

2020



**PROVINCIAL CREDIT UNION
ANNUAL REPORT**

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2020 highlights

\$495M
assets

▲ 19.3%

\$453M
deposits

▲ 20.8%

15K
members

\$375M
loans

▲ 10.8%

13.8%

growth in avg. member savings

\$16.6M
revenue

▲ 0.8%

Our Vision

Transforming your banking experience

Our Mission

We provide the advice you need and the solutions you want.

Our Values

- We go above and beyond for our people - members, staff, and board
- We are accountable and have integrity
- We work together as a team
- We seek to continuously improve
- We act in the best interests of our communities

Board of Directors



Corey Tremere
President



Bernard Keefe
Vice President



Jacinta Doiron
Secretary



Wendell Dawson



Carol Blum



Jason Doucette



Bryon Poehlman



Michelle Proctor



Lindy McQuillan



Cyrilina Campbell



Rick Gibbs



Joey Gauthier

Corey Tremere
President



President's Report

As 2020 began, your board and staff were in the process of updating our strategic plan, and welcoming new leadership training. Very quickly in the year, like every organization, we were also faced with the many and far reaching effects of a global pandemic.

In the face of challenge and uncertainty, our staff, the community and each member rose to the challenge, with the "whatever it takes to overcome this" attitude. For the front line staff at Provincial Credit Union, it was a game changer too; even to conduct the simplest transaction, in the face of COVID-19.

Those moments really proved to all of us, the pivotal role played by front line staff and essential workers. For the many store clerks, health care workers, and public safety personnel across the province, it meant getting up and going to work everyday, despite the risk to themselves and their families.

As you will see in the next few pages and hear at the AGM, despite all of the challenges presented in 2020, Provincial Credit Union enjoyed another successful year. Thanks to your support, as well as the guidance from management, staff, and board, we were given the chance to look at a fresh perspective, and did everything we could to respond to member needs.

As a board member, I can assure you that your interests are at the forefront of every call, Zoom meeting, and discussion, surrounding the changes that continue to evolve, and what might come next. The voices around the table understand what's important. We need to not only survive, but thrive, and ensure our cooperative

continues to serve our members in the best way possible.

Over the years we have watched our credit union grow exponentially, thanks to your ongoing support. That growth has contributed to the need for a branch expansion/renovation at our Charlottetown office.

Still on the topic of growth, you probably know by now that Provincial Credit Union is hoping to merge with 3 like-minded credit unions. Stronger for Members is the discussion paper, and it details how credit unions, employees, and communities will all benefit from a new, larger credit union.

I encourage you to read the document on our website at www.provincialcu.com, and to exercise your democratic right as a member, and participate in the voting process in April of 2021.

It's been a pleasure to serve you as President of the Board of Directors. I'd like to take this opportunity to thank my fellow board members, as well as management and staff for their continued trust and support over the past year. It has truly been a privilege to serve you.



Corey Tremere
President



Bernard Gillis
Chief Executive Officer

CEO's Report

It is my pleasure to report to you on the operations of Provincial Credit Union as at December 31, 2020. 2020 is a year we will not soon forget. An unanticipated drop of 1.50% in the prime interest rate in March, coupled with "Pandemic" as the word of the year, said it all.

COVID 19 certainly presented us with a host of challenges, especially in the beginning, as we were forced to make significant operational changes with no pre-designed plan to follow. With all of the unknowns surrounding the COVID 19 outbreak, our staff response was amazing. Amid all the uncertainty and fear of the unknown, Provincial Credit Union did what we do best; providing excellent service and advice to our members.

With the challenges of 2020 came opportunities, and it pushed us to advance our digital account and loan offerings considerably, along with all our digital banking channels. The pandemic undoubtedly changed member behaviors, as we have seen a huge decline in in-branch traffic, and an enormous switch to on-line and digital offerings. We don't expect a change back to previous behaviors anytime soon. As noted in last year's report, in this ever changing world, we know our members want and need the ability to do more banking digitally. Despite the challenges encountered during the year as mentioned above, from a business perspective 2020 certainly exceeded our expectations. Assets grew by \$80 million, ending the year at \$495 million. We experienced strong growth in most areas of the business, with mortgages and business loans leading the way.

We finalized a new Strategic Plan this past year, and with that a new vision "Transforming Your Banking Experience". Main priorities include; Elevating Member Experiences, Growing Member Relationships, Building Community Connections and Empowering our People. Provincial Credit Union is committed to the strategic plan directives outlined for the next three years, and we're

confident the desired results will be achieved.

Our board and management team, along with three other Island Credit Unions, have spent considerable time exploring a merger to create a new single credit union. An extensive analysis was completed on all facets of the respective credit unions' operations, which led to the board of directors from each of the partners approving a business plan, for subsequent consideration by the membership. The new credit union, if approved by members, will increase efficiencies allowing us to reinvest more into our people, our products and our communities.

As you've come to expect, credit unions continue to play an integral role in the communities we serve, and 2020 was no exception as we provided donations and sponsorships to multiple groups.

In closing, a very special thank you to our staff, who continued to provide the level of service our members were accustomed to, in what was an extremely tense and stressful period. To our members, we appreciate the patience and support you demonstrated, as your credit union worked through new ways of doing business. And last but certainly not least, my thanks to our dedicated board of directors for your support and guidance during the last 12 months. Our success in 2020 was a team effort all the way; from board, management, and staff.

Sincerely,



Bernard Gillis
Chief Executive Officer

Thank you

to all our staff and to all the front line workers.



Allie
Charlottetown office

COVID-19 has rightly shone the spotlight on the pivotal role played by front line staff and essential workers. For the many store clerks, health care workers, and public safety personnel, it means getting up and going to work everyday despite the risk, and despite the worries about their families. It has meant implementing new safety precautions, and wearing personal protection equipment, at a time when most of us were being told to stay home, be safe, and practice social distancing.

For businesses that are able to stay open, the pandemic presents the challenge of providing an essential service, and balancing that with the protection of employees and members of the community.

For the front line staff at Provincial Credit Union, it was a game changer too; even to conduct the simplest transaction, in the face of COVID-19. On behalf of the Board of Directors at Provincial Credit Union, I would like to take this opportunity to say we have never been more proud of the staff at Provincial Credit Union. "I want to thank each member of our team for demonstrating exceptional fortitude during this crisis." Corey Tremere - President.

