

# Annual Report

# 2010



**CREDIT  
UNION**

**MALPEQUE BAY**

*Getting You There™*

# *Largest Network of Financial Institutions in Canada*



Malpeque Bay Credit Union is part of a larger network of financial institutions that make up the Credit Union System. In Canada, the Credit Union System includes 419 Canadian Credit Unions, Concentra Financial Services Association, The Co-operators Group Limited, The CUMIS Group, Credit Union Insurance Services, Credential Financial, Credential Securities Inc., CUETS Financial, League Savings and Mortgage, and the Credit Union Deposit Insurance Corporation.

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## The Credit Union System

- Over 1,700 locations across the country
- Over five million owners
- \$121.9 billion in assets
- \$109 billion in deposits
- \$99 billion in loans
- 25,000 employees
- Together, the second largest lender to small businesses in Canada.

# PEI Credit Unions

**\$450,000** The total dollars returned to Island communities through PEI Credit Unions sponsorship initiatives in 2010.

**\$28,000** The total dollars donated to health care across the Island from the iCare MasterCard program.

**9,000** The total volunteer hours dedicated to community initiatives by PEI Credit Union staff in 2010.

**Community Champion** The national award bestowed on the Credit Unions of Prince Edward Island by the Canadian Cancer Society in recognition of their financial contribution and staff commitment to the Canadian Cancer Society Relay For Life event.



## Still #1 in Customer Service

For the **sixth** year in a row, an independent survey of Canadians ranked credit unions **first** in overall quality of customer service among all financial institutions.\*

Credit unions ranked ahead of all other financial institutions in the following categories:

- Customer Service Excellence
- Values My Business
- Branch Service Excellence

Credit unions also tied for first in the following categories:

- Financial Planning & Advice
- Telephone Banking Excellence

\*The Synovate Customer Service Index (CSI) 2010 was conducted with a total of 39,000 demographically and regionally representative sample of Canadians. The Best Banking Awards for 2010 were based on the combined results of ongoing quarterly Customer Service Index surveys ended August 2010. The CSI survey has been conducted annually since 1987.

*Credit Union Firsts*

- loans based on borrower character.
- payroll deduction service for deposits and loan payments.
- open mortgages.
- financial institutions to lend to women in their own names (in the 1960s if you can believe that).
- to offer daily interest savings.
- full-service ATM network.
- home equity lines of credit.
- debit card service.
- registered education plans.
- fully functional internet banking.
- branchless bank (Citizens Bank).
- cheque imaging service.



# Brenda Montgomery

*Malpeque Bay Credit Union Owner*



# Malpeque Bay Credit Union Profile

The formation of Malpeque Bay Credit Union came from the merger of Kensington Credit Union Limited and CFB Summerside Credit Union Limited in 1981. The merger was formed because CFB Summerside Credit Union had surplus liquidity that Kensington Credit Union needed to loan out to its members. Combined total assets of the two credit unions at that time was approximately \$4 million. The name Malpeque Bay Credit Union was chosen because the two credit unions were located on either side of Malpeque Bay.

Kensington Credit Union was incorporated in 1939 and operated as a part time operation until the merger. CFB Summerside Credit Union was incorporated in 1962. The merged credit unions retained CFB Summerside's charter.

At the time of the merger, a new 1,500 sq ft building was built in Kensington on the present location to house the Kensington Branch. The credit union became a full time operation at that point and really started to build membership.

Due to the 1989 Federal budget cuts in the Defense Department, CFB Summerside was closed in 1991. Malpeque Bay Credit Union became a one branch operation. A major renovation at that time expanded the size of the Kensington premises to 3,600 sq ft. Business really started to grow at that point. Additional renovations have taken place since then to bring the total square footage over 5,200. Malpeque Bay Credit Union is now a vital part of the Kensington area community with over 5,000 owners and \$85 million in assets and assets under administration.



## *Board of Directors*

*Pictured Left to Right:*

*Matthew Sharpe*

*Vernon Campbell*

*Paul Brown*

*Leonard Russell*

*Elizabeth Kennedy-Lord*

*Kent Croken*

*Naomi Roberts*

*Bernard Jay*

*Jean Ronahan*



*“ Malpeque Bay Credit Union exists because of and for its members and our mission is to provide quality financial services that our members require and to continually strive to help improve the community we serve.”*

*- Malpeque Bay Credit Union Mission Statement*



# Robert Shields

*Malpeque Bay Credit Union Owner*





# Malpeque Bay Credit Union **Staff**

## *Pictured Standing from Left to Right:*

**Bonnie MacRae**, Commercial Teller  
**Marla Hunter**, Member Services Rep  
**Cheryl Jollimore-Reid**, Member Services Rep  
**Laurie Gallant**, Member Services Manager  
**Noelle Cole-MacEwen**, Member Services Rep  
**Mary-Ellen McCarville**, Receptionist  
**Dawn Holmes**, Commercial Administrative Clerk  
**Sharon Donald**, Administrative Clerk  
**Vickie Arsenault**, Financial Services Representative 2  
**Tracey MacEwen**, Assistant Manager  
**Susan Bourque**, Financial Services Manager  
**Nicole Paynter**, Member Services Rep  
**Noella Gaudet**, Credential Financial Strategies Administrator  
**Heather Bernard**, Financial Services Representative 1  
**Heather Mitchell**, Administrative Assistant

