

2017
Annual Report



LIST OF DIRECTORS AND COMMITTEE MEMBERS

2017-2018

Board of Directors

David George – Chair (2019)
Maurice Boudreau – Corporate Secretary (2018)
Tanya Sampson – Vice-Chair (2018)
Marion Mury – Director (2020)
Leo Samson – Director (2020)
Nathan Boudreau – Director (2019)
Terrance Tyrrell – Director (2019)
Donald Goyetche – Director (2018)
Brian LeBlanc – Director (2020)

Credit Committee

Nathan Boudreau (Chair)
Alfred Boudreau
Maurice Boudreau

Audit & Risk Committee

Donald Goyetche (Chair)
Brian LeBlanc
Terrance Tyrrell

Policy Committee

David George (Chair)
Donald Goyetche
Marion Mury

Personnel Committee

Tanya Sampson (Chair)
Karen Doyle
Leo Samson

Youth Committee

Amanda Short
Jessica Marchand
Katrina Cooper-Boudreau
Lori Benoit

Nominations Committee

Leo Samson
Marion Mury
David George

<p style="text-align: center;">ST. JOSEPH'S CREDIT UNION 81st ANNUAL GENERAL MEETING AGENDA APRIL 23rd, 2018</p>

CALL MEETING TO ORDER

OPENING PRAYER (One minute of silence for deceased members)

GREETINGS FROM THE CHAIR

ESTABLISHMENT OF A QUORUM (Declaration)

APPROVAL OF AGENDA

APPROVAL OF MINUTES (April 24th, 2017)

PRESENTATION OF REPORTS

- Chairperson's Report
- General Manager's Report
- Credit Committee Report
- Audit & Risk Committee Report
- Nominations Committee Report
- Auditor's Report/Financial Statements

NEW BUSINESS

- Appointment of Auditors
- Any other New Business
- Adjournment

DOOR PRIZES

ADJOURNMENT

St. Joseph's Credit Union
80th Annual General Meeting
April 24, 2017
(Acadiaville Community Centre, West Arichat)

Chair David George called the meeting to order at 6:30 pm.

BOARD MEMBERS

Tanya Sampson, Marion Mury, Donald Goyette, David George, Maurice Boudreau, Nathan Boudreau

OPENING PRAYER

The opening prayer was read by Brenda Samson, followed by a minute of silence for our deceased members.

GREETINGS FROM THE CHAIRPERSON

Chair David George welcomed everyone and introduced the Board of Directors and our 2 special guests: Bruce Spicer, MGM & Associates and Gina Green, Consultant from Atlantic Central.

ESTABLISHMENT OF A QUORUM

Amanda Short reported that a quorum had been established with 49 members and 2 guests present.

APPROVAL OF AGENDA

It was moved by Joan Clannon, seconded by Norma Landry, that the April 24, 2017, agenda be approved as presented. Motion Carried.

APPROVAL OF MINUTES: APRIL 25, 2016

It was moved by Adrian Boudreau, seconded by Mark Samson, that the minutes of April 25, 2016 be approved as circulated. Motion Carried.

BUSINESS ARISING FROM THE MINUTES

There was no business arising from the minutes

PRESENTATION OF REPORTS

1. **Chairperson's Report** – This report was presented by David George, Board Chair.
It was moved by Mark Samson, seconded by Joan Clannon, that the Chairperson's Report for 2016 be accepted as presented. Motion Carried.
2. **General Manager's Report** – This report was presented by Michael Boudreau, General Manager.
It was moved by Vincent Landry, seconded by Lucina Fougère, that the General Manager's Report for 2016 be accepted as presented. Motion Carried.
3. **Credit Committee Report** – This report was presented by Maurice Boudreau, Credit Committee Member

It was moved by Adrian Boudreau, seconded by Amanda Martell, that the Credit Committee Report for 2016 be accepted as presented. Motion Carried.

4. **Audit & Risk Committee Report** – This report was presented by Donald Goyetche, Audit & Risk Committee Member.

It was moved by Vincent Landry, seconded by Deirdre Boudreau, that the Audit & Risk Committee Report for 2016 be accepted as presented. Motion Carried

5. **Nominations Committee Report** - This report was presented by Maurice Boudreau, Nominations Committee Member, who reported that the outgoing members were as follows:

- Brian LeBlanc
- Marion Mury
- Leo Patrick Samson

Mr. Boudreau noted that the Nomination Committee wished to submit the following 3 names for election to 3 positions on the Board for a 3-year term:

- Brian LeBlanc
- Marion Mury
- Leo Patrick Samson

It was moved by Michelle Hearn, seconded by Mark Samson, that the 2016 Nomination Committee Report be accepted as presented. Motion Carried.

6. **Auditor's Report/ Financial Statements** – Bruce Spicer of MGM & Associates presented the Independent Auditors Report for 2016. He advised that in their opinion, the financial statements presented fairly, in all material respects, the financial position of St. Joseph's Credit Union as at December 31, 2016. He also advised that the statements being presented were an eight-page summary of the financial statements but that the full statements were available upon request at the credit union. He briefly reviewed the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Members' Equity, the Statement of Cash Flows and the Schedule of Expenses.

Among other things, he noted the following:

- From a financial perspective, we had another successful year and we are in good hands.
- Miscellaneous expenses were up by \$44,000 which was US foreign exchange and there wasn't a category for that.
- Education was up by \$15,000 which was attributed to additional board training and a credit from CUDIC for \$7,000 which came from 2015 expenses that were submitted to CUDIC for reimbursement.
- He thanked Michael Boudreau and his staff and the Audit & Risk Committee for their cooperation during the audit process.

It was moved by Norma Landry, seconded by Joseph MacNeil, that the 2016 Auditor's Report be accepted as presented. Motion Carried.

NEW BUSINESS

1. **Appointment of Auditors**

On behalf of the Board of Directors, Donald Goyetche recommended that we retain MGM & Associates as our auditors for the year ending December 31, 2017.

It was moved by Vincent Landry, seconded by Robert Fougère, that we accept St. Joseph's Credit Union board's recommendation and retain the auditing services of MGM & Associates for the fiscal year ending December 31, 2017. Motion Carried.

2. Any Other New Business

Mrs. Amelia Samson questioned why it appears that staff turnover has increased recently. Mr. Boudreau advised that, due to privacy concerns, staff departures could not be discussed in any detail. He assured Mrs. Samson that there was no reason for concern. He also stated that times were changing and that some of the newer generation employees had no qualms about leaving their existing employer and pursuing alternate employment.

It was moved by Joan Clannon that the meeting be adjourned at 7:09 pm.