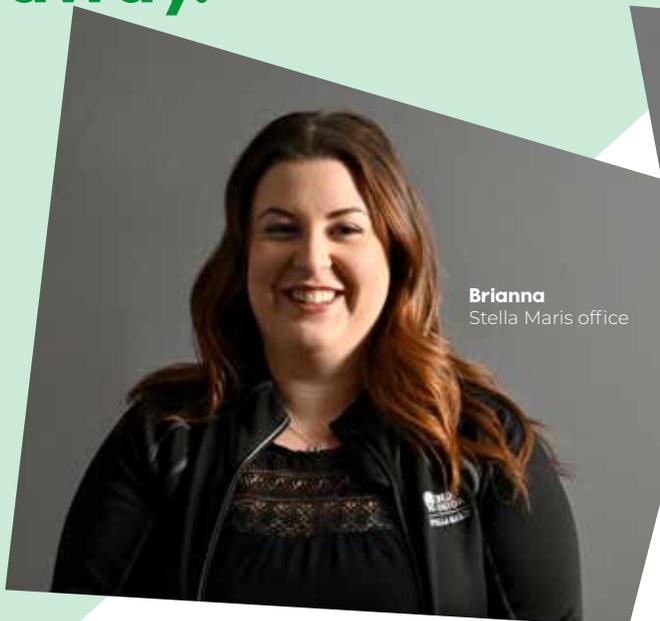
Congratulations to the entire team at Provincial Credit Union!

As well, we would like to take this opportunity to congratulate and thank all front line workers across the province." President Corey Tremere adds "We are proud of your courage and commitment to keep Islanders safe."



Stephanie
Montague office

It's been said that since the arrival of COVID-19 on Prince Edward Island a day feels like a week, and a week feels like a year. Looking back, those first few days of the pandemic now feel like a world away.



Brianna
Stella Maris office



Simona
Stratford office

Helping our members during COVID-19

In times of crisis, it's important to come together as a community to support one another. During the COVID-19 pandemic, we provided the support our members needed through a number of targeted relief and support programs.

No two situations were the same, especially during the early days of the pandemic. We worked with our members to build relief packages specifically for them to get through any hardships they were faced with.

Saved members money when it counted most.

We waived key service fees for all members during the height of the pandemic so that they could send money more frequently to loved ones or in support of their favorite local businesses without paying any extra fees. We also introduced low rate financing options for those who needed access to funds quickly.

Kept our members safe at home with new enhanced ways to bank remotely.

We knew not everyone was comfortable going online for their banking, so we increased our services available over the phone so that members could perform most of their banking from the comfort and safety of their own home.

Helped our members manage their finances during the hard times.

We responded quickly to our members' when they needed access to funds with a number of support options. From loan and mortgage payment deferrals to special emergency loan programs for both personal and business members who didn't qualify for any of the government programs, we offered our members the tools to help with their finances.

Tablets for Seniors



When the first wave of COVID-19 hit our province, we partnered with the Community Foundation of Prince Edward Island to provide tablets to almost 40 long-term and community care facilities across the Island.

We worked together to flatten the curve and stop the spread of COVID-19 while keeping our community physically distanced, while staying socially connected. With the tablets donated by the credit unions, residents didn't have to feel alone; with the touch of a button they were able to video chat with family and friends, browse the web, play games, or even set up online banking.

COVID-19 brought a lot of financial uncertainty for many Islanders, and for some, it was tough to know how to navigate their finances during COVID-19. To answer our most commonly asked questions, we gathered credit union experts who were able to share guidance and resources to support members during the pandemic.

In total, we hosted three Financial Live Q&A sessions, covering topics such as: Credit Union COVID-19 relief measures, government programming, investing, and how to adapt and pivot your business during a global pandemic.

Working Together: Financial Live Q&A

Loyal 2 Local Challenge



Michelle
Stella Maris office

In June, we challenged our employees to support their favorite local business by participating in the Loyal 2 Local movement – a challenge to support our local organizations during an incredibly challenging year.

The economic impact of this initiative was significant, and it created a real and meaningful difference to the businesses that help make our communities great places to live and work.

Helping our members during COVID-19



\$4K

Get Active Program

in gym rebates paid to members.

We believe that an active lifestyle leads to a better, happier, and healthier life. This is why we make it our mission to support Islanders in living a more physically active lifestyle.

In the fall, we offered our Get Active Gym Rebate Program to our members for the fourth year in a row. The Get Active Program rewards members who are active at any gym during the year with a \$50 rebate on their gym membership fees.

In 2020, we were able to put \$50 back in the wallets of 84 of our members from across PEI. It really does pay to be active with the credit unions.



In December, we continued our annual #FilltheYuMob toy drive for the seventh consecutive year with our friends at Toys'R'Us.

While Fill the YuMob looked a little different this year due to COVID-19 restrictions, we were still able to donate over a thousand dollars' worth of toys to Santa's Angels, a volunteer group that delivers the toys on Christmas Day to over 300 families all across PEI.

Of course, this wouldn't have been possible without the support from the Toys'R'Us Charlottetown store and staff – thank you for being amazing every year!

7th Annual Fill the YuMob

Charlottetown Food Bank



Doug Geldert (left) from Provincial Credit Union presents a \$1000 cheque to Mike MacDonald of the Charlottetown Food Bank. Credit Union employees raised the majority of funds through staff bingo, and presented the donation on Giving Tuesday, 2020.

MacPhail Woods Ecological Forestry Project



Daniel MacRae (right) MacPhail Woods Ecological Forestry Project, displays a cheque received from Jarret O'Rourke, manager of Provincial's Montague office. From its humble beginnings in 1991 as a wildlife garden and native plant nursery, MacPhail Woods now provides wildlife enhancement, forest stewardship, watershed protection and environmental education.

\$7,500 in scholarships

5

Students

We are pleased to announce the five Provincial Credit Union Scholarship Recipients for 2020. Each Recipient received \$1,500 towards furthering their education. In total, Provincial Credit Union distributed \$7,500 to make post-secondary education more affordable for Island students.