## *Pictured Seated from Left to Right:*

**Paul Chessman**, Credential Financial Strategies Rep  
**Roxanne Campbell**, Financial Services Representative 2  
**Marc LeClair**, Manager  
**Amyr Clark**, Financial Services Representative 1  
**Gord Coffin**, Commercial Account Manager

## *Missing from Picture:*

**Janet MacIsaac**, Drive Thru Teller  
**Patti LeClair**, Member Services Rep





# President's Report



Community is what Malpeque Bay Credit Union is all about. Your Board of Directors works hard to ensure that your credit union provides services that are relevant to individuals and businesses in our local community and ensures that any profits are funneled right back to those who generate them. We invest in our local community through loans to fishers, farmers, tourism operators and other businesses. And because we are local in nature and decisions are made on PEI, we have a good understanding of the local economy and the needs of individuals and businesses in our community.

Being governed locally has many advantages, however, because we use the term local, we are sometimes viewed as not having the sophistication of the national financial institutions ("the big banks"). This perception could not be further from the truth. Malpeque Bay Credit Union is part of a Provincial, National and even International system of credit unions and credit union partners. Through our own resources and those of our partners we have the knowledge, expertise and sophistication to handle the most complex transactions and we are able to provide the kind of advice that our owners need; advice that is in their best interests, not those of shareholders in far away places.

This past year we dealt with issues relating to the formation of an Atlantic Central. The Credit Union Central organizations in the four Atlantic provinces are joining to become an Atlantic Central. We receive support services from our Central and the joining of forces means that we will have access to the best practices of all four Atlantic Provinces. We are fully supporting this amalgamation as it will result in enhanced support services which will, in the end, benefit our owners here in Kensington and will eventually mean reduced costs.

The Board of Directors were pleased this year to declare a dividend of 1.50%. In the present low interest rate environment this is a very good rate if you compare it to the average savings account rates of .25%.

Malpeque Bay Credit Union is a vital cornerstone in the fabric of the Kensington Area community. From the over \$1.2 million in salaries paid, to the over \$55,000 donated directly back to the community each year, to the excellent service we provide to our 5,300 customer owners, our credit union leaves a substantial footprint in Kensington. It has been my honor and pleasure to have been associated with this organization and to have been its president for the past 5 years.

Vernon Campbell  
President

# Lori Clark

*Malpeque Bay Credit Union Owner*





# Manager's Report



## *Financial*

The fiscal year for Malpeque Bay Credit Union ending September 30, 2010 was very successful from a financial perspective. Net income was on par with last year, \$545 thousand compared to \$544 thousand last year. Total assets did decrease from \$79.5 million to \$76.9 million; however, this was planned and an integral part of our 2010 business plan. A combination of the low interest rate environment and our higher than desired liquidity situation were the main contributing factors in the planned decrease. We moved some of our deposit portfolio to our partner League Savings and Mortgage Company. This resulted in our investment clients getting a much better interest rate and at the same time lowered our liquidity position to a more desirable level. A win-win situation for our owners and the credit union. Hence the decrease in assets. We now have over \$8 million in referred mortgages and deposits at League Savings and Mortgage. We receive annual referral and portfolio fees for this business. These fees are expected to be in the \$70 thousand range this year.

Our wealth management business, Credential Financial, continues to grow. Assets under administration topped \$17 million this year. We are very proud of our Credential team as they continue to provide our owners with invaluable financial planning advice along with the right insurance and investment products designed to grow and preserve wealth.

## *Ownership*

We welcomed 423 new owners to Malpeque Bay Credit Union this year bringing the total number of owners to 5,326. One of the main benefits in being a credit union owner is that you can take pride in being an owner of your own financial institution in your own community. You can also take pride in the fact that your credit union invests your dollars locally for the benefit of your community.

## *Customer Service*

In today's "big box" economy where it is difficult to find a place where they make you feel unique and special as a customer, Malpeque Bay Credit Union stands out as a shining star. Our owners consistently tell us they are made to feel special and that we value their business. We pride ourselves on providing excellent service to our owners .. and why wouldn't we ... that is why we are here. From the Board of Directors on down, it is everyone's number one priority .... customer/owner service.

## *Products and Services*

We were very pleased to introduce a new service this year for the farming community called AgriInvest. Its purpose is to help farmers save under a Government sponsored stabilization program. We are also continuing to tweak our foreign exchange program to ensure owners are receiving the best exchange rates possible. Looking ahead we will be completely revamping our service charge packages this year with the goal of simplifying our product offerings and packaging items to help reduce our already competitive fees.

**Marc LeClair**  
Manager

# Financial Performance: Growth and Equity

In analyzing the financial performance of Malpeque Bay Credit Union there are two main areas that we can consider; Equity and Growth. The following is a brief explanation of these terms along with a graph that illustrates what has happened over the past ten years.

Equity is the measurement of the credit union's stability. It is the actual net worth of the credit union and is owned by its members.

