has issued two new standards, IFRS 16 Leases and IFRS 15 Revenue from Contracts with Customers which are effective for annual periods beginning on or after January 1, 2019 and January 1, 2018, respectively. The Credit Union is currently assessing the impact of these standards.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Changes in accounting standards *(continued)*

IFRS 9 - Financial Instruments

In 2009 and 2010, the IASB issued IFRS 9 Financial Instruments which contains new requirements for accounting for financial assets and liabilities, and will contain new requirements for impairment and hedge accounting, replacing the corresponding requirements in IAS 39. It will lead to significant changes in the way the Credit Union accounts for financial instruments. The key changes issued and proposed relate to:

- Financial assets - financial assets will be held at either fair value or amortized cost, except for equity investments not held for trading and certain eligible debt instruments, which may be held at fair value through other comprehensive income;
- Financial liabilities - gains and losses on fair value changes arising on non-derivative financial liabilities designated at fair value through profit or loss will be taken to other comprehensive income;
- Impairment - credit losses expected (rather than only losses incurred in the year) on loans, debt securities and loan commitments not held at fair value through profit or loss will be reflected in impairment allowances; and
- Hedge accounting - hedge accounting will be more closely aligned with financial risk management.

In 2014, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 on the Credit Union has been determined.

4. CASH AND CASH EQUIVALENTS

	<u>2017</u>	<u>2016</u>
Cash (overdraft) in financial institutions	\$ 1,712,201	\$ (131,657)
Cash on hand	<u>339,153</u>	<u>344,081</u>
	<u>\$ 2,051,354</u>	<u>\$ 212,424</u>

Notes to the Financial Statements

Souris Credit Union Limited
Year Ended December 31, 2017

5. INVESTMENTS

	<u>2017</u>	<u>2016</u>
Shares		
Concentra Financial - 20,000 Class D preferred shares	\$ 500,000	\$ 500,000
Atlantic Central Credit Union Limited - common shares	437,850	438,040
Atlantic Central Credit Union Limited - Class B preferred shares	117,200	117,200
Atlantic Central Credit Union Limited - 50,478 Class LSM preferred shares	50,478	50,478
League Data Limited - 1,613 Class B preferred shares	16,130	16,130
Atlantic Central Credit Union Limited - Class PEI shares	800	800
	<u>1,122,458</u>	<u>1,122,648</u>
Debentures		
Atlantic Central Credit Union Limited liquidity deposit - 1.19%	3,394,451	3,043,978
Atlantic Central Credit Union Limited term deposit - 1.08%; matures January 4, 2018	1,500,000	-
Atlantic Central Credit Union Limited term deposit - 1.12%; matures February 5, 2018	1,500,000	-
Atlantic Central Credit Union Limited term deposit - 1.12%; matures January 8, 2018	1,000,000	400,000
Atlantic Central Credit Union Limited term deposit - 1.08%; matures January 10, 2018	1,000,000	1,000,000
Atlantic Central Credit Union Limited term deposit - 1.19%; matures March 5, 2018	500,000	300,000
Concentra Financial term deposit; 1.10% matured May 12, 2017	-	600,000
	<u>8,894,451</u>	<u>5,343,978</u>
	<u>\$ 10,016,909</u>	<u>\$ 6,466,626</u>

Liquidity deposits are investments placed with Atlantic Central Credit Union Limited to provide protection against cash flow demands. National standards have been established requiring 6% of Souris Credit Union Limited assets to be held on deposit.