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



Joe
MacEachern



Katelyn
Drake



Kamryn
Gallant



Emily
Stewart



Nathaniel
Ing

Mikinduri Children of Hope



Ted Grant, Manager of Fundraising and Projects for Mikinduri Children of Hope, accepts a cheque from Shari Lewis, manager of Provincial's Stratford office. Funds raised help to provide resources and knowledge, to help relieve the effects of poverty in Africa.



30 Spenders

In August, we put spending habit myths to the test and hosted a socially-distanced two-day competition for 30 youth Spenders. They were there for the chance to walk away with \$2,500. We wanted to test how youth really spend their money in real life situations similar to those they would encounter everyday.

We held eight different challenges where we covertly monitored and tested exactly how our Spenders choose to spend their money in different situations. To avoid any biases, we kept our spenders focused on the activities and the prize money. Through our experiments, we were able to gain insights into commonly asked questions such as: do women really spend more than men?

To see how our Spenders did, check out our 30 Spenders mini-series on our social media channels @PEICreditUnions.

Your Two Cents: Season 2



Sara
Charlottetown office

In 2020 we sponsored our second season of Your Two Cents: a web-based series that aims to inform the next generation how to do more with their money through short and engaging videos.

From topics ranging from home renos on a budget, how to have an affordable staycation, to launching your own small business, Your Two Cents' season two spoke directly to our values of providing honest, straight forward financial advice to our members.

Your Two Cents Season 2 launched on social media in the Spring of 2020, and each episode shed light on how financial advice can be entertaining – and even fun.

Ronald McDonald House Charities Atlantic



We are so proud of our on-going partnership with the Ronald McDonald House Charities (RMHC) Atlantic which continued throughout 2020. With our Members Stay Free program, credit union members are able to stay the night at the Ronald McDonald House in Halifax for free while their child is being treated at the IWK Hospital.

Alongside our Members Stay Free program, we also sponsored the annual Ronald McDonald PJ Walk – a major fundraiser for the RMHC Atlantic that is held in five cities across the Maritimes. While COVID may have changed the format this year, the PJ Walk raised over \$164,000, which will directly support the Ronald McDonald House Charities Atlantic and their initiatives.

Investing in You Womens Conference



In 2020, we hosted our first-ever Investing in You Women's Conference: a free event that inspired guests to do more with their money through interactive panel discussions on women's financial wellness, budgeting, work-life balance, fitness, and nutrition.

Two Investing in You events – one in the west and the other in the east, were held to ensure those who wanted to attend were able to do so close to home. Over the two events, close to 300 Island women attended, and were able to gain knowledge and resources to support their financial, physical, and emotional wellness.

Investing
in You

WOMEN'S CONFERENCE

In 2020 Provincial Credit Union also supported the following organizations

Benevolent Irish Society
Big Brothers Big Sisters
Camp Gencheff
Canadian Cancer Society
Charlottetown Farmer's Market
CNIB East Coast Kitchen Party
Coldest Night of the Year
Crohn's and Colitis Canada
Glenaladale Heritage Trust
Greater Charlottetown Area
Chamber of Commerce
Junior Achievement of PEI
Kidney Foundation of PEI
Lebanese Association of PEI
MacPhail Homestead
Mikinduri Children of Hope
Music PEI
Open Door Ministries

Parasport & Recreation PEI
PEI Firefighters Curling Association
PEI Writers Guild
QEH Foundation Friends for Life
Campaign
Seniors Active Living Centre
Sherwood Metros
Special Olympics PEI
Stars for Life
The Adventure Group
The Gideons
The Joyriders
The Onion Golf Tournament
Tracadie Lions Club
Victoria Row Inc.
Voluntary Resource Council
Watermark Theatre

United Way of PEI

Heather Doucette (left) and Judy Gallant (right) present a cheque to Emily MacMillan from the United Way of PEI. The donation represents both a corporate and staff donation to the United Way.



Pay It Forward



As part of Atlantic Credit Union's commitment to communities, employees were proud to Pay It Forward this past holiday season.

The staff from Provincial Credit Union's 4 offices, donated a total of \$3,000 to charitable organizations in December, including PEI Knights of Columbus and the food bank in North Rustico, Montague Christmas Toy Project, Anderson House/Blooming House, and the UPEI Campus Food Bank, as pictured here.

From left: Sister Sue Kidd (UPEI), as well as Kathryn Gallant and Rasha Younis, who are 4th year business students and employees of Provincial Credit Union.



Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Members of Provincial Credit Union Limited

Opinion

We have audited the financial statements of Provincial Credit Union Limited (the Credit Union), which comprise the statement of financial position as at December 31, 2020, and the statements of changes in members' equity, profit or loss and cash flow for the year then ended, and notes and schedules to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2020, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

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

(continues)

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

MRSB Chartered Professional Accountants Inc.

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS INC.

Charlottetown, PE

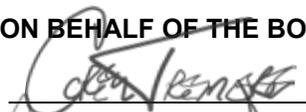
February 22, 2021

Statement of Financial Position

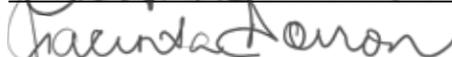
PROVINCIAL CREDIT UNION
December 31, 2020

	2020	2019
ASSETS		
Cash and cash equivalents (Note 6)	\$ 35,921,982	\$ 32,401,944
Investments (Note 7)	77,386,442	36,670,824
Accounts receivable (Note 8)	1,174,790	1,257,019
Member loans and mortgages (Note 9)	375,968,246	339,469,995
Provision for impaired loans (Note 10)	(445,134)	(378,842)
Prepaid expense	189,480	173,168
Property held for resale	-	15,000
Property and equipment (Schedule 1)	2,991,897	2,768,757
Due from CU PEI Investment Corp. (Note 12)	1,524,487	2,249,487
Deferred tax asset (Note 13)	301,324	290,988
Investment in associate (Note 14)	184,774	258,665
	\$495,198,288	\$415,177,005
LIABILITIES		
Accounts payable and accrued liabilities	\$ 351,781	\$ 315,980
Employee benefits payable	1,358,359	1,291,985
Income taxes payable	142,201	218,051
Accrued interest payable	1,968,653	2,022,372
Member deposits (Note 15)	411,638,546	339,682,753
Share deposits	41,395,669	35,514,683
	456,855,209	379,045,824
Contingent liabilities (Note 16)		
Commitment (Note 17)		
MEMBERS' EQUITY		
Share capital (Statement 4)	71,275	73,295
Undistributed earnings (Statement 4)	38,271,804	36,057,886
	38,343,079	36,131,181
	\$495,198,288	\$415,177,005