DOOR PRIZES

\$80 Cash door prize winners

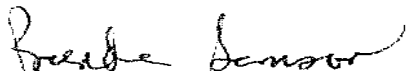
Amanda Martell	Lori Benoit
TC Fougere	Jessica Marchand
Michael Samson	Darren Boudreau

Mandy Samson	Robbie Fougère
Lucina Fougere	Vincent Landry

Other promotional prize winners

Michelle Hearn	Adrian Boudreau
Monique Martell	

Brenda Martell	Aloysius Boudreau
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Brenda Samson, Acting Secretary



David George, Board Chair

Report *from the* Chair

I would like to begin by extending a warm welcome to everyone. This is the 81st Annual General Meeting of your credit union. My report today will reflect on the roles and responsibilities of your Board and on some of our successes over the past year.

It is important to recognize that our business has many components such as the products and services we offer and the competition we face. However, our business is and has always been about people. We exist to serve our members and support the people and organizations in our community. In 2017, I'm proud to report that:

- ✓ We paid a \$135k Patronage Refund to our members just in time for Christmas. That brings the total payout since we started paying these to over \$2.7mm.
- ✓ We gave over \$48k in donations from our Community Economic Development (CED) Fund to organizations and activities such as the ROC Society, the Hearts of Isle Madame, Le Centre La Picasse, the Relay for Life, the Special Olympics, school bursaries, the Janvrin's Island Bluegrass Festival and many more.
- ✓ We set aside \$25,000 from our CED Fund for the St. Martha's Regional Hospital Foundation (\$5,000 for 5 years)
- ✓ We held another well attended free Annual Member Appreciation breakfast.

The board of directors continues to take their roles and responsibilities very seriously. We have many responsibilities including setting our strategic direction, approving policies, ensuring effective internal control practices are in place and overseeing the credit union's risk management program. Board members are required to understand the on-going regulatory changes and how these will impact our credit union. We're required to take both on-line and classroom courses. We recognize and value the importance of

everyone's participation and appreciate the time and effort it takes to be a director or committee member. It's only fitting therefore that board and committee members be compensated. Please note that the board and committee members receive a combined compensation amount of \$10,100 in 2017.

Name	Board Meetings	AGM	Strategic Planning
David George	10 of 10	1	1
Brian LeBlanc	7 of 10		
Maurice Boudreau	9 of 10	1	
Nathan Boudreau	6 of 10	1	
Marion Mury	9 of 10	1	1
Leo Samson	6 of 10		1
Donald Goyetche	9 of 10	1	1
Terrance Tyrrell	7 of 10		1
Tanya Sampson	5 of 10	1	

In keeping with the values of the credit union movement and since we recently celebrated volunteer week, I would like to acknowledge the time and commitment that staff and board members made to their respective communities. I am pleased to report that staff and board volunteer hours totalled 1134. In addition, staff raised money and donated it to the Isle Madame Food Bank and the breakfast programs at École Beau Port, Richmond Academy, Felix Marchand and East Richmond.

I would like to thank the board and our staff for their hard work and dedication in 2017. As your board chair, I am confident that concerted efforts from your board and your employees will result in a bright and prosperous future. Je tiens à remercier sincèrement tous et chacun de vous pour votre soutien continu.



David George
Board Chair

Report *from the* General Manager

On behalf of our staff, I'm very pleased to report that 2017 was another successful year. Some of our most notable successes were our impressive asset growth of 8.7% and our solid surplus of \$476k. We managed to keep our members' equity at slightly below 12% and to reduce our operating expenses from 2.64% to 2.58%. Overall, our results were commendable and you are the owners of a stable and growing financial institution.

The financial services industry is rapidly changing and this includes member and consumer expectations. The use of technology and a demand for 24/7 access to financial services will continue to increase. In 2017, we implemented a convenient electronic solution for you called Lock'N'Block™, a mobile card blocking service that allows you to "Lock" your MemberCard and to "Block" unauthorized usage. Done through our mobile banking application, the service empowers you to protect yourselves from fraud by providing you with control of your debit card security. In 2018, we intend to pursue additional solutions such as Open Anywhere™. This service will allow prospective members to open and fund new accounts online in minutes, using their mobile, tablet or desktop devices. Borrow Anywhere™, another convenience product, will complement this service by supporting loan applications across digital, in-branch and mobile channels. These products will give people more choices than ever as to how and when they wish to do their banking.

Despite our on-going successes, credit unions continue to face many challenges. These challenges will require immense cooperation among credit unions and among credit unions and our system partners.

A key element of our business strategy will be to continue looking for new and improved ways to serve you and to provide you with an exceptional experience every time you interact with us, whether that's in-

person or online. Our strategy will also search for new ways to reduce our operating costs. Improved efficiency will allow us to remain adequately profitable and to grow our business in this highly competitive and demanding environment. Effectively managing our expenses will also allow us to continue providing you with the competitive rates, products and services you deserve.

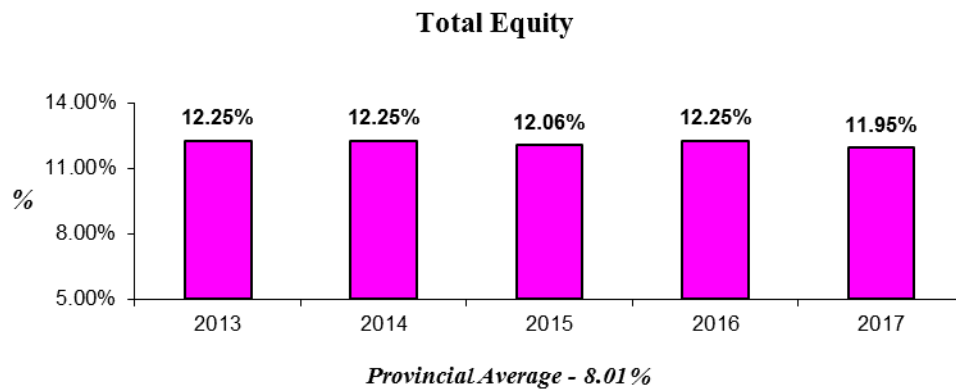
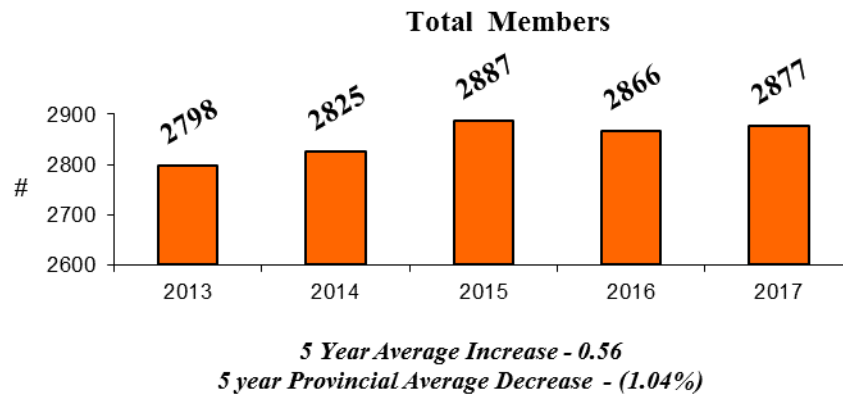
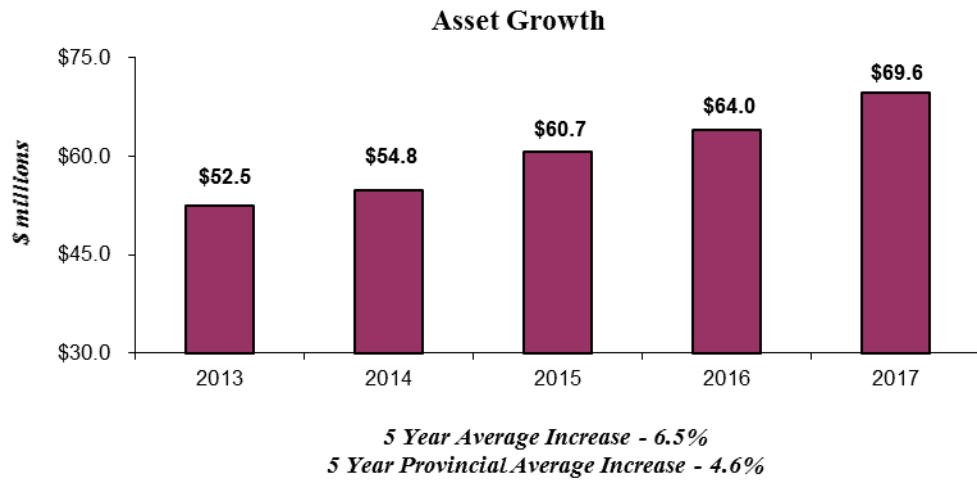
In considering our accomplishments in 2017, and the differences that we make in the lives of our members, I would be remiss if I didn't thank our employees. You worked very hard and your commitment to our members is the key to our success. I'm very proud of the work we did together this year.