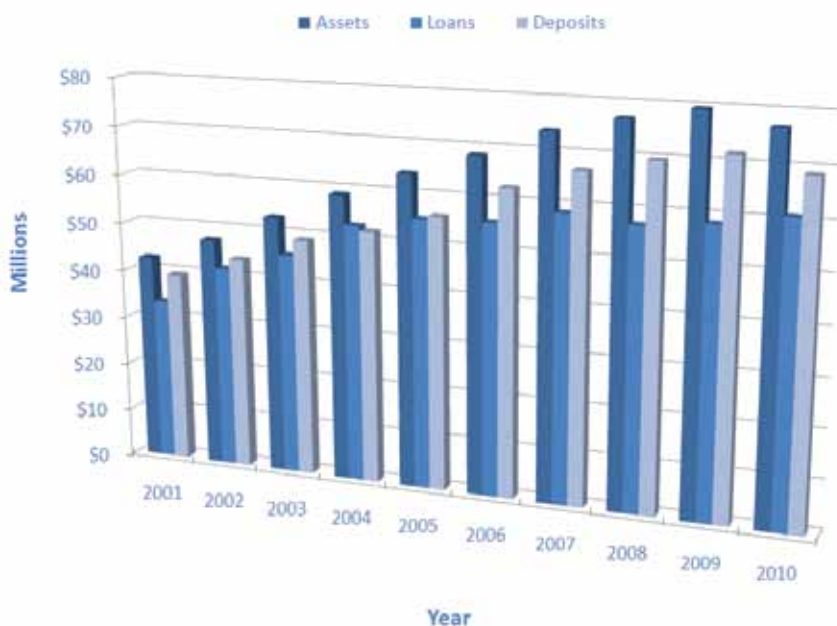
The more equity an organization has the more stable and profitable it is. We continue to grow our equity past the national standard of 5.0% of assets. Members' equity in Malpeque Bay Credit Union Ltd. as at September 30, 2010 stands at 8.88% or \$6,834,766.

## Equity



Growth is a measurement of success. It is a measurement of how the credit union is accepted in the community and of how satisfied its members are with the service offered. Growth is measured in terms of total assets, loans and deposits. Malpeque Bay Credit Union has grown from \$42.61 million in assets in 2001 to \$76.93 million in assets in 2010. In addition, we have over \$8 million in our owners' mortgages and deposits that have been referred to our partner League Savings and Mortgage. It is evident that we are well accepted in the community and members must feel they are receiving good service.

## Growth





# Donald Hunter

*Malpeque Bay Credit Union Owner*



2010 saw the global economy continue the recovery that started in 2009. Some countries, like Greece, continued to struggle, but for the most part 2010 gave investors the confidence that the economies of the world were heading in the right direction, and in many cases gave the investment opportunities they were looking for.

These came in the form of both emerging markets, like Brazil and China, and domestically here in Canada. The returns in Canada were in the 15% - 25% range, and some of the greatest returns came from the stocks of the financial companies that Canada is well known for, and that investors were the most concerned about during the early part of the recession.

This meant that Canadian investors that had stayed invested saw their portfolios return to pre-2007 values in most cases, and new investments had the opportunity in 2010 to realize some of the substantial gains that can be part of an economic recovery.

Some interesting things happened during the recent recession. People that were the most aware of the kinds of investments they were invested in seemed to emotionally handle the economic down-turn the best. They know that this kind of thing happens every few years, and although this recession has been more far-reaching than most, the same thing always happens, as the recession is followed by periods of recovery and prosperity, and you have to be invested to take advantage of this.

The financial world we work in has always done a good job of creating new products to suit our clients changing needs. This time has been no different, as products continue to come to market that are more income-oriented, and offer greater guarantees, tax effectiveness, and flexibility.