6. ACCOUNTS RECEIVABLE

	<u>2017</u>	<u>2016</u>
Accrued interest - loans and mortgages	\$ 427,186	\$ 356,051
Other receivables	95,727	93,912
Accrued interest - investments	5,309	9,689
	<u>\$ 528,222</u>	<u>\$ 459,652</u>

Notes to the Financial Statements

Souris Credit Union Limited
Year Ended December 31, 2017

7. MEMBER LOANS AND MORTGAGES

	Total loans	Specific allowance	Net loans
2017			
Commercial	\$ 18,409,619	\$ (418,197)	\$ 17,991,422
Personal	8,782,187	(97,590)	8,684,597
Mortgages	6,061,079	-	6,061,079
LS&M high ratio mortgages	8,387,099	-	8,387,099
Lines of credit and overdrafts	1,698,109	(57,027)	1,641,082
	\$ 43,338,093	\$ (572,814)	\$ 42,765,279
2016			
Commercial	\$ 15,784,840	\$ (420,685)	\$ 15,364,155
Personal	8,475,927	(109,635)	8,366,292
Mortgages	6,317,238	-	6,317,238
LS&M high ratio mortgages	8,251,014	-	8,251,014
Lines of credit and overdrafts	1,666,577	(39,680)	1,626,897
	\$ 40,495,596	\$ (570,000)	\$ 39,925,596

8. PROVISION FOR IMPAIRED LOANS

	2017	2016
Provision for impaired loans - beginning of year	\$ 570,000	\$ 600,000
Provision for impaired loans - current year	6,375	9,321
Recovery of loans written off	11,395	2,240
Loans written off - current year	(14,956)	(41,561)
Provision for impaired loans - end of year	\$ 572,814	\$ 570,000

Members' loans can have either variable or fixed rate of interest. The rates offered to members are determined by the type of security offered, the member's credit worthiness, competition from other lenders and the current prime rate.

9. LOANS IN ARREARS

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

	2017	2016
31 to 60 days	\$ 112,217	\$ 101,123
61 to 90 days	37,097	-
91 to 180 days	80,864	-
181 days - 1 year	61,953	63,724
	\$ 292,131	\$ 164,847

Notes to the Financial Statements

Souris Credit Union Limited
Year Ended December 31, 2017

10. DEFERRED INCOME TAXES

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

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

	<u>2017</u>	<u>2016</u>
Deferred income tax asset		
Property and equipment	\$ 3,385	\$ 3,277
Retirement allowance	9,620	33,660
	<u>\$ 13,005</u>	<u>\$ 36,937</u>

11. MEMBER DEPOSITS

	<u>2017</u>	<u>2016</u>
Call deposits	\$ 13,355,863	\$ 10,114,081
Chequing accounts	12,728,790	9,999,507
Registered Retirement Savings Plan (RRSP) deposits	6,863,702	7,411,147
Term deposits	4,112,803	3,329,431
Registered Retirement Income Fund (RRIF) deposits	3,927,582	3,264,569
Tax Free Savings Account (TFSA) deposits	3,474,439	2,579,569
	<u>\$ 44,463,179</u>	<u>\$ 36,698,304</u>

12. DEFERRED PENSION PLAN

Defined benefit pension plan

Souris Credit Union Limited established a final salary defined benefit pension plan for its employees in 2002. The most recent independent actuarial valuation on this pension plan for funding purposes was performed as at November 1, 2014. The next actuarial valuation was scheduled to occur in November 2017, but has not yet been completed.

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

	<u>2017</u>	<u>2016</u>
Changes in accrued benefit obligation:		
Balance - beginning of year	\$ 2,925,000	\$ 2,666,800
Current service	57,700	61,200
Interest on liabilities	111,500	112,100
Employee contributions	19,900	23,400
Actuarial (gains) losses due to financial experience	267,000	225,200
Benefits paid	<u>(287,000)</u>	<u>(163,700)</u>
Balance - end of year	<u>3,094,100</u>	<u>2,925,000</u>
Change in fair value of plan assets:		
Balance - beginning of year	2,845,663	2,833,247
Employer contributions	37,501	44,116
Employee contributions	19,900	23,400
Expected investment return	106,500	116,900
Actual gains (losses) due to financial experience	167,400	(8,300)
Benefits paid	<u>(287,000)</u>	<u>(163,700)</u>
Balance - end of year	<u>2,889,964</u>	<u>2,845,663</u>
Deferred pension obligation	<u>\$ 204,136</u>	<u>\$ 79,337</u>