To our Board of Directors and Committee members, thank you very much for your support, your leadership and your guidance throughout the year.

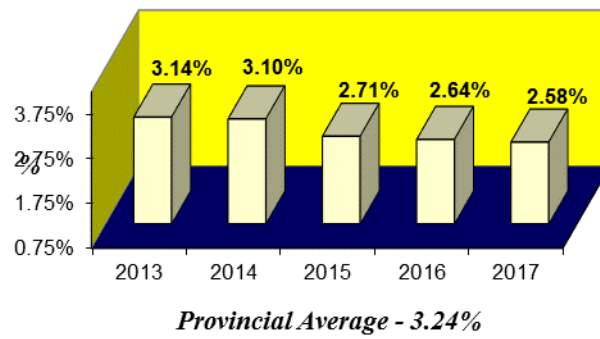
Finally, I would like to thank our members. I sincerely hope that you're pleased with the results we've achieved in 2017. You should be proud of your credit union and proud of yourselves because none of this success would be possible without you. This institution belongs to you and is committed to your financial success. Rest assured that we are also committed to enriching your lives and to making our communities a better place to live. I look forward to reporting to you on our future successes as we continue to work together. Ensemble, nous pouvons réussir et faire une différence. Grand merci et félicitations sur une autre bonne année.



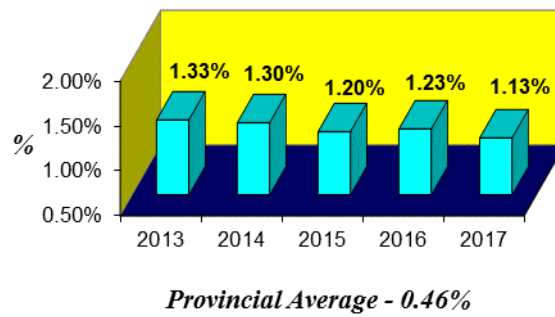
Michael Boudreau
General Manager
St. Joseph's Credit Union Ltd



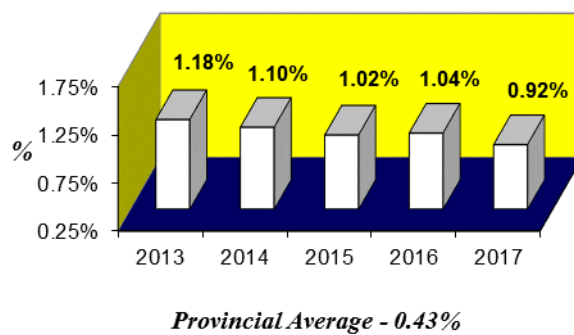
Operating Expenses



Operating Margin



Return on Assets



Report from the *Credit Committee*

Appointed by the Board of Directors, the Credit Committee is responsible for overseeing and monitoring the lending processes and for ensuring the lending function is managed within the high standards of the credit union. The Committee meets at least four times per year to review the loan portfolio and reports back to the board following each meeting. In addition, the Committee approves all loans that fall outside of normal lending parameters as set by the provincial credit union regulator, the Nova Scotia Credit Union Deposit Insurance Corporation.

During the year 2017, our total loan portfolio grew approximately 2%. As at December 31, 2017, our loan portfolio was \$49.1 million, approximately 71% of the credit union's assets. The portfolio consists of CMHC and Genworth insured mortgages, conventional or uninsured mortgages, personal loans, commercial loans and personal and commercial lines of credit. In 2017, we managed to grow our mortgage loan portfolio by \$800,000, despite some restrictive changes made by the Federal government to lending guidelines. These changes included more stringent "stress testing" for insured mortgages, making it harder for people to qualify for a mortgage. This rule was introduced in an attempt to ensure that Canadians will be able to cope with rising interest rates. The government will also no longer insure refinanced insured mortgages.

True to the core philosophy of the credit union movement, our members help each other with their financial needs by lending their money to other members. The interest paid on these loans provides the income necessary to allow the credit union to pay the

individuals with money on deposit a return or interest on their money. With competitive interest rates on loans, mortgages and home equity lines of credit, St. Joseph's Credit Union provides our membership with highly competitive interest rates and the honest guidance needed in planning for their financial future.

I would like to take this opportunity to acknowledge the contributions made by every member of the Committee, all of whom attended our meetings regularly and graciously gave their time and expertise. It should be noted that one loan granted to a member of the committee, the terms of which were outside our loan policy, had to be submitted to Atlantic Central for approval and subsequently approved by the Board of Directors. I'm happy to report that the loan exception was approved.

Thank you to the management and staff for their efforts in providing the documentation required to allow the Committee to function properly and fulfill its responsibilities. I would also like to thank the membership for their continued support over the past year and wish everyone a prosperous 2018.

Respectfully Submitted,



Nathan Boudreau
Credit Committee Chair

Report from the Audit and Risk Committee

The purpose of the Audit and Risk Committee is to assist the Board of Directors with its oversight responsibilities for financial reporting, internal controls, risk management, and external audit.