ON BEHALF OF THE BOARD



Director



Director

Notes 1 - 27 are an integral part of these financial statements

Statement of Changes in Member's Equity

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

	2020	2019
Members' shares (Note 18)		
Balance - beginning of year	\$ 73,295	\$ 74,380
Redemption of members' shares, net	<u>(2,020)</u>	<u>(1,085)</u>
Balance - end of year	<u>71,275</u>	<u>73,295</u>
Undistributed earnings		
Balance - beginning of year	36,057,886	33,747,787
Net income (Statement 5)	<u>2,213,918</u>	<u>2,310,099</u>
Balance - end of year	<u>38,271,804</u>	<u>36,057,886</u>
Members' equity	<u>\$ 38,343,079</u>	<u>\$ 36,131,181</u>

Notes 1 - 27 are an integral part of these financial statements

Statement of Comprehensive Income

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

	2020	2019
Income		
Interest and investment	\$ 14,185,866	\$ 13,915,217
Cost of capital and borrowing		
Interest and service charges	3,844,453	3,803,192
Share dividends	35,682	256,717
	3,880,135	4,059,909
Financial margin	10,305,731	9,855,308
Other income (Note 19)	2,443,595	2,743,371
	12,749,326	12,598,679
Expenses - by nature		
Advertising and promotions	414,763	505,763
Amortization of property and equipment	138,217	142,700
Credit Union development	5,291	17,758
Data processing	1,031,912	1,008,959
Democracy	71,108	64,485
Dues and memberships	4,607	4,779
Insurance	593,113	535,594
Miscellaneous	22,073	13,708
Office	400,317	306,077
Premises	336,155	377,738
Professional fees	80,264	60,484
Provision for impaired loans	143,712	168,427
Service fees	1,113,996	1,504,805
Telephone	52,265	52,001
Travel	15,590	20,287
Wages and wage levies	5,074,708	4,616,047
	9,498,091	9,399,612
Income before income taxes	3,251,235	3,199,067
Income taxes (recovery)		
Current (Note 20)	1,047,653	905,452
Deferred	(10,336)	(16,484)
	1,037,317	888,968
Net income	\$ 2,213,918	\$ 2,310,099

Notes 1 - 27 are an integral part of these financial statements

Statement of Cash Flow

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

	2020	2019
Cash flows from operating activities		
Net income	\$ 2,213,918	\$ 2,310,099
Items not affecting cash:		
Amortization of property and equipment	138,217	142,700
Deferred income taxes	(10,336)	(16,484)
Income from significant influence investment - Note 14	(51,108)	(93,313)
	<u>2,290,691</u>	<u>2,343,002</u>
Changes in non-cash working capital:		
Investments	(40,715,620)	593,008
Accounts receivable	82,229	1,126,181
Prepaid expense	(16,312)	3,820
Accounts payable and accrued liabilities	35,801	(108,278)
Employee benefits payable	66,374	46,672
Accrued interest payable	(53,717)	371,147
Income taxes payable	(75,850)	74,721
	<u>(40,677,095)</u>	<u>2,107,271</u>
	<u>(38,386,404)</u>	<u>4,450,273</u>
Cash flows from investing activities		
Increase in member loans and mortgages, net of provision	(36,431,959)	(22,965,920)
Purchase of property and equipment	(361,357)	(218,514)
Decrease in property held for resale	15,000	35,000
	<u>(36,778,316)</u>	<u>(23,149,434)</u>
Cash flows from financing activities		
Increase in member deposits	71,955,793	39,972,990
Increase (decrease) in share deposits	5,878,966	(5,034,299)
Advances from CU PEI Investment Corp.	725,000	426,512
Investment in associate	124,999	48,488
	<u>78,684,758</u>	<u>35,413,691</u>
Increase in cash and cash equivalents	3,520,038	16,714,530
Cash and cash equivalents - beginning of year	32,401,944	15,687,414
Cash and cash equivalents - end of year	\$ 35,921,982	\$ 32,401,944
Cash flow supplementary information (Note 21)		

Notes 1 - 27 are an integral part of these financial statements

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

1. REPORTING ENTITY

Provincial Credit Union Limited is incorporated under the Companies Act of Prince Edward Island and is governed by the Prince Edward Island Credit Unions Act. Provincial Credit Union Limited is a member-owned financial institution whose principal business activities include financial and banking services for its members at its branches in Charlottetown, Stratford, Montague and North Rustico, Prince Edward Island. The Credit Union's head office is located at 281 University Ave., Charlottetown, PE.

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 4.

These financial statements were authorized for issue by the Board of Directors on February 22, 2021. The members of the Provincial Credit Union have the power to amend the financial statements after issuance.

3. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis except for available-for-sale investments which are recorded at fair value through profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents is comprised of cash on hand, cash in financial institutions, and term deposit investments that have a maturity of less than three months. Cash and cash equivalents are carried at amortized cost.

Investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has the positive intent and ability to hold to maturity, and which are not designated as fair value through profit or loss (FVTPL) or as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted investments whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

(continues)

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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 year of recovery.

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 method, less any impairment losses.

Impairment

The Credit Union applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 for the financial assets measured at amortized cost.

The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of the credit deterioration since origination:

- Stage 1 - where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 - when a financial instrument experiences a credit risk subsequent to origination but it is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 - financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The probability of default (PD), exposure at default (EAD) and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical inputs are as follows:

- PD - the probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life.

(*continues*)

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

- EAD - the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.
- LGD - the loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral and the impact of forward-looking macroeconomic factors. Common assessments for credit risk include management judgment, delinquency, and monitoring.

When measuring expected credit loss, the Credit Union considers the maximum contractual period over which the Credit Union is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment and extension and rollover options.