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

Discount rate	3.40 %	3.90 %
Expected return on plan assets	3.90 %	4.20 %
Rate of salary increase	2.00 %	2.00 %
Inflation rate	2.00 %	2.00 %

Assumed retirement age: 62 or earliest unrecorded retirement age if later

Mortality rates: December 31, 2017 - CPM2014-Private Table with Improvement Scale CPM-B

(continues)

Notes to the Financial Statements

Souris Credit Union Limited
Year Ended December 31, 2017

12. DEFERRED PENSION PLAN (continued)

	2017	2016
The expense for the Credit Union's defined benefit plan is as follows:		
Current service costs	\$ 57,700	\$ 61,200
Interest on liabilities	111,500	112,100
Expected investment return	(106,500)	(116,900)
Pension expense recognized in net income	<u>\$ 62,700</u>	<u>\$ 56,400</u>
Actuarial gain (loss) in other comprehensive income	<u>\$ (99,600)</u>	<u>\$ (233,500)</u>
Cumulative actuarial gains recognized in comprehensive income	<u>\$ 332,600</u>	<u>\$ 432,200</u>

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

The investment asset mix of the defined benefit pension plan at December 31, 2017 is as follows:

Cash and cash equivalents	3.70 %	\$ 108,215
Canadian equities	16.50 %	477,319
US equities	17.60 %	509,141
International equities	24.60 %	710,675
Fixed income	29.40 %	848,568
Federal bonds	0.90 %	26,677
Provincial bonds	1.50 %	44,542
Municipal bonds	0.50 %	10,719
Corporate bonds	3.80 %	109,567
Commercial mortgages	1.50 %	44,541
	<u>100 %</u>	<u>\$ 2,889,964</u>

Liabilities at December 31, 2017:

Extrapolated present value of benefit obligation	\$ 3,094,100
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Sensitivity of liabilities at December 31, 2017:

1.0% increase in discount rate	\$ 2,589,400
1.0% decrease in discount rate	\$ 3,739,700
1.0% increase in rate of salary increase	\$ 3,286,300
1.0% decrease in rate of salary increase	\$ 2,926,200

Maturity profile of liabilities at December 31, 2017:

Weighted average duration of liabilities	18.6 years
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The Credit Union expects employer contributions of approximately \$65,800 to be paid for the next fiscal year.

Notes to the Financial Statements

Souris Credit Union Limited
Year Ended December 31, 2017

13. COMMITMENTS

The Credit Union has entered into a lease agreement for a postage machine. Future minimum annual lease payments as at December 31, 2017 are as follows:

2018	\$	2,262
2019		1,697

14. MEMBERS' SHARES

	Number of shares	December 31 2017	Number of shares	December 31 2016
Balance - beginning of year	3,188	\$ 15,940	3,197	\$ 15,985
Shares issued, net of redemption	(31)	(155)	(9)	(45)
Balance - end of year	<u>3,157</u>	<u>\$ 15,785</u>	<u>3,188</u>	<u>\$ 15,940</u>

15. COST OF CAPITAL AND BORROWINGS

	2017	2016
Interest and service charges	\$ 429,335	\$ 363,545
Patronage dividends	284,177	278,766
Share dividends	20,120	19,764
	<u>\$ 733,632</u>	<u>\$ 662,075</u>

16. OTHER INCOME

	2017	2016
Commissions	\$ 501,695	\$ 544,147
Miscellaneous	49,786	38,040
	<u>\$ 551,481</u>	<u>\$ 582,187</u>

Notes to the Financial Statements

Souris Credit Union Limited
Year Ended December 31, 2017

17. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 32.43% (2016 - 32.43%) to the income for the period and is reconciled as follows:

	<u>2017</u>	<u>2016</u>
Income before income taxes and other comprehensive income	<u>\$ 305,746</u>	<u>\$ 325,093</u>
Income tax expense at the combined basic federal and provincial tax rate	\$ 99,153	\$ 105,428
Increase (decrease) resulting from:		
Small business deduction	(51,661)	(58,765)
Capital cost allowance claimed in excess of amortization	462	155
Non-deductible expenses	1,635	(153)
Tax reserves	(821)	8,757
Provision for loan loss reserve	2,067	3,023
Recovery of loans previously written off	3,695	727
Loans written off in the current year	(4,850)	(13,481)
Employee future benefits	(982)	9,585
Effective tax expense	<u>\$ 48,698</u>	<u>\$ 55,276</u>

The effective income tax rate is 15.93% (2016 - 17.00%).

18. LINE OF CREDIT AVAILABILITY

Souris Credit Union Limited has an approved line of credit with Atlantic Central Credit Union Limited of \$1,202,000 which expires on December 31, 2020 and was not utilized at the year end. The line of credit bears an interest rate of 2.70% and is secured by a general security agreement.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The carrying value of cash and cash equivalents approximates their fair value as they are short-term in nature or are receivable on demand.

Long-term investments in shares in the Credit Union System and others have been classified as available for sale and are required to be measured at fair value with any changes in fair value recorded in other comprehensive income. The Credit Union has determined the fair value of these investments cannot be measured reliably and therefore measures these investments at cost with no adjustment to other comprehensive income. The Credit Union's investments in system debentures have been classified as held-to-maturity and are required to be measured at amortized cost.

The differences between the book and fair values of the Credit Union's loans and deposits are primarily due to changes in interest rates. The carrying value of the Credit Union's financial instruments are not adjusted to reflect increases or decreases in fair value as a result of interest rate changes, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

Notes to the Financial Statements

Souris Credit Union Limited

Year Ended December 31, 2017

20. RELATED PARTY TRANSACTIONS

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

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

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

	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 308,686	\$ 252,933
Contributions to a retirement pension plan	31,635	26,961
Mortgages, loan balances, and lines of credit due from key management at December 31	65,658	70,695
Deposit balances due to key management at December 31	50,861	5,813

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

21. RISK MANAGEMENT

The Credit Union manages significant risks through a comprehensive infrastructure of policies, procedures, methods, oversight and independent review designed to reduce the significant risks and to manage those risks within an appropriate threshold. The Board of Directors is provided with timely, relevant, accurate and complete reports on the management of significant risks. Significant risks managed by the Credit Union include credit, liquidity, currency and interest rate risks.

Credit risk

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

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

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21. RISK MANAGEMENT *(continued)*

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

The Credit Union maintains both specific and collective allowances for credit losses. Specific allowances are established on an account by account basis using management's knowledge of the account and prevailing conditions. In addition, accounts delinquent greater than ninety days are included in the specific allowance. Collective allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans and includes factors such as market conditions, concentration of credit risk for member accounts and the general state of the economy. Senior management regularly monitors credit risk and reports to the Board of Directors on a monthly basis.

The Credit Union's maximum exposure to credit risk at the reporting date in relation to each class of recognized financial asset is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event parties fail to perform their obligations. The principal collateral and other credit enhancements holds as security for loans include a) insurance and mortgages over properties, b) recourse to sell assets such as real estate, equipment, inventory and accounts receivable and c) recourse to liquid assets, guarantees and securities.