The Committee's primary responsibilities are to:

- Serve as an independent and objective party to monitor our financial performance and reporting process.
- Review and appraise the efforts of our independent auditors.
- Assess the processes related to the risks we face and our internal control environment.
- Review all reports issued by the Credit Union Deposit Insurance Corporation (CUDIC) or any other 3rd party referred to the Committee by the Board.
- Monitor the implementation of recommendations from these reports that the Committee considers significant and report to the Board on the progress of that implementation.
- Review regular reports from management and external auditors concerning the Credit Union's progress and compliance with financially related laws and regulations.
- Review any policies as directed by the Board
- Undertake such other duties as are delegated to the Committee by the Board.

During 2017, the Audit & Risk Committee held six (6) meetings. The Committee is pleased to report that the following tasks were completed during the year:

- ✓ Monitored our financial performance by reviewing management's financial statements on a quarterly basis.
- ✓ Reviewed board, management and staff expense reports and confirmed compliance to policy.
- ✓ Reviewed and confirmed payment of our Canada Revenue Agency mandatory remittances.

- ✓ Reviewed the Credit Union's Enterprise Risk Management Framework and the risk management activities and initiatives undertaken during the year.
- ✓ Confirmed that all staff, board and committee members were in compliance with our Codes of Corporate Ethics and Business Conduct.
- ✓ Reviewed and followed-up on recommendations from all external bodies including our Auditors and the Credit Union Deposit Insurance Corporation.
- ✓ Confirmed our Auditor's independence.
- ✓ Reviewed the audited annual financial statements and the auditor prepared Audit Findings Report and Management Letter.
- ✓ Recommended that the financial statements be approved by the Board of Directors.

I would like to thank my fellow Committee members, Brian LeBlanc and Terrance Tyrrell, for the time and consideration they gave this Committee in 2017.

Respectfully Submitted,



Donald Goyetche
Committee Chair

Report from the *Nominations Committee*

The Nominations Committee consisted of the following individuals:

Leo Samson

Marion Mury

David George

The Committee wishes to report the outgoing directors were:

Maurice Boudreau

Tanya Sampson

Donald Goyetche

The Committee wishes to report that Maurice Boudreau, Tanya Sampson and Donald Goyetche have submitted their names for re-election to the Board of Directors. The Committee wishes to report that no other individuals submitted their names for a position on the Board of Directors.

The Nominations Committee therefore wishes to declare that the following individuals will be re-elected for 3-year term positions:

Maurice Boudreau

Tanya Sampson

Donald Goyetche

Financial Statements of

**ST. JOSEPH'S CREDIT
UNION LIMITED**

Year ended December 31, 2017



MGM & Associates
Chartered Professional Accountants
Commerce Tower
15 Dorchester Street Suite 500
PO Box 1
Sydney NS B1P 6G9

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Internet www.mgm.ca

INDEPENDENT AUDITORS' REPORT

To the Members of St. Joseph's Credit Union Limited

We have audited the accompanying financial statements of St. Joseph's 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 flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 auditors consider 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, these financial statements present fairly, in all material respects, the financial position of St. Joseph's Credit Union Limited as at December 31, 2017 and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'MGM & Associates'.

Chartered Professional Accountants
Licensed Public Accountants

Sydney, Canada
March 22, 2018

ST. JOSEPH'S CREDIT UNION LIMITED

Financial Statements

Year ended December 31, 2017

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ST. JOSEPH'S CREDIT UNION LIMITED

Statement of Financial Position

December 31, 2017, with comparative figures for 2016

	2017	2016
ASSETS		
Cash and cash equivalents (note 4)	\$ 8,583,908	\$ 4,874,465
Investments and deposits (note 5)	10,732,692	9,659,947
Loans to members (note 6)	49,128,990	48,214,476
Income taxes receivable	31,111	-
Property, building and equipment (note 8)	641,932	677,796
Other assets (note 9)	470,503	572,567
Deferred income tax asset (note 11)	44,700	36,200
	\$ 69,633,836	\$ 64,035,451
LIABILITIES		
Liabilities to members		
Deposits (note 12)	\$ 60,691,406	\$ 55,504,633
Accrued interest on deposits	226,257	273,327
	60,917,663	55,777,960
Liabilities to non-members		
Accounts payable and accrued liabilities	397,050	382,213
Income taxes payable	-	32,035
	397,050	414,248
	61,314,713	56,192,208
MEMBERS' EQUITY		
Membership shares (note 13)	102,006	102,601
Community development fund (note 14)	92,867	81,811
Retained earnings	8,124,250	7,658,831
Accumulated other comprehensive income	-	-
	8,319,123	7,843,243
	\$ 69,633,836	\$ 64,035,451

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

ST. JOSEPH'S CREDIT UNION LIMITED

Statement of Comprehensive Income

Year ended December 31, 2017, with comparative figures for 2016

	2017	2016
INCOME		
Interest on loans	\$ 2,112,311	\$ 2,124,097
Investment income	189,297	159,997
	<u>2,301,608</u>	<u>2,284,094</u>
INTEREST EXPENSE (note 16)		
Interest on members' deposits	487,003	529,909
Financial margin	<u>1,814,605</u>	<u>1,754,185</u>
Other income (note 17)	<u>616,708</u>	<u>593,507</u>
	<u>2,431,313</u>	<u>2,347,692</u>
EXPENSES		
Personnel (schedule)	844,567	852,999
Members' security (schedule)	65,394	60,499
General business (schedule)	740,098	702,474
Occupancy (schedule)	80,474	62,322
Provision for loan losses	84,618	(39,405)
Depreciation	51,731	47,188
Loss on disposal of equipment	-	7,151
	<u>1,866,882</u>	<u>1,693,228</u>
Income before income taxes	<u>564,431</u>	<u>654,464</u>
Income taxes (note 11)		
Current	96,456	139,372
Deferred	(8,500)	(4,500)
	<u>87,956</u>	<u>134,872</u>
NET INCOME	<u>476,475</u>	<u>519,592</u>
OTHER COMPREHENSIVE INCOME	-	-
COMPREHENSIVE INCOME	<u>\$ 476,475</u>	<u>\$ 519,592</u>

See accompanying notes to financial statements.

ST. JOSEPH'S CREDIT UNION LIMITED

Statement of Changes in Members' Equity

Year ended December 31, 2017, with comparative figures for 2016

	Membership shares	Community development fund	Retained earnings	Accumulated other comprehensive income	Total
BALANCE, DECEMBER 31, 2015	\$ 103,003	\$ 66,118	\$ 7,154,932	\$ -	\$ 7,324,053
Comprehensive income	-	-	519,592	-	519,592
Membership shares issued	9,718	-	-	-	9,718
Membership shares redeemed	(10,120)	-	-	-	(10,120)
Transfer to community development fund	-	45,943	(45,943)	-	-
Transfer from community development fund	-	(30,250)	30,250	-	-
BALANCE, DECEMBER 31, 2016	102,601	81,811	7,658,831	-	7,843,243
Comprehensive income	-	-	476,475	-	476,475
Membership shares issued	4,940	-	-	-	4,940
Membership shares redeemed	(5,535)	-	-	-	(5,535)
Transfer to community development fund	-	51,959	(51,959)	-	-
Transfer from community development fund	-	(40,903)	40,903	-	-
BALANCE, DECEMBER 31, 2017	\$ 102,006	\$ 92,867	\$ 8,124,250	\$ -	\$ 8,319,123

See accompanying notes to financial statements.