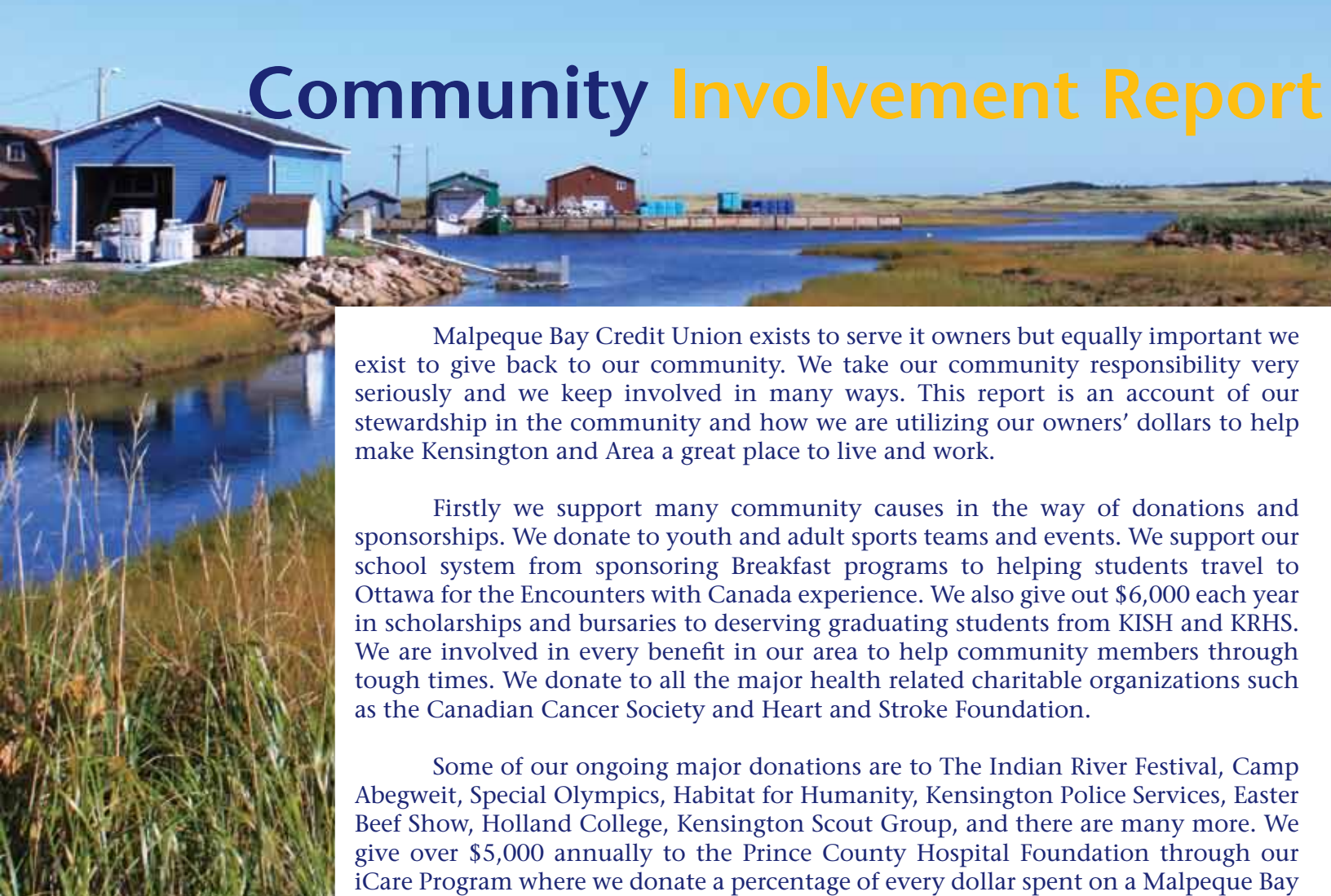
To summarize, the economies of the world will always face the challenges that come with business cycles. With these challenges though come new ways of thinking and new ideas, and from these ideas come the products that will enable the retirees of the future to have a greater variety of investment products to choose from for their RRSP's and pensions than any other generation in history.

**Paul Chessman**, CFP RHU  
Credential Financial Strategies





# Community Involvement Report



Malpeque Bay Credit Union exists to serve its owners but equally important we exist to give back to our community. We take our community responsibility very seriously and we keep involved in many ways. This report is an account of our stewardship in the community and how we are utilizing our owners' dollars to help make Kensington and Area a great place to live and work.

Firstly we support many community causes in the way of donations and sponsorships. We donate to youth and adult sports teams and events. We support our school system from sponsoring Breakfast programs to helping students travel to Ottawa for the Encounters with Canada experience. We also give out \$6,000 each year in scholarships and bursaries to deserving graduating students from KISH and KRHS. We are involved in every benefit in our area to help community members through tough times. We donate to all the major health related charitable organizations such as the Canadian Cancer Society and Heart and Stroke Foundation.

Some of our ongoing major donations are to The Indian River Festival, Camp Abegweit, Special Olympics, Habitat for Humanity, Kensington Police Services, Easter Beef Show, Holland College, Kensington Scout Group, and there are many more. We give over \$5,000 annually to the Prince County Hospital Foundation through our iCare Program where we donate a percentage of every dollar spent on a Malpeque Bay Credit Union MasterCard.

Added up, these donations and sponsorships totaled over \$55,000 this past fiscal year.

In addition, our staff Relay For Life team raised \$10,000 for the Canadian Cancer Society. Through our 50/50 draw we raised \$20,000 for the Kensington FitPlex and over \$10,000 in cash, food items, clothing and toys was donated to our Tree of Hope Campaign which helped over 50 families in our area have a better Christmas.

All told, through direct sponsorships and donations and other fundraising activities Malpeque Bay Credit Union and its staff put almost \$100,000 back into our community this past year.

Our responsibility to and involvement in the community goes beyond just money. We take community involvement very seriously to the point where it is on everyone's annual performance appraisal. Our employees and directors are all community minded. We provide leadership in many community organizations such as New London Community Complex, Harvest Festival and Winter Carnival events, Chamber of Commerce, Town Council, Habitat for Humanity, Special Olympics, Church organizations and so on. In all, our employees and directors donated 1940 hours of their time last year to help make our community a better place.