The Credit Union considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- Default or delinquency in interest or principal payments;
- High probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- Measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Credit Union considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

The Credit Union writes off an impaired financial asset, either partially or fully, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Impairment of financial assets

The Credit Union assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are recorded, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(*continues*)

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Property held for sale

Property held for resale is carried at the market value of the loan or mortgage foreclosed, adjusted for estimates of revenues to be received and costs to be incurred subsequent to foreclosure, and the estimated net proceeds from the sale of the assets.

Property and equipment

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

Buildings	5%
Equipment	20%
ATMs	10%
Computer hardware	30%, 45% and 55%
Pavement	8%
Computer software	100%

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

Property and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

Finance charges

The Credit Union periodically purchases mortgages from Concentra Financial, Omista Credit Union and League Savings and Mortgage. Generally a premium is paid for the mortgages purchased, calculated by reference to the interest rate inherent in the mortgages and the rate of interest in effect at the time of purchase. The premium paid is amortized using the straight-line method over the life of the mortgage purchase plan and is netted to the applicable mortgage asset.

Investment in associate

An associate is an entity in which the Credit Union has significant influence, but not control, over the operating and financial policies of the entity. Significant influence is ordinarily presumed to exist when the Credit Union holds between 20% and 50% of the voting rights. The Credit Union may also be able to exercise significant influence through board representation.

Management has determined that the Credit Union's investment in Class B common shares of CU PEI Investment Corp., of which it owns 25% of the outstanding voting shares, is subject to significant influence and is accounted for by the equity method. Accordingly, the investment is initially recorded at cost, which includes the purchase price and other costs directly attributable to the purchase. Subsequently, the investment is increased for the proportionate share of post acquisition earnings and decreased by post acquisition losses and dividends received. Investments in associates are evaluated for impairment at the end of each financial reporting period, or more frequently if events or changes in circumstances indicate the existence of objective evidence of impairment.

(*continues*)

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

4. 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 recoverable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. 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 year end date.

Deferred tax assets and liabilities are recognized when 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 allow 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 year end date and are expected to apply when the liabilities/assets are settled/recovered.

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 years under the Credit Union's policy.

The Credit Union provides post employment benefits through a defined contribution plan. Pension expenses for the defined contribution pension plan include the required employer contributions. Contributions to the plan are recognized as an expense in the year that the relevant employee services are rendered. During the year, the contributions by the Credit Union to the defined contribution pension plan were \$274,324 (2019 - \$260,076).

Liabilities are recorded for employee benefits including salaries and wages, deductions at source and bonuses that are expected to be settled within twelve 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 remuneration rate that the Credit Union expects to pay at the financial statement date.

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

(*continues*)

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Member deposits

Borrowings and deposits and membership shares that are classified as liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Term, RRSP, RRIF and demand deposits can be fixed or variable rate. Interest can be paid annually, semi-annually, monthly or upon maturity.

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 2020 was 0.01% (2019 - 0.75%) and was based on the average of the lowest monthly share balances.

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.

Financial assets and financial liabilities

The Credit Union initially recognizes loans and advances, deposits and liabilities on the date on which they are originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: the asset is held within a business model whose objective is to hold assets to collect contractual cash flow; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are classified as measured at FVTPL. Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There are no changes to any of the Credit Union business models during the current or prior year.

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL. The Credit Union derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(continues)

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Credit Union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. In transactions in which the Credit Union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Credit Union continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union currently has legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Credit Union has classified its financial assets and liabilities as follows:

Cash and cash equivalents - amortized cost

Available-for-sale investments - fair value through profit or loss

Held-to-maturity investments - amortized cost

Accounts receivable, member loans and mortgages, member and share deposits, accrued liabilities and accounts receivable - amortized cost

Income and expense recognition

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

Other fee and commission income – including account servicing fees, loan discharge and administration fees, and syndication fees – is recognized as the related services are performed.

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 profit or loss as a reduction to income over the expected life of the relevant loans and mortgages. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(continues)

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit impaired assets, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Government assistance

During the year, the Credit Union received \$25,000 (2019 - Nil) from the Government of Canada under the Temporary Wage Subsidy program. The amount is recorded in the wages and wage levies expense.

Government grants are recorded when there is a reasonable assurance that the Credit Union had complied with and will continue to comply with, all the necessary conditions to obtain the grants.

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 profit or loss.

Changes in accounting standards

Future accounting developments

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended December 31, 2020 and have not been adopted by the Credit Union in preparing these financial statements. These changes are not expected to have a material impact on the Credit Union's financial statements.

On January 23, 2020, IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments to IAS 1 are required to be applied for annual periods beginning on or after

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Credit Union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the period the assumptions change. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

(a) Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. In assessing whether there has been a significant increase in credit risk, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. Future assessments of credit risk may be materially different from current circumstances which could result in a significant increase or decrease in the allowance for credit losses.

(b) Estimated useful lives of property and equipment

Management estimates the useful lives of property and equipment based on the period during which assets are expected to be available for use. The amounts and timing of recorded depreciation expense of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the Credit Union's property and equipment in the future.

(c) Income taxes

The actual amounts of income tax expense only become final upon filing and acceptance of the tax return by relevant authorities which occur subsequent to the issuance of the financial statements. Estimation of income taxes include evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. The assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

6. CASH AND CASH EQUIVALENTS

	<u>2020</u>	<u>2019</u>
Term deposit investments	\$ 27,500,000	\$ 17,250,000
Cash in financial institutions	5,619,440	12,757,895
Cash on hand	2,802,542	2,394,049
	<u>\$ 35,921,982</u>	<u>\$ 32,401,944</u>