ST. JOSEPH'S CREDIT UNION LIMITED

Statement of Cash Flows

Year ended December 31, 2017, with comparative figures for 2016

	2017	2016
CASH FLOWS FROM OPERATIONS		
Net income	\$ 476,475	\$ 519,592
Items not involving cash		
Depreciation	51,731	47,188
Deferred income taxes	(8,500)	(4,500)
Loss on disposal of equipment	-	7,151
Change in non-cash operating working capital		
Increase in loans to members	(914,514)	(3,292,723)
Increase in income taxes receivable	(31,111)	-
Decrease (increase) in other assets	102,064	(359,963)
Increase in deposits	5,186,773	2,710,229
Increase (decrease) in accrued interest on deposits	(47,070)	32,540
Increase in accounts payable and accrued liabilities	14,837	24,556
Increase (decrease) in income taxes payable	(32,035)	21,910
	4,798,650	(294,020)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in membership shares, net	(595)	(402)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Increase in investments and deposits	(1,072,745)	(2,439,061)
Purchase of property, building and equipment	(15,867)	(118,577)
Proceeds from disposal of equipment	-	4,000
	(1,088,612)	(2,553,638)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,709,443	(2,848,060)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,874,465	7,722,525
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 8,583,908	\$ 4,874,465
Supplemental cash flow information		
Cash paid during the year		
Interest on members' deposits	\$ 534,073	\$ 497,369
Income taxes	159,602	117,462
Cash received during the year		
Dividends and interest on investments	203,536	126,887
Interest on loans to members	2,111,484	2,110,515

See accompanying notes to financial statements.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2017

1. REPORTING ENTITY

The Credit Union was incorporated April 2, 1936 under the Credit Union Act of Nova Scotia and its principal activity is providing financial services to members. For financial reporting and regulating matters, the Credit Union is under the authority of the Superintendent of Credit Unions of Nova Scotia.

The Credit Union is located at 3552 Highway 206, Petit de Grat, Nova Scotia, Canada.

2. BASIS OF PREPARATION

Statement of compliance

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

The financial statements for the year ended December 31, 2017 were authorized for issue by the Board of Directors on March 22, 2018.

Basis of preparation

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

Use of significant accounting judgments, estimates and assumptions

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

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

2. BASIS OF PREPARATION (continued)

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.

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

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. 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 valuation of financial instruments is described in more detail in Note 19.

b) Impairment losses on loans to members

The Credit Union reviews its individually significant loans to members at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors such as the borrowers' financial situation and the net realizable value of collateral and actual results may differ, resulting in future changes to the allowance.

Loans to members that have been assessed individually and found not to be impaired and all individually insignificant loans to members are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account data from the loan portfolio (such as levels of arrears, credit utilization, historical performance and economic outlook, etc.) and judgments to the effect of concentrations of risks and economic data (including levels of unemployment and real estate prices).

The impairment loss on loans to members is disclosed in more detail in Note 7.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

2. BASIS OF PREPARATION (continued)

c) Impairment of available-for-sale investments

The Credit Union records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment.

d) Deferred income tax assets

Deferred income tax assets are recognized in respect of tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable income, together with future tax planning strategies.

Estimates and judgments 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 from those reported.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended December 31, 2016 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Credit Union, except as discussed below:

IFRS 9 – Financial Instruments

In July, 2014, the ISAB issued the final version of IFRS 9 – “Financial Instruments” (“IFRS 9 (2014)”) which will replace IAS 39 – “Financial Instruments: Recognition and Measurement”.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

2. BASIS OF PREPARATION (continued)

The mandatory effective date of IFRS 9 is January 1, 2018 and is required to be applied retrospectively when initially applied. The Credit Union has not yet completed its determination of the potential impact of IFRS 9.

IFRS 15 – Revenue from Contracts with Customers

In May, 2014 the IASB issued IFRS 15 – "Revenue from Contracts with Customers" ("IFRS 15") which replaces IAS 11 – "Construction Contracts" and IAS 18 – "Revenue" and well as various other interpretations regarding revenue. The core principal of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The mandatory effective date of IFRS 15 is January 1, 2018 and is required to be applied retrospectively when initially applied. The Credit Union has not yet completed its determination of the potential impact of IFRS 15.

IFRS 16 – Leases

In January, the IASB issued IFRS 16 - Leases ("IFRS 16"), which replaces IAS 17 - Leases, as well as various other interpretations regarding leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16's approach to lessor's accounting is substantially unchanged from IAS 17, lessors continuing to classify leases as operating or finance. It will be applied retrospectively for annual periods beginning on or after January 1, 2019. The Credit Union is assessing the potential impact of IFRS 16.

3. SIGNIFICANT ACCOUNTING POLICIES

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

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instruments

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

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments.

The Credit Union is required to classify all financial assets either as fair value through profit or loss, available-for-sale, held-to-maturity or loans and receivables and, financial liabilities are classified as either fair value through profit or loss or other liabilities. The standards require that all financial assets and financial liabilities, including all derivatives, be subsequently measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, available-for-sale financial assets that do not have quoted market prices in an active market and whose fair value cannot be reliably estimated, and other liabilities.

i) Fair value through profit or loss (FVTPL)

As at December 31, 2016, the Credit Union had no financial assets or financial liabilities classified as fair value through profit or loss.

ii) Held-to-maturity

Held-to-maturity debentures are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the positive intent and ability to hold to maturity, other than those that the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, net of impairment losses.

iii) Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividend income is recognized in profit or loss when the Credit Union's right to receive the dividends is established. Interest income is recognized in income using the effective interest method.

Equity shares in Atlantic Central, League Savings and Mortgage Company, League Data Limited, Concentra Financial and Healthwise Holdings Co-operative Limited held by the Credit Union that are not traded in an active market are classified as available-for-sale. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the Credit Union does not intend to sell immediately or in the near term. Loans and receivables including cash and cash equivalents, segregated liquidity deposits with Atlantic Central, loans to members, accrued interest on loans, accrued interest on investments and accounts receivable, are measured at amortized cost using the effective interest method, net of impairment losses.