*Malpeque Bay Credit Union is pleased to announce our  
2010 scholarship and bursary recipients;  
all the best in your future endeavors!*



**Caitlin Clark**

*Attending the University of PEI  
Recipient of \$1,500.00*

**Dakota Dawson**

*Attending Holland College  
Recipient of \$1,500.00*



**Nathan Lawless**

*Attending the University of PEI  
Recipient of \$1,500.00*

**Kathleen Murphy**

*Attending the University of PEI  
Recipient of \$1,500.00*



**Derek Profitt**

*Attending the Nova Scotia Agricultural  
College  
Recipient of \$1,500.00*





# Mike James

*Malpeque Bay Credit Union Owner*





October 8, 2010

## **Auditors' Report**

### **To the Members of Malpeque Bay Credit Union, Limited**

We have audited the balance sheet of **Malpeque Bay Credit Union, Limited** as at September 30, 2010 and the statements of earnings, undistributed income and cash flows for the year then ended. These financial statements are the responsibility of the company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*ArsenaultBestCameronEllis*

**Chartered Accountants**



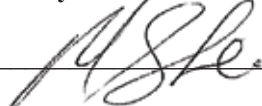
# Malpeque Bay Credit Union, Limited

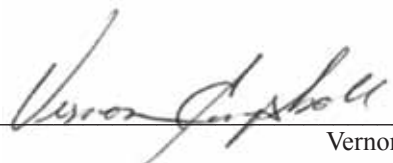
## Balance Sheet

As at September 30, 2010

	2010 \$	2009 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and equivalents	1,154,259	796,583
Current accounts	6,183,821	10,800,138
Loans and mortgages (note 3)	60,950,656	58,555,743
Accrued loan interest receivable	303,438	344,947
Prepaid expenses and other	124,933	155,825
Income taxes receivable	119,029	48,082
	68,836,136	70,701,318
<b>Property and equipment</b> (note 4)	958,024	1,037,690
<b>Investments</b> (note 5)	7,140,561	7,831,735
	76,934,721	79,570,743
<b>Liabilities</b>		
<b>Current liabilities</b>		
Member deposits (note 6)	68,764,962	71,713,839
Loan payable	-	150,000
Accrued interest payable	663,601	845,996
Other liabilities (note 8)	671,569	571,268
	70,100,132	73,281,103
<b>Contingent liability</b> (note 7)		
<b>Members' Equity</b>		
<b>Undistributed income</b>	6,834,589	6,289,640
	76,934,721	79,570,743

Approved by the Board of Directors

 Director  
Matthew Sharpe

 Director  
Vernon Campbell

# Malpeque Bay Credit Union, Limited

## Statement of Undistributed Income

For the year ended September 30, 2010

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	2010 \$	2009 \$
<b>Undistributed income - Beginning of year</b>	6,289,640	5,745,533
Net earnings for the year	544,949	544,107
<b>Undistributed income - End of year</b>	<u>6,834,589</u>	<u>6,289,640</u>



# Malpeque Bay Credit Union, Limited

## Statement of Earnings

For the year ended September 30, 2010

	2010 \$	2009 \$
<b>Revenue</b>		
Loan interest	3,477,444	3,716,519
Investment	285,066	473,416
Service fees	418,114	430,332
Commissions	383,223	351,916
Other income	46,758	43,981
	<u>4,610,605</u>	<u>5,016,164</u>
<b>Expenses</b>		
Staff	1,296,603	1,136,794
Premises	123,127	123,449
Insurance	124,239	118,594
Office	97,990	107,869
Service fees	507,001	501,306
General	208,372	243,127
Cost of capital	1,236,269	1,689,854
	<u>3,593,601</u>	<u>3,920,993</u>
<b>Operating earnings</b>	<u>1,017,004</u>	<u>1,095,171</u>
<b>Other expense</b>		
Provision for Community Involvement Reserve (note 8)	-	50,000
Share dividends	139,361	108,777
Provision for loan losses	220,466	161,030
	<u>359,827</u>	<u>319,807</u>
	657,177	775,364
<b>Provision for current income taxes</b>	<u>112,228</u>	<u>231,257</u>
<b>Net earnings for the year</b>	<u>544,949</u>	<u>544,107</u>

# Malpeque Bay Credit Union, Limited

## Statement of Cash Flows

For the year ended September 30, 2010

	2010 \$	2009 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the year	544,949	544,107
Items not affecting cash		
Amortization	85,392	84,977
Provision for loan losses	220,466	161,030
	850,807	790,114
Net change in non-cash working capital items		
Decrease (increase) in accrued loan interest receivable	41,509	(81,118)
Decrease in prepaid expenses and other	30,892	125,135
Decrease (increase) in income taxes receivable	(70,947)	46,247
Decrease in Credit Union deposits	-	(3,000,000)
Decrease in accrued interest payable	(182,395)	(134,252)
Increase (decrease) in other liabilities	100,301	(62,725)
	770,167	(2,316,599)
<b>Financing activities</b>		
Repayment of loan payable	(150,000)	-
Increase (decrease) in member deposits	(2,948,877)	5,026,892
	(3,098,877)	5,026,892
<b>Investing activities</b>		
Increase in loans and mortgages	(2,615,379)	(1,449,653)
Decrease in Community Involvement Reserve	-	(7,756)
Purchase of property and equipment	(5,726)	(107,340)
Decrease (increase) in investments	691,174	(2,788,186)
	(1,929,931)	(4,352,935)
<b>Decrease in net cash</b>	(4,258,641)	(1,642,642)
<b>Net cash - Beginning of year</b>	11,596,721	13,239,363
<b>Net cash - End of year</b>	7,338,080	11,596,721
<b>Net cash consists of</b>		
Cash and equivalents	1,154,259	796,583
Current accounts	6,183,821	10,800,138
	7,338,080	11,596,721
<b>Supplementary disclosure</b>		
Interest paid	1,449,248	1,759,730
Interest received	3,804,019	4,121,689
Dividends paid	108,777	173,152
Dividends received	468	948
Income taxes paid	231,257	279,339
Income taxes received	48,082	94,329



# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2010

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## 1 General

The Malpeque Bay Credit Union, Limited is incorporated under the Prince Edward Island Credit Unions Act. Its principal business activities include financial and banking services for credit union members.