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

7. INVESTMENTS

	<u>2020</u>	<u>2019</u>
<u>Shares</u>		
Atlantic Central Credit Union Limited - common shares	\$ 3,723,860	\$ 3,216,330
Atlantic Central Credit Union Limited - Class B preferred shares	821,400	821,400
Atlantic Central Credit Union Limited - Class LSM Shares	466,372	443,682
Concentra Financial - Class A preferred shares	250,000	250,000
League Data - 10.034 Class B Preferred Shares	100,340	100,340
Atlantic Central Credit Union Limited - Class PEI shares	2,400	2,400
Concentra common shares	1,020	1,020
Central 1 Credit Union - Class B Shares	100	-
	<u>5,365,492</u>	<u>4,835,172</u>
<u>Debentures</u>		
Atlantic Central Credit Union Limited liquidity - 1.26%	29,020,950	25,335,652
Atlantic Central Credit Union Limited term deposits	19,500,000	3,000,000
League Savings and Mortgage term deposits	15,500,000	2,000,000
Concentra Financial term deposit	4,000,000	500,000
CIBC term deposits	3,000,000	-
Central 1 Credit Union term deposit	1,000,000	1,000,000
	<u>72,020,950</u>	<u>31,835,652</u>
	<u>\$ 77,386,442</u>	<u>\$ 36,670,824</u>

The Credit Union shall maintain sufficient liquid assets to meet its obligations as they come due. As prescribed in the Credit Union Regulations, Section 2, the Credit Union shall maintain liquid assets of not less than 10% of the total amount of member deposits in and borrowings of the Credit Union as follows: 9% shall be invested in eligible financial instruments of Atlantic Central; 6% of assets, or other such amount as may be determined by Central from time to time, shall be maintained in the segregated liquidity account. The remainder will be invested in: current account, cash management account, and term deposits that have a remaining term to maturity of not more than one year.

8. ACCOUNTS RECEIVABLE

	<u>2020</u>	<u>2019</u>
Accrued interest - loans and mortgages	\$ 791,023	\$ 767,818
Miscellaneous receivables	256,446	361,175
Accrued interest - investments	127,321	128,026
	<u>\$ 1,174,790</u>	<u>\$ 1,257,019</u>

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

9. MEMBER LOANS AND MORTGAGES

	Total loans	Loan allowance	Net loans
2020			
Mortgages	\$166,146,586	\$ (233,610)	\$165,912,976
Commercial	183,193,288	(23,835)	183,169,453
Mortgage pools	2,605,280	(10,692)	2,594,588
Lines of credit and overdrafts	5,838,471	(76,565)	5,761,906
Personal	18,184,621	(100,432)	18,084,189
	<u>\$375,968,246</u>	<u>\$ (445,134)</u>	<u>\$375,523,112</u>
2019			
Mortgages	\$134,257,459	\$ (8,353)	\$134,249,106
Commercial	160,011,902	(154,893)	159,857,009
Mortgage pools	6,358,007	(496)	6,357,511
Lines of credit and overdrafts	8,521,096	(60,646)	8,460,450
Personal	30,321,531	(154,454)	30,167,077
	<u>\$339,469,995</u>	<u>\$ (378,842)</u>	<u>\$339,091,153</u>

10. PROVISION FOR IMPAIRED LOANS

	2020	2019
Provision for impaired loans - beginning of year	\$ 378,842	\$ 323,352
Provision for impaired loans	143,712	168,427
Recovery of loans written off	41,243	41,558
Loans written off - current year	<u>(118,663)</u>	<u>(154,495)</u>
Provision for impaired loans - end of year	<u>\$ 445,134</u>	<u>\$ 378,842</u>

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.

11. LOANS IN ARREARS

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

	2020	2019
31 to 60 days	\$ 32,186	\$ 2,101,176
61 to 90 days	36,984	25,713
91 to 180 days	577	5,887
Over 180 days	<u>-</u>	<u>21,567</u>
	<u>\$ 69,747</u>	<u>\$ 2,154,343</u>

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

12. DUE FROM CU PEI INVESTMENT CORP.

Provincial Credit Union Limited owns Class A and B common shares of CU PEI Investment Corp. The amount due from CU PEI Investment Corp. bears interest at 1% and there are no set terms of repayment.

	<u>2020</u>	<u>2019</u>
Due from CU PEI Investment Corp. - beginning of year	\$ 2,249,487	\$ 2,675,999
Funds advanced to associate	1,750,000	2,400,000
Reimbursements received from associate	(2,475,000)	(2,875,000)
Transfer to investment	-	48,488
	<u>\$ 1,524,487</u>	<u>\$ 2,249,487</u>

13. DEFERRED TAX ASSET

Deferred income taxes reflects 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>2020</u>	<u>2019</u>
Property and equipment	\$ 80,975	\$ 104,307
Retirement allowance	220,349	186,681
	<u>\$ 301,324</u>	<u>\$ 290,988</u>

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

14. INVESTMENT IN ASSOCIATE

Provincial Credit Union Limited and CU PEI Investment Corp. are associates as the Credit Union owns 25% of the participating common shares of CU PEI Investment Corp. and exerts significant influence over the investee. CU PEI Investment Corp. holds loans for Co-operatives and operates in Prince Edward Island, Canada.

	<u>2020</u>	<u>2019</u>
Investment in associate - beginning of year	\$ 258,665	\$ 213,840
Proportionate share of net income	51,109	93,313
Transfer from advances	-	(48,488)
Dividends received	(125,000)	-
Investment in associate - end of year	\$ 184,774	\$ 258,665

The following is a summary of the unaudited financial information of CU PEI Investment Corp. as at, and for the years ended, December 31, 2020 and 2019:

Total assets	\$ 6,681,050	\$ 9,889,891
Current assets	1,190,513	3,064,581
Non-current assets	5,490,537	6,825,310
Total liabilities	6,153,342	9,066,616
Current liabilities	55,394	68,668
Non-current liabilities	6,097,948	8,997,948
Total revenues	363,652	484,362
Net income	269,233	373,253

The above related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The investment in associate is measured using the equity method. There are no quoted market prices for the investment available to disclose its fair value.

15. MEMBER DEPOSITS

	<u>2020</u>	<u>2019</u>
Chequing accounts	\$146,160,439	\$114,559,676
Term deposits	95,660,360	66,774,683
Call deposits	62,542,420	57,179,417
Tax Free Savings Account (TFSA) deposits	43,724,744	38,405,830
Registered Retirement Savings Plan (RRSP) deposits	40,391,960	41,660,222
Registered Retirement Income Fund (RRIF) deposits	23,158,623	21,102,925
	\$411,638,546	\$339,682,753

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

16. CONTINGENT LIABILITIES

Provincial Credit Union Limited has provided letters of credit on behalf of members in the amount of \$765,867.