Interest income is recognized by applying the effective interest rate.

v) Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the asset/liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

vi) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans to members, where the carrying amount is reduced through the use of an allowance account. When a loan to a member is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets other than available-for-sale equity securities, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

vii) Derecognition of financial assets

The Credit Union derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset 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 continues to recognize the transferred asset to the extent of the Credit Union's continuing involvement in that asset. 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.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received/receivable and any cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Credit Union retains an option to repurchase part of a transferred asset or retains a residual interest that neither results in the retention nor transfer of substantially all the risks and rewards of ownership) 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 and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss.

viii) Other financial liabilities

Other financial liabilities, which consist of deposits, accrued interest on deposits and accounts payable and accrued liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

ix) Derecognition of financial liabilities

The Credit Union derecognizes financial liabilities when, and only when, the Credit Union's obligations are discharged, cancelled or they expire.

x) Transaction costs

Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are amortized over the expected life of the instrument using the effective interest method.

(b) Cash and cash equivalents

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

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is considered to be equivalent to fair value due to the short-term nature of these assets.

(c) Loans to members

Loans to members include personal and other loans, mortgages and lines of credit which 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.

(d) Allowance for impaired loans

The allowance for impaired loans is maintained in an amount considered adequate to absorb incurred losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a significant change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of a specific provision component attributable to individually significant exposures and a collective provision, established for groups of loans with similar risk characteristics. Each component of the allowance for impaired loans is reviewed at least on the reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. The reversal does not result in a carrying amount of a financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery. The methodology and assumptions used are reviewed regularly.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, building and equipment

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

(f) Depreciation

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

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

Asset	Basis	Rate
Building	Declining balance	5%
Computer equipment	Declining balance	30%
Furniture and equipment	Declining balance	20%
Pavement	Declining balance	8%

(g) Foreclosed assets

Foreclosed assets held for sale are carried at the lower of the carrying value of the loan foreclosed and the estimated net recoveries from the disposition of the assets.

(h) Deposits from members

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

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Patronage rebate

The Credit Union's policy is to accrue a patronage rebate when approved by the Board of Directors. This rebate is recorded in the statements of comprehensive income as a reduction of income on loans and other income and an increase in interest on members' deposits.

(j) Employee benefits

i) Short-term employee benefits

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

ii) Post-employment benefits

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

(k) Membership shares

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

Dividends are recorded when declared by the Board of Directors.

(l) Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and 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 on the statement of comprehensive income.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other fees and commission income are recognized over the period the services are performed.

(m) Income taxes

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

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

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

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

- i) Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- ii) In respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

(n) Foreign currency

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

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

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

4. CASH AND CASH EQUIVALENTS

	2017	2016
Cash on hand	\$ 594,225	\$ 499,270
Accounts held at Atlantic Central	1,617,773	(1,636,196)
Cash management liquidity	3,371,910	4,011,391
Short-term deposits	3,000,000	2,000,000
	<u>\$ 8,583,908</u>	<u>\$ 4,874,465</u>

The Credit Union has an authorized operating line of credit of \$1,600,000 with Atlantic Central at prime rate, which is secured by an assignment of members' loans. The line of credit balance was unutilized at December 31, 2017 (2016 - \$1,775,949).

5. INVESTMENTS AND DEPOSITS

	2017	2016
Held-to-maturity		
<u>Debentures with Atlantic Central</u>	<u>\$ 5,020,000</u>	<u>\$ 4,108,127</u>
	5,020,000	4,108,127
Loans and receivables		
Segregated liquidity deposits	4,102,435	3,951,573
Available-for-sale		
Share capital		
Atlantic Central - Common	582,970	572,960
Atlantic Central - Class Nova Scotia Provincial	144,000	144,000
Atlantic Central - Class League Savings and Mortgage	568,517	568,517
League Data Limited	14,270	14,270
Healthwise Holdings Co-operative Limited	50,000	50,000
Concentra Financial - Class D Preferred	250,000	250,000
Other	500	500
	<u>1,610,257</u>	<u>1,600,247</u>
	<u>\$ 10,732,692</u>	<u>\$ 9,659,947</u>

As a condition of membership in Atlantic Central, the Credit Union is required, at the discretion of Atlantic Central, to maintain an investment in shares of Atlantic Central.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

6. LOANS TO MEMBERS

	2017	2016
Personal and other loans	\$ 19,902,944	\$ 20,000,460
Residential mortgages	26,732,122	25,561,332
Commercial mortgages	2,139,472	2,000,051
Lines of credit	818,099	1,084,708
	49,592,637	48,646,551
Allowance for impaired loans (note 7)	(463,647)	(432,075)
	\$ 49,128,990	\$ 48,214,476

Loan commitments

The Credit Union has authorized lines of credit in the amount of \$2,804,413 which are unutilized at December 31, 2017 (2016 - \$2,148,242).

The Credit Union was committed to the issuance of new loans to members at December 31, 2017 of \$1,192,035 (2016 - \$822,305).

7. ALLOWANCE FOR IMPAIRED LOANS

The changes in the allowance for impaired loans are as follows:

	2017	2016
Balance, beginning of year	\$ 432,075	\$ 514,323
Provision for loan losses	84,618	(39,405)
Recoveries of amounts written off in prior years	4,367	662
	521,060	475,580
Loans written off	57,413	43,505
Balance, end of year	\$ 463,647	\$ 432,075

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

7. ALLOWANCE FOR IMPAIRED LOANS (continued)

	2017	2016
Comprised of		
Individual allowance	\$ 430,174	\$ 392,274
Collective allowance	33,473	39,801
	<u>\$ 463,647</u>	<u>\$ 432,075</u>

Credit quality of member loans is summarized as follows:

	2017	2016
Neither past due nor impaired	\$ 44,753,961	\$ 44,380,482
Past due but not impaired	353,467	438,060
Impaired	4,485,209	3,828,009
	<u>\$ 49,592,637</u>	<u>\$ 48,646,551</u>

A loan is considered past due when the counterparty has not made a payment by the contractual payment date.

	2017	2016
Member loans past due but not impaired		
Under 30 days	\$ 332,960	\$ 437,251
30 days and over	20,507	809
	<u>\$ 353,467</u>	<u>\$ 438,060</u>

The past due but not impaired balances include fully secured loans for which, in the opinion of management, there is no reasonable doubt as to ultimate collectibility of the principal or interest.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

8. PROPERTY, BUILDING AND EQUIPMENT

					2017
	Balance beginning of year	Additions/ depreciation expense	Disposals	Impairments	Balance end of year
Cost					
Land	\$ 161,026	\$ -	\$ -	\$ -	\$ 161,026
Building	687,450	-	-	-	687,450
Computer equipment	137,073	951	-	-	138,024
Furniture and equipment	409,599	14,916	-	-	424,515
Pavement	87,414	-	-	-	87,414
	1,482,562	15,867	-	-	1,498,429
Accumulated depreciation					
Building	356,268	16,559	-	-	372,827
Computer equipment	132,751	1,439	-	-	134,190
Furniture and equipment	261,767	31,058	-	-	292,825
Pavement	53,980	2,675	-	-	56,655
	804,766	51,731	-	-	856,497
	\$ 677,796	\$ (35,864)	\$ -	\$ -	\$ 641,932