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

Liquidity risk

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

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

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Notes to the Financial Statements

Souris Credit Union Limited
Year Ended December 31, 2017

21. RISK MANAGEMENT *(continued)*

Currency risk

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

Interest rate risk

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

22. CAPITAL MANAGEMENT

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

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

	<u>2017</u>	<u>2016</u>
Members' shares	\$ 15,785	\$ 15,940
Accumulated other comprehensive income	332,736	432,334
Undistributed earnings	<u>5,490,166</u>	<u>5,257,050</u>
Total regulatory equity	5,838,687	5,705,324
Total assets	<u>56,315,388</u>	<u>48,094,930</u>
	<u>10.37 %</u>	11.86 %

(continues)

22. CAPITAL MANAGEMENT (continued)

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

	<u>2017</u>	<u>2016</u>
Total assets	\$ 56,315,388	\$ 48,094,930
Liquid assets	12,596,485	7,138,702
	<u>22.37 %</u>	14.84 %

23. COMPARATIVE FIGURES

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

SOURIS CREDIT UNION LIMITED
Schedules to Financial Statements
Statement of Property and Equipment
Year Ended December 31, 2017

(Schedule 1)

	Cost beginning of year	Cost end of year	Disposals and write downs	Amort beginning of year	Amort in year	Amort end of year	Amort end of year	NBV Dec 31 2016	NBV Dec 31 2017
	Additions	of year		of year	Reductions	year	year	2016	2017
Land	\$ 179,291	\$ 179,291	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 179,291	\$ 179,291
Building	999,381	999,381	-	565,913	21,673	587,586	411,795	433,468	433,468
Furniture & equipment	200,933	200,933	-	180,237	4,139	184,376	16,557	20,696	20,696
ATMs	55,654	55,654	-	43,345	2,462	45,807	9,847	12,309	12,309
Computer hardware	132,962	132,962	-	123,203	2,928	126,131	6,831	9,759	9,759
Pavement	38,670	38,670	-	28,959	777	29,736	8,934	9,711	9,711
	\$1,606,891	\$1,606,891	\$ -	\$ 941,657	\$ 31,979	\$ 973,636	\$ 633,255	\$ 665,234	\$ 665,234

SOURIS CREDIT UNION LIMITED
Schedules to Financial Statements
Interest Rate Sensitivity
Year Ended December 31, 2017

(Schedule 2)

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	\$ 1,670,567	\$ -	\$ -	\$ 380,787	\$ 2,051,354
Effective interest rate	0.85 %	-	-	-	
Investments	8,894,451	-	-	1,122,458	10,016,909
Effective interest rate	1.14 %	-	-	-	
Accounts receivable	-	-	-	528,222	528,222
Personal and commercial loans and mortgages	18,025,868	21,954,613	1,143,717	-	41,124,198
Effective interest rate	5.68 %	4.73 %	5.97 %	-	
Lines of credit and overdrafts	1,641,081	-	-	-	1,641,081
Effective interest rate	7.95 %	-	-	-	
Income taxes recoverable	-	-	-	6,586	6,586
Prepaid expense	-	-	-	32,505	32,505
Deferred income taxes	-	-	-	13,005	13,005
Property and equipment	-	-	-	633,255	633,255
Restricted cash - retirement allowance	268,273	-	-	-	268,273
Effective interest rate	6.00 %	-	-	-	
	\$ 30,500,240	\$ 21,954,613	\$ 1,143,717	\$ 2,716,818	\$ 56,315,388
LIABILITIES AND MEMBERS' EQUITY					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 386,609	\$ 386,609
Employee benefits payable	-	-	-	207,497	207,497
Accrued interest payable	-	-	-	140,368	140,368
Member deposits	28,410,450	5,958,966	-	10,093,763	44,463,179
Effective interest rate	1.26 %	1.64 %	-	-	
Share deposits	4,806,639	-	-	-	4,806,639
Effective interest rate	0.50 %	-	-	-	
Retirement allowance payable	-	-	-	268,273	268,273
Deferred pension obligation	-	-	-	204,136	204,136
Members' shares	15,785	-	-	-	15,785
Effective interest rate	0.50 %	-	-	-	
Accumulated other comprehensive income	-	-	-	332,736	332,736
Undistributed earnings	-	-	-	5,490,166	5,490,166
	\$ 33,232,874	\$ 5,958,966	\$ -	\$ 17,123,548	\$ 56,315,388

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

As at December 31, 2017, Souris Credit Union Limited's net interest spread was 2.56%. 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.

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