17. COMMITMENT

The Credit Union has approved approximately \$2.5 million in capital expenditures for an addition and renovations to its Charlottetown branch. Construction is expected to begin in June 2021 with an expected completion date of May, 2022.

18. MEMBERS' SHARES

	Number of shares	December 31 2020	Number of shares	December 31 2019
Balance - beginning of year	14,659	\$ 73,295	14,876	\$ 74,380
Shares redeemed, net	(404)	(2,020)	(217)	(1,085)
Balance - end of year	14,255	\$ 71,275	14,659	\$ 73,295

19. OTHER INCOME

	2020	2019
Commissions	\$ 2,221,657	\$ 2,424,009
Miscellaneous	124,262	151,147
Income from significant influence investment - Note 14	51,108	93,313
Foreign exchange gain	46,568	74,902
	<u>\$ 2,443,595</u>	<u>\$ 2,743,371</u>

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

20. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 31.00% (2019 - 31.00%) to the income for the year and is reconciled as follows:

	<u>2020</u>	<u>2019</u>
Income before income taxes	\$ 3,251,235	\$ 3,199,067
Income tax expense at the combined basic federal and provincial tax rate:	\$ 1,007,883	\$ 991,711
Increase (decrease) resulting from:		
Capital cost allowance claimed in excess of amortization	(9,157)	(13,803)
Non-deductible expenses	28,378	(89,658)
Provision for loan loss reserve	44,551	52,212
Recovery of loans previously written off	12,785	12,883
Loans written off in the current year	(36,787)	(47,893)
Effective tax expense	\$ 1,047,653	\$ 905,452

The effective income tax rate is 32.22% (2019 - 28.30%).

21. CASH FLOW SUPPLEMENTARY INFORMATION

	<u>2020</u>	<u>2019</u>
Interest received	\$ 14,181,563	\$ 13,804,273
Interest paid	3,534,650	3,393,493
Income taxes paid	1,123,503	830,731
Dividends paid	256,799	256,717
Dividends received	125,000	-

22. LINE OF CREDIT AVAILABILITY

Provincial Credit Union Limited has an approved line of credit with Atlantic Central Credit Union Limited for \$10,410,000 which is due for renewal on December 31, 2021 and was not utilized at the year end. The line of credit bears an interest rate of prime less 0.5% and is secured by a general security agreement.

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

23. RELATED PARTY TRANSACTIONS

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

The Credit Union and CU PEI Investment Corp. are related parties as the Credit Union holds 20% of the outstanding Class A common shares and 25% of the Class B common shares. At the year end date, the Credit Union has loans receivable of \$1,524,487 (2019 - \$2,249,487) from CU PEI Investment Corp. The Credit Union earned interest revenue of \$21,502 (2019 - \$26,627) and recognized \$51,108 (2019 - \$93,313) income from significant influence investment during the year.

Key management personnel include the CEO 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 including only non-joint accounts are as follows:

	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 758,472	\$ 649,824
Contributions to a retirement pension plan	39,386	33,737
Mortgages, loan balances, and lines of credit due from key management at December 31	41,953	44,400
Deposit balances due to key management at December 31	261,925	120,637

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.

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

24. 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.

(a) 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.

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's policy is to pursue timely realization of the collateral in an orderly manner. The Credit Union does not generally use the non-cash collateral for its own operations. During the year, the Credit Union did take possession of collateral held as security against loans and advances and sold assets for \$4,695 (2019 - \$73,000).

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.

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 other entities or parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements the Credit Union holds as security for loans include: insurance and mortgages over residential lots and properties, recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and recourse to liquid assets, guarantees and securities. The value of collateral held against individual exposures is generally only assessed at the time of borrowing and when a specific review of that exposure is undertaken in accordance with policy.

(continues)

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

24. RISK MANAGEMENT (continued)

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

	2020	2019
Cash and cash equivalents	\$ 35,921,982	\$ 32,401,944
Investments	77,386,442	36,670,824
Accounts receivable	1,174,790	1,257,019
Member loans and mortgages, net of provision	375,523,112	339,091,153
Due from CU PEI Investment Corp.	1,524,487	2,249,487
	<u>\$ 491,530,813</u>	<u>\$ 411,670,427</u>

(b) 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 as follows:

	Under 1 year	Over 1 to 5 years	Over 5 years	Total
2020	\$ 390,994,422	\$ 66,260,787	\$ -	\$ 456,855,209
2019	\$ 294,630,233	\$ 84,394,481	\$ 21,110	\$ 379,045,824

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

The following is a maturity analysis of financial instruments on the statement of financial position that contain a current and non-current portion as of December 31, 2020:

	Under 1 year	Over 1 to 5 years	Over 5 years	Total
Investments	\$ 73,386,442	\$ 4,000,000	\$ -	\$ 77,386,442
Member loans and mortgages	\$ 82,241,890	\$ 288,335,423	\$ 4,945,799	\$ 357,923,112
Employee benefits payable	\$ 1,318,322	\$ 40,137	\$ -	\$ 1,358,459
Member deposits	\$ 345,417,896	\$ 66,220,650	\$ -	\$ 411,638,546

(continues)

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

24. RISK MANAGEMENT (continued)

(c) 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. At of December 31, 2020, the Credit Union had cash and bank balances of \$876,948 USD (2019 - \$1,334,784 USD) and member accounts of \$691,893 USD (2019 - \$1,084,110 USD).

(d) 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.

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

Before tax impact on net interest income of:	2020	2019
1% increase in interest rates	\$ 1,001,287	\$ 1,713,950
1% decrease in interest rates	\$ (2,558,382)	\$ (1,859,787)

Notes to the Financial Statements

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Provincial 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 instrument 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 readily 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 assess 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, investments in debentures and accounts receivable 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 Systems 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 difference 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

PROVINCIAL CREDIT UNION
Year Ended December 31, 2020

26. CAPITAL MANAGEMENT

Provincial 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 CEO and lending personnel within the established parameters. Total lending activities managed by the Credit Union at December 31, 2020 amounted to \$375,968,246 (2019 - \$339,469,995).