					2016
	Balance beginning of year	Additions/ depreciation expense	Disposals	Impairments	Balance end of year
Cost					
Land	\$ 161,026	\$ -	\$ -	\$ -	\$ 161,026
Building	684,701	2,749	-	-	687,450
Computer equipment	134,865	2,208	-	-	137,073
Furniture and equipment	421,478	113,620	(125,499)	-	409,599
Pavement	87,414	-	-	-	87,414
	1,489,484	118,577	(125,499)	-	1,482,562
Accumulated depreciation					
Building	338,910	17,358	-	-	356,268
Computer equipment	131,372	1,379	-	-	132,751
Furniture and equipment	350,571	25,544	(114,348)	-	261,767
Pavement	51,073	2,907	-	-	53,980
	871,926	47,188	(114,348)	-	804,766
	\$ 617,558	\$ 71,389	\$ (11,151)	\$ -	\$ 677,796

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

9. OTHER ASSETS

	2017	2016
Accounts receivable	\$ 46,657	\$ 36,425
Accrued interest receivable	154,193	167,606
Prepaid expenses	15,470	15,853
Foreclosed assets (note 10)	254,183	352,683
	\$ 470,503	\$ 572,567

10. FORECLOSED ASSETS

	2017	2016
Balance, beginning of year	\$ 352,683	\$ 61,105
Foreclosed assets acquired	-	334,683
Provision for loss in value	(54,500)	(43,105)
Foreclosed assets sold	(44,000)	-
Balance, end of year	\$ 254,183	\$ 352,683

11. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of 31.0% (2016 - 31.0%) to income before income taxes. The reasons for the differences and related tax effects are as follows:

	2017	2016
Income before income taxes	\$ 564,431	\$ 654,464
Tax at applicable tax rate	\$ 174,974	\$ 202,884
Tax effect resulting from application of rate reductions for small business income	(87,500)	(68,000)
Tax effect resulting from non-deductible expenses	463	200
Tax effect resulting from non-taxable dividend income	-	(428)
Other	19	216
Income taxes	\$ 87,956	\$ 134,872

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

11. INCOME TAXES (continued)

The tax effects of temporary differences that give rise to deferred income tax assets and deferred income tax liabilities at December 31, 2017 and 2016 are presented below:

	2017	2016
Future income tax assets		
Loans to members, due to difference in allowance for financial reporting and tax purposes	\$ 23,700	\$ 24,500
Foreclosed assets, due to provision for impairment in value	20,300	13,400
Service awards, due to accrual for financial reporting purposes	47,500	45,100
Total gross deferred income tax assets	91,500	83,000
Future income tax liabilities		
Property, building and equipment, difference in net book value and undepreciated capital cost	2,200	2,200
Investments, difference in cost bases of shares	44,600	44,600
Total gross deferred income tax liabilities	46,800	46,800
Net deferred income tax asset	\$ 44,700	\$ 36,200

12. DEPOSITS

	2017	2016
Chequing	\$ 20,515,086	\$ 15,774,124
Savings	13,142,952	11,175,199
Term deposits	9,090,046	10,910,847
Registered retirement savings plans	9,328,492	9,471,329
Registered retirement income funds	2,041,178	2,083,401
Tax-free savings accounts	6,573,652	6,089,733
	\$ 60,691,406	\$ 55,504,633

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

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

12. DEPOSITS (continued)

Term deposits

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

Registered retirement savings plans

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

13. MEMBERSHIP SHARES

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

A continuity of membership shares is as follows:

	2017	2016
Membership shares, beginning of year	20,507	20,587
Issued during the year	988	1,944
Redeemed during the year	(1,107)	(2,024)
Membership shares, end of year	20,388	20,507

14. COMMUNITY DEVELOPMENT FUND

The Credit Union transfers 10% of its previous year's comprehensive income to the community development fund. Expenditures from this fund are reflected in the current statement of comprehensive income.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

15. PATRONAGE REBATE

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

	2017	2016
Income		
Interest on loans	\$ 90,900	\$ 85,500
Service charges and fees	24,300	23,800
	115,200	109,300
Expenses		
Interest on members' deposits	19,800	25,700
	\$ 135,000	\$ 135,000

16. INTEREST EXPENSE

	2017	2016
Chequing	\$ 4,240	\$ 3,596
Savings	120,245	111,591
Term deposits	155,599	196,618
Registered retirement savings plans	149,674	158,541
Registered retirement income funds	32,945	33,863
Patronage rebate (note 15)	24,300	25,700
	\$ 487,003	\$ 529,909

Total interest expense reported above is calculated using the effective interest method, and relates to financial liabilities not carried at FVTPL.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

17. OTHER INCOME

	2017	2016
Service charges	\$ 334,122	\$ 303,355
Commissions and profit sharing	191,187	189,692
Other	91,399	100,460
	<u>\$ 616,708</u>	<u>\$ 593,507</u>

All other income items detailed above relate to financial assets that are not at FVTPL and do not include any amounts used in determining the effective interest rate.

18. PENSION PLAN

The Credit Union maintains a defined contribution pension plan for its current and retired employees. The total expense recognized in the statement of comprehensive income for the defined contribution plan is \$31,663 (2016 - \$36,960), which represents the total cash amount paid or payable by the Credit Union to the plan during the year.

19. RISK MANAGEMENT

- (a) The types of risk inherent in the Credit Union environment include credit, foreign currency, liquidity and interest rate risk.
 - i) Credit risk is the potential for loss due to the failure of a borrower to meet its financial obligations. The Credit Union mitigates its lending credit risk exposure by defining its target market area, limiting the principal amount of credit to a borrower at any given time, providing credit analysis prior to approval of the loan, obtaining collateral when appropriate, and employing risk based pricing. Along with other credit unions in the Province of Nova Scotia, the Credit Union is restricted in making larger commercial loans without prior approval of Atlantic Central Lending Services.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

19. RISK MANAGEMENT (continued)

- ii) Foreign currency risk refers to the potential impact of changes in foreign currency exchange amounts when foreign currency financial assets are not matched with foreign currency liabilities. The Credit Union is not exposed to significant foreign currency risk.
- iii) Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. To mitigate this risk, Atlantic Central requires the Credit Union to maintain, at all times, liquidity that is adequate in relation to the business carried on. The level of liquidity is based on a prescribed percentage of total deposit liabilities. At December 31, 2017, the prescribed liquidity requirement was 10% and the actual liquidity was 31.4% (2016 - 23.8%) of total deposit liabilities.
- iv) Interest rate risk refers to the potential impact on the Credit Union's earnings and net asset values due to changes in interest rates. Interest rate risk results primarily from differences in the maturity or repricing dates of assets and liabilities. The Credit Union monitors interest rate risk inherent in the portfolio of assets and liabilities to measure the impact of interest rate changes with the objective of managing the impact of interest rate changes within self-imposed limits, thus minimizing fluctuations of income during periods of changing interest rates. The Credit Union's major source of income is the financial margin between the income earned on investments and loans to members, and the interest paid to members on their deposits.