## 2 Summary of significant accounting policies

### Loans and mortgages

Loans and mortgages are stated at the principal amount less allowances established to recognize estimated credit exposure and impairment.

### Provision for impaired loans

A loan is classified as impaired when, in management's opinion, it is prudent to establish a provision against a certain loan for which the timely and full collection of the loan may be questionable. This provision is determined in two manners, specific provisions and general provisions.

#### Specific provision

Specific provisions are established on an individual facility basis to recognize expected credit losses. The specific provision is the amount that is allocated to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is either the fair value of any security underlying the loan, net of expected costs of realization and any amount legally required to be paid by the borrower.

#### General provision

A general provision is established to absorb credit losses attributable to the deterioration of credit quality within major portfolios for which specific provisions have not been established. The amount of the general provision is determined through analysis of individual accounts in regard to their potential collectibility. The determination of the amount of the general provision also considers the current state of the general economy and related industries. The general provision reflects management's estimate of potential exposure existing in the portfolio but such exposure is not specifically identifiable. The general provision does not necessarily represent future losses or serve as a substitute for specific provisions.

The provision for credit losses is maintained at an amount considered adequate to absorb estimated credit-related losses. The provision for credit losses reflects management's best estimate of the impairment existing in the 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 provision for credit losses currently recognized. The provision is increased by a charge to "provision for credit losses" which is a charge to income and reduced by write-offs net of recoveries.

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

September 30, 2010

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### Property and equipment

Land is carried at cost. All other property and equipment are carried at cost less accumulated amortization. Amortization is calculated using the declining balance method as follows:

Building	5%, 10%
Furniture, equipment and computers	20%, 30%, 45%, 55%
Pavement	8%

Certain equipment is being amortized using the straight-line method over five years.

### Investments

Investments in securities that are classified as held-to-maturity are valued at cost or amortized cost, adjusted to recognize impairment other than a temporary impairment in the underlying value.

Investments in securities that are classified as available for sale are initially recognized at acquisition cost and subsequently re-measured at fair value at each reporting date. The fair value of publicly traded securities is based on their quoted market prices. All other securities' fair value is determined by discounting the expected future cash flows at current market rates. When the fair value of the security cannot be reliably measured, it will be recorded at cost.

### Revenue recognition

#### *Loan interest*

Interest accrued on loans is recognized in income except where a loan is classified as impaired. A loan is classified as impaired when a specific provision has been established, a write-off taken or when, in the opinion of management, there is a reasonable doubt as to the ultimate collectibility of principal or interest. Interest received on an impaired loan is recognized in income only if there is no longer doubt as to the collectibility of the carrying value of the loan, otherwise, the interest is credited to the principal. Loans are generally returned to accrual status when all delinquent principal and interest payments are brought current and the timely collection of both principal and interest is reasonably assured.

#### *Investment and other income*

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

#### *Service fees*

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

#### *Commissions*

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

# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2010

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## Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions mainly considering values that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. It is reasonably possible that changes in future conditions could require a material change in the recognized amounts.

## Market value

Quoted market prices are not available for a portion of Malpeque Bay Credit Union, Limited's financial instruments. Consequently, market values presented are estimates derived using redemption values, present values or other valuation techniques which may not be indicative of the net realizable value.

## Risk management policies

Management's risk management policies are informal and are typically performed as a part of the overall management of the entity's operations. Management's close involvement in operations identifies risks and variations from expectations leading to changes in risk management activities and requirements and actions. Management has not entered into hedging transactions to manage risk. As a part of the overall management of the entity's operations, management informally considers avoidance of undue concentrations of risk, and may require collateral to mitigate credit risk. These policies and procedures are unchanged from the prior year.

## Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the average monthly exchange rate.

## Credit risk

Credit risk is the risk that a borrower will fail to meet principal and interest obligations. Malpeque Bay Credit Union, Limited is exposed to credit risk through its loans and mortgages, and mitigates its exposure to this risk through strict adherence to credit granting and monitoring policies and procedures. These policies include requiring collateral be pledged proportionate to the size and term of the loan and mortgage.

## Currency risk

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



# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2010

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## Financial instruments

### Fair value of financial instruments

The fair value of Malpeque Bay Credit Union, Limited's financial instruments are derived using the valuation methods and assumptions described below. The estimated fair values disclosed do not reflect the value of items that are not considered financial instruments, such as property and equipment. Since many of Malpeque Bay Credit Union, Limited's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

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

- (a) the fair values of cash and equivalents, current accounts, accrued loan interest receivable, loan payable, accrued interest payable and other liabilities are assumed to approximate book values due to their short-term nature.
- (b) The amortized cost of floating rate loans and mortgages and members deposits are assumed to equal book value as the interest rates automatically reprice to market.
- (c) The amortized cost of fixed rate loans, mortgages and fixed rate deposits is determined by discounting the expected future cash flows of these loans and deposits at the current market rates for products with similar terms and credit risks.
- (d) The fair value of available for sale investments cannot be reliably measured, therefore, they are recorded at cost.