Consistent with other Prince Edward Island Credit Unions, Provincial 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>2020</u>	<u>2019</u>
Undistributed earnings	\$ 38,271,804	\$ 36,057,886
Members' shares	71,275	73,295
Total regulatory equity	38,343,079	36,131,181
Total assets	495,198,288	415,177,005
	7.74 %	8.70 %

Credit Union bylaws require Provincial Credit Union Limited to maintain sufficient liquid assets and a line of credit to meet its normal cash flow requirements. Consistent with other Prince Edward Island Credit Unions, Provincial Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain a minimum liquid asset level of 10% of total assets to ensure ongoing cash flow requirements are met.

	<u>2020</u>	<u>2019</u>
Total assets	\$495,198,288	\$415,177,005
Liquid assets	114,483,214	70,329,787
	23.12 %	16.94 %

27. SUBSEQUENT EVENTS

The recent outbreak of the Coronavirus Disease 2019, or COVID-19, has spread across the globe and is impacting worldwide economic activity. This global pandemic poses the risk that the Credit Union or its clients, employees, contractors, suppliers and other partners may be unable to conduct regular business activities for an indefinite period of time. While it is not possible at this time to estimate the impact that COVID-19 could have on the Credit Union's business, the continued spread of COVID-19 and the measures taken by the federal, provincial and municipal governments to contain its impact could adversely impact the Credit Union's business, financial condition or results of operations. The extent to which the COVID-19 outbreak impacts the Credit Union's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the spread of the virus and government actions.

Schedule to the Financial Statements

PROVINCIAL CREDIT UNION

Statement of Property and Equipment Year Ended December 31, 2020 (Schedule 1)

	Cost beginning of year	Additions	Disposals and write downs	Cost end of year	Accum amort beginning of year	Amort in the year	Disposals and write downs	Accum amort end of year	Net book value
2020									
Land	\$ 685,431	\$ 290,453	\$ -	\$ 975,884	\$ -	\$ -	\$ -	\$ -	\$ 975,884
Buildings	4,180,005	-	-	4,180,005	2,384,608	89,770	-	2,474,378	1,705,627
Equipment	1,828,314	-	-	1,828,314	1,699,118	25,840	-	1,724,958	103,356
ATMs	530,705	17,955	-	548,660	416,192	14,170	-	430,364	118,298
Computer hardware	802,884	7,224	-	810,108	796,278	5,428	-	801,706	8,402
Pavement	83,480	-	-	83,480	45,866	3,009	-	48,875	34,605
Computer software	35,263	-	-	35,263	35,263	-	-	35,263	-
Building in progress	-	45,725	-	45,725	-	-	-	-	45,725
	\$ 8,146,082	\$ 361,357	\$ -	\$ 8,507,439	\$ 5,377,325	\$ 138,217	\$ -	\$ 5,515,544	\$ 2,991,897
2019									
Land	\$ 685,431	\$ -	\$ -	\$ 685,431	\$ -	\$ -	\$ -	\$ -	\$ 685,431
Buildings	3,976,113	203,892	-	4,180,005	2,295,478	89,130	-	2,384,608	1,795,397
Equipment	1,819,522	8,793	-	1,828,315	1,667,918	31,200	-	1,699,118	129,197
ATMs	530,704	-	-	530,704	400,937	15,255	-	416,192	114,512
Computer hardware	797,055	5,829	-	802,884	792,433	3,845	-	796,278	6,606
Pavement	83,480	-	-	83,480	42,595	3,271	-	45,866	37,614
Computer software	35,263	-	-	35,263	35,263	-	-	35,263	-
	\$ 7,927,568	\$ 218,514	\$ -	\$ 8,146,082	\$ 5,234,624	\$ 142,701	\$ -	\$ 5,377,325	\$ 2,768,757

Notes 1 - 27 are an integral part of these financial statements

Schedule to the Financial Statements

PROVINCIAL CREDIT UNION

Interest Rate Sensitivity

Year Ended December 31, 2020

(Schedule 2)

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	\$ 32,097,935	\$ -	\$ -	\$ 3,824,047	\$ 35,921,982
Effective interest rate	0.52 %	- %	- %	- %	
Investments	68,020,950	4,000,000	-	5,365,492	77,386,442
Effective interest rate	0.91 %	1.45 %	- %	- %	
Accounts receivable	-	-	-	1,174,790	1,174,790
Personal and commercial loans and mortgages	76,336,322	288,335,423	4,945,799	143,662	369,761,206
Effective interest rate	3.53 %	3.35 %	4.14 %	- %	
Lines of credit and overdrafts	5,761,906	-	-	-	5,761,906
Effective interest rate	5.18 %	- %	- %	- %	
Prepaid expense	-	-	-	189,480	189,480
Property and equipment	-	-	-	2,991,897	2,991,897
Due from CU PEI Investment Corp.	-	-	1,524,487	-	1,524,487
Effective interest rate	- %	- %	1.00 %	- %	
Deferred tax asset	-	-	-	301,324	301,324
Investment in associate	-	-	-	184,774	184,774
	\$182,217,113	\$292,335,423	\$ 6,470,286	\$ 14,175,466	\$495,198,288

LIABILITIES AND MEMBERS' EQUITY

Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 351,781	\$ 351,781
Employee benefits payable	-	-	-	1,358,359	1,358,359
Income taxes payable	-	-	-	142,201	142,201
Accrued interest payable	-	-	-	1,968,653	1,968,653
Member deposits	200,138,377	66,220,650	-	145,279,519	411,638,546
Effective interest rate	1.38 %	2.10 %	- %	- %	
Share deposits	41,395,669	-	-	-	41,395,669
Effective interest rate	0.10 %	- %	- %	- %	
Members' shares	71,275	-	-	-	71,275
Effective interest rate	0.10 %	- %	- %	- %	
Undistributed earnings	-	-	-	38,271,804	38,271,804
	\$241,605,321	\$ 66,220,650	\$ -	\$187,372,317	\$495,198,288

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 could prepay earlier.

As at December 31, 2020, Provincial Credit Union Limited's net interest spread was 2.04%. 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.

Notes 1 - 27 are an integral part of these financial statements



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