At December 31, 2017, if interest rates had been 1% lower with all other variables held constant, after-tax net income for the year would have been \$91,900 lower mainly due to the mismatch of variable rate products. If interest rates had been 1% higher with all other variables held constant, after-tax net income for the year would have been \$67,400 higher, mainly due to the mismatch of variable rate products.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within six months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

19. RISK MANAGEMENT (continued)

	Financial statement amounts		
	Assets	Liabilities and members' equity	Net asset/ liability mismatch
0-6 months	\$ 24,862,030	\$ 31,485,810	\$ (6,623,780)
6-12 months	9,678,130	4,291,320	5,386,810
1-2 years	13,985,320	6,339,050	7,646,270
2-3 years	5,882,240	5,268,500	613,740
3-4 years	6,711,660	76,020	6,635,640
4-5 years	4,977,850	376,520	4,601,330
>5 years	363,410	-	363,410
Not interest sensitive	3,173,196	21,796,616	(18,623,420)
	\$ 69,633,836	\$ 69,633,836	\$ -

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

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

	Amount	Rate
Share investments		
Atlantic Central - Common	\$ 582,970	1.8%
Atlantic Central - Class Nova Scotia Provincial	144,000	0.0%
Atlantic Central - Class League Savings and Mortgage	568,517	0.0%
League Data Limited	14,270	5.0%
Healthwise Holdings Co-operative Limited	50,000	0.0%
Concentra Financial - Class D Preferred	250,000	0.0%
Other	500	0.0%
	\$ 1,610,257	

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

19. RISK MANAGEMENT (continued)

	Amount	Rate
Loans to members		
Personal and other loans	\$ 19,902,944	5.7%
Residential and commercial mortgages	28,871,594	3.5%
Lines of credit	818,099	8.6%
	<u>\$ 49,592,637</u>	
Deposit liabilities		
Chequing	\$ 20,515,086	0.1%
Savings	13,142,952	0.2%
Term deposits	9,090,046	1.5%
Registered retirement plans	11,369,670	1.5%
Tax-free savings accounts	6,573,652	1.6%
	<u>\$ 60,691,406</u>	

(b) Fair value of financial assets and liabilities

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

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

19. RISK MANAGEMENT (continued)

	Carrying amount	Fair value	Fair value difference
Financial Assets			
Loans and receivables			
Cash and cash equivalents	\$ 8,583,908	\$ 8,583,908	\$ -
Segregated liquidity deposits	4,102,435	4,102,435	-
Loans to members	49,128,990	49,037,573	91,417
Accounts receivable	46,657	46,657	-
Accrued interest on loans to members	110,717	110,717	-
Accrued interest on investments	43,476	43,476	-
Held-to-maturity Investments	5,020,000	5,000,440	19,560
Available-for-sale Investments	1,610,257	1,610,257	-
	-	-	-
	\$ 68,646,440	\$ 68,535,463	\$ 110,977
Financial Liabilities			
Other liabilities			
Deposits	\$ 60,691,406	\$ 60,730,835	\$ (39,429)
Accrued interest on deposits	226,257	226,257	-
Accounts payable and accrued liabilities	397,050	397,050	-
	\$ 61,314,713	\$ 61,354,142	\$ (39,429)

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

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

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

19. RISK MANAGEMENT (continued)

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

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

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

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

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

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

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

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

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

19. RISK MANAGEMENT (continued)

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

(d) Capital management

The Credit Union's objectives when managing capital are:

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

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

The Credit Union manages its capital through a set of formalized management policies and through corporate governance at the level of the Board of Directors and related committees. Due to the nature of the Credit Union, capital is also managed through the maintaining of liquidity deposits at Atlantic Central (note 19(a)iii)).

In addition, the Credit Union Act requires the Credit Union to maintain at all times a prescribed capital base. The required level of capital, consisting of members' equity, is 5% of the total assets. The actual capital base at December 31, 2017 is 11.9% (2016 - 12.2%) of the total assets.

(e) Concentration of risk

The Credit Union has an exposure to risk related to individual loans which account for a sizable portion of the total loan portfolio. The Credit Union's most sizable loans which account for 10% of the total loan portfolio amount to sixteen loans ranging from \$254,135 to \$555,126 (2016 - fourteen loans ranging from \$270,035 to \$575,705). These loans are secured by real property with appraised values greater than the borrowed amount at the time of disbursement.

20. RELATED PARTY TRANSACTIONS

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

	2017	2016
Loans to members	\$ 2,166,642	\$ 2,216,494
Members' deposits	1,390,544	1,488,530
Membership shares	1,655	1,750

ST. JOSEPH'S CREDIT UNION LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2017

20. RELATED PARTY TRANSACTIONS (continued)

The interest rates charged on balances outstanding from key management personnel, directors and their related parties are the same as those charged in an arm's length transaction. Loan and mortgage balances are secured as per the Credit Union's lending policies.

There was no allowance for impaired loans required in respect of these loans as at December 31, 2017.

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

	2017	2016
Salaries and other short-term employee benefits	\$ 279,677	\$ 299,581
Post-employment benefits	15,017	16,015
	<u>\$ 294,694</u>	<u>\$ 315,596</u>

Directors received the following amounts for serving the Credit Union:

	2017	2016
Directors' expenses	\$ 5,561	\$ 3,325
Directors' remuneration	10,100	10,100
	<u>\$ 15,661</u>	<u>\$ 13,425</u>

ST. JOSEPH'S CREDIT UNION LIMITED

Schedule of Expenses

Year ended December 31, 2017, with comparative figures for 2016

	2017	2016
PERSONNEL		
Salaries	\$ 715,997	\$ 716,935
Pension and insurance benefits	122,716	131,172
Other employee costs	5,854	4,892
	\$ 844,567	\$ 852,999
MEMBERS' SECURITY		
Bonding insurance	\$ 18,394	\$ 17,699
Deposit insurance	47,000	42,800
	\$ 65,394	\$ 60,499
GENERAL BUSINESS		
Advertising and promotion	\$ 39,893	\$ 33,008
Professional fees	58,945	50,577
Data processing	104,268	115,037
Educational	48,014	44,214
Service fees and charges	234,803	215,332
Central assessment and dues	80,975	87,574
Miscellaneous	74,152	67,084
Office and stationery	27,491	26,158
Postage	3,389	3,780
Service contracts and maintenance	10,971	13,038
Telephone	16,299	16,422
Community development fund donations	40,898	30,250
	\$ 740,098	\$ 702,474
OCCUPANCY		
Heat, lights and water	\$ 12,046	\$ 11,357
Insurance	9,342	12,738
Municipal taxes	5,579	8,869
Janitorial and cleaning supplies	15,974	13,974
Repairs and maintenance	37,533	15,384
	\$ 80,474	\$ 62,322

ST. JOSEPH'S CREDIT UNION

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