### The entity classifies financial instruments using the following criteria:

#### *Loans, mortgages and receivables*

Malpeque Bay Credit Union, Limited classifies non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand, usually with interest, as loans, mortgages and receivables.

#### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the intention and ability to hold to maturity.

#### *Available for sale*

Available for sale financial assets are those non-derivative financial assets that have been so designated or have not been classified as loans, mortgages, receivables or held to maturity investments.

# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2010

## 3 Loans and mortgages

	2010				2009	
	Total \$	Impaired Loans \$ (included in total)	General Provision \$	Specific Provision \$	Net \$	Net \$
Personal	17,779,997	211,292	42,062	24,622	17,713,313	17,012,321
Business	24,291,220	2,901,197	42,062	583,181	23,665,977	21,522,521
Mortgage	10,297,928	175,190	42,061	35,190	10,220,677	10,762,131
Lines of credit and overdrafts	8,672,033	1,682	-	1,682	8,670,351	8,993,756
League Savings and Mortgage	680,338	-	-	-	680,338	265,014
	61,721,516	3,289,361	126,185	644,675	60,950,656	58,555,743

*Continuity of provision for impaired loans*

	2010 \$	2009 \$
<b>Provision for impaired loans - Beginning of year</b>	632,378	646,044
Add: Recoveries during the year	27,925	1,112
Provision for loan losses	220,466	161,030
Less: Amounts written off during the year	(109,909)	(175,808)
<b>Provision for impaired loans - End of year</b>	<u>770,860</u>	<u>632,378</u>

*Mortgages and other loans*

Mortgages are secured by realty mortgages with interest rates of 3.3% - 6.7%. Other loans are priced at market rates unless circumstances warrant special considerations. The loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities.

*Malpeque Bay Credit Union, Limited's prime lending rate*

Malpeque Bay Credit Union, Limited's prime lending rate is set by the Board of Directors based on the prime interest rate of chartered banks in Canada. The rate as at September 30, 2010 was 3.25% (2009 - 3.25%).

# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2010

## 4 Property and equipment

	2010		2009	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	87,066	-	87,066	87,066
Building	1,321,624	606,016	715,608	753,183
Furniture, equipment and computers	1,087,957	939,694	148,263	189,738
Pavement	16,767	9,680	7,087	7,703
	<u>2,513,414</u>	<u>1,555,390</u>	<u>958,024</u>	<u>1,037,690</u>

## 5 Investments

	2010 Amortized Cost \$		2009 Amortized Cost \$	
<i>Held to maturity:</i>				
Liquidity reserve deposit		4,775,000		4,632,000
Debentures		<u>1,702,027</u>		<u>2,554,052</u>
		<u>6,477,027</u>		<u>7,186,052</u>
	2010		2009	
	Fair Value \$	Cost \$	Fair Value \$	Cost \$
<i>Available for sale:</i>				
Credit Union Central shares	612,878	612,878	595,027	595,027
League Savings & Mortgage shares	23,596	23,596	23,596	23,596
League Data shares	27,060	27,060	27,060	27,060
	<u>663,534</u>	<u>663,534</u>	<u>645,683</u>	<u>645,683</u>
Total investments		<u>7,140,561</u>		<u>7,831,735</u>



# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

September 30, 2010

In order to meet Credit Union national standards, Malpeque Bay Credit Union, Limited is required to maintain on deposit in Credit Union Central of Prince Edward Island an amount equal to 6% of prior year assets. The deposit bears interest at a variable rate.

No market exists for shares of Credit Union Central of Prince Edward Island except that they may be surrendered on withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a Malpeque Bay Credit Union, Limited by-law providing for the redemption of its share capital.

All other equities with no specified maturity date are classified as available for sale. As there is no market value for the shares in Co-operatives, the fair value of the shares is estimated at amortized cost.

### *Debentures*

Debentures are invested with the League Savings and Mortgage Company, and are carried at cost. These debentures have the following maturity dates and rates of return:

Amount \$	Rate of Return	Maturity
<u>1,702,027</u>	1.10%	December 16, 2010

## 6 Member deposits

	2010 \$	2009 \$
Share accounts (notes 9 and 13)	10,978,799	9,889,912
Savings and Plan 24	15,573,089	14,474,386
Chequing accounts	10,132,377	10,237,717
Term deposits	13,451,568	18,191,423
RRSP and RRIF	<u>18,629,129</u>	<u>18,920,401</u>
	<u>68,764,962</u>	<u>71,713,839</u>

*Share accounts* include the \$5 membership share plus individual members' deposits.

*Share accounts* pay a dividend 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 2010 was 1.5% (2009 - 1.5%) based on the minimum monthly share balance throughout the year.

*Savings and Plan 24* are on a call basis and earn interest at various rates.

*Chequing accounts* are on a call basis and pay interest at Malpeque Bay Credit Union, Limited's stated rates.

Outstanding *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.

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

September 30, 2010

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Fixed *term deposits* bear interest at various rates and extend for a term of up to 5 years.

### *RRSP and RRIF*

Concentra Financial is the trustee for the registered savings plans offered to owners. Under an agreement with the trust company, owner's contributions to the plans, as well as income earned on them, are deposited in the credit union. On withdrawal, payment of the plan proceeds is made to owners, or the parties designed by them, by the credit union, on behalf of the trust company. RRSP and RRIF term deposits bear interest at various rates.

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

## 7 Contingent liability

	2010 \$	2009 \$
(a) Outstanding guarantees on behalf of members	265,000	537,000
(b) In 2009, all student loans issued by the company were transferred to Consolidated Credit Union Ltd. However, Malpeque Bay Credit Union, Limited remains as guarantor on these loans. The loan balance as at September 30, 2010 was \$872,409 (2009 - \$1,081,129).		

Included in the loans and mortgages balance is a general provision of \$11,756 (2009 - \$50,000) relating to the student loan guarantees.

## 8 Community Involvement Reserve Payable

	2010 \$	2009 \$
Balance - Beginning of year	153,673	161,429
Transfer from Operating Income	-	50,000
Expenditures	(54,918)	(57,756)
Balance - End of year	98,755	153,673

The Community Involvement Reserve payable is included in other liabilities.

## 9 Share accounts

Unlimited membership shares, with a par value of \$5 each, non-transferable, redeemable by Malpeque Bay Credit Union, Limited, retractable by shareholders subject to Malpeque Bay Credit Union, Limited's right to suspend redemption, if the redemption would impair the financial stability of Malpeque Bay Credit Union, Limited, 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. Dividends are payable at the discretion of the Board of Directors.

# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2010

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## 10 Income taxes

Malpeque Bay Credit Union, Limited has an unrecognized future income tax benefit of \$248,768 (2009 - \$38,658). The unrecognized future income tax benefit is as a result of \$759,597 (2009 - \$308,034) of timing differences available to reduce taxable income in future years.

## 11 Line of credit availability

In 2010, Malpeque Bay Credit Union, Limited had an approved line of credit with Credit Union Central of Prince Edward Island of \$10,000,000. As of September 30, 2010, the line of credit was not being utilized.

## 12 Related party transactions

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

## 13 Regulatory equity

Malpeque Bay Credit Union, Limited has agreed to maintain an equity level equal to 5% of the total assets.

In accordance with the recommendations of the Canadian Institute of Chartered Accountants related to the financial statement presentation of financial instruments, the ownership shares are presented in the balance sheet as financial liabilities. At September 30, 2010, the equity level for regulatory purposes is as follows:

	2010 \$	2009 \$
Ownership shares	26,630	25,980
Members' equity	6,834,589	6,289,640
Total regulatory equity	6,861,219	6,315,620
Total assets	76,934,721	79,570,743
Equity level	8.9%	7.9%



# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2010

## 14 Interest rate sensitivity

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

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
<b>Assets</b>					
Cash and equivalents	-	-	-	1,154,259	1,154,259
Short-term deposits	6,183,821	-	-	-	6,183,821
Effective interest rate	1%				
Investments	7,140,561	-	-	-	7,140,561
Effective interest rate	1.85%				
Loans and mortgages	35,684,385	16,515,237	169,523	-	52,369,145
Effective interest rate	5.29%	6.48%	6.23%		
Lines of credit and overdrafts	8,672,033	-	-	-	8,672,033
Effective interest rate	5.29%	-	-		
League Savings & Mortgage reverse MOP program	80,396	599,942	-	-	680,338
	2.94%	5.32%			
General risk on loan portfolio	-	-	-	(770,860)	(770,860)
Accrued loan interest receivable	-	-	-	303,438	303,438
Income taxes receivable	-	-	-	119,029	119,029
Prepaid expenses	-	-	-	124,933	124,933
Property and equipment	-	-	-	958,024	958,024
<b>Total assets</b>	<b>57,761,196</b>	<b>17,115,179</b>	<b>169,523</b>	<b>1,888,823</b>	<b>76,934,721</b>
<b>Liabilities and surplus</b>					
Member deposits	39,961,791	17,824,372	-	-	57,786,163
Effective interest rate	1.39%	3.28%			
Share deposits	10,978,799	-	-	-	10,978,799
Effective interest rate	1.5%				
Accrued interest payable	-	-	-	663,601	663,601
Accounts payable and accrued liabilities	-	-	-	671,569	671,569
Undistributed earnings	-	-	-	6,834,589	6,834,589
<b>Total liabilities and surplus</b>	<b>50,940,590</b>	<b>17,824,372</b>	<b>-</b>	<b>8,169,759</b>	<b>76,934,721</b>
<b>Interest rate sensitivity gap</b>	<b>6,820,606</b>	<b>(709,193)</b>	<b>169,523</b>	<b>(6,280,936)</b>	<b>-</b>

As at September 30, 2010, Malpeque Bay Credit Union, Limited's net interest spread was 3.14% (2009 - 3.02%). 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.

# David Boucher

*Malpeque Bay Credit Union Owner*





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