



2011 Annual Report



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 Canadian Credit Union System

- Over **1,700** locations
- Over **five million** members
- **\$121.9 billion** in assets
- **\$109 billion** in deposits
- **\$99 billion** in loans
- **25,000** employees

Credit Unions in Atlantic Canada

- Total amount of system assets:
\$3.9 Billion
- Total number of credit unions:
60
- Total points of service:
170
- Total number of members:
335,398
- Total number of employees:
1,600



Ranked 1st in *Customer Service Excellence* for the 7th consecutive year

For the seventh 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) 2011 was conducted with a total of 40,353 demographically and regionally representative sample of Canadians. The Best Banking Awards for 2011 were based on the combined results of ongoing quarterly Customer Service Index surveys ended August 2011. The CSI survey has been in existence since 1987.



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 at our 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 5,200 members and \$85 million in assets and assets under administration.

Board of Directors

From left to right:

Paul Brown

Matthew Sharpe

Kent Croken

Jean Ronahan

Barbara Mayhew

Naomi Howard

Vernon Campbell

Leonard Russell

Bernard Jay



“ 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



Malpeque Bay Credit Union Staff

From Left to Right in the Front Row:

Bonnie MacRae – *Central Teller*
 Susan Bourque – *Financial Service Manager*
 Laurie Gallant – *Member Service Manager*
 Cheryl Jollimore-Reid – *Member Service Rep*
 Vickie Arsenault – *Financial Service Rep*
 Marla Hunter – *Member Service Rep*
 Janet MacIsaac – *Member Service Rep*
 Noelle Cole-MacEwen – *Member Service Rep*
 Mary Ellen McCarville – *Receptionist*
 Sharon Donald – *Administration*
 Nicole Paynter – *Member Service Rep*
 Tracey MacEwen – *Assistant Manager*
 Noella Gaudet – *Branch Administration Officer*

Danica Robertson – *Lending Administrator*

Ambyr Clark – *Financial Service Rep*

Roxanne Campbell – *Financial Service Rep*

From Left to Right in the Back Row:

Heather Bernard – *Financial Service Rep*

Paul Chessman – *Credential Financial Planner*

Gord Coffin – *Commercial Account Manager*

Marc LeClair – *Manager*

Jan Haakman – *Member Service Rep*



President's Report

It is my pleasure to report on behalf of the Board of Directors of Malpeque Bay Credit Union. This past year has been a busy one for the Board. The following are some of the highlights from the past year.

Atlantic Central

Effective December 31, 2010 the three Atlantic Credit Union Centrals came together to form the Atlantic Central. This is a great step forward and will benefit credit unions and their members in the years to come. We can now combine best practices from the four provinces to give credit union members even better service and advice that will empower them to make the right financial decisions as they move through their lifetime. As well, Atlantic Central will have more influence when it comes to national credit union initiatives because of the increased volumes of the four combined provinces. Atlantic Central was not conceived and formed to save money but this will surely become a reality over the next few years as a result of economies of scale. The amalgamation is very much a win, win scenario for Atlantic credit unions and their members.

This initiative has taken up much time of the Board of Directors both in the stages leading up to the amalgamation and during the aftermath where we are engaged in helping to decide the best direction for Atlantic Central to go in the future. In all our discussions and deliberations it is, of course, always our members' best interests we have in mind.

Governance

The Board approved a new lending policy this year that addresses today's borrowing needs for our members. We formed committees to deal with areas such as our community investment initiatives and our Personnel Policy. We received reports from both the inspector of credit unions and our auditors, both of which were very satisfactory. Director training is, and always will be, an ongoing activity and I am pleased to report that seven of our nine directors have completed the Credit Union Director Achievement Program with the other two very close to completion. During the year the Board was represented at the National Credit Union Conference as well as three Atlantic Central regional meetings. The Board also held a day and a half planning session from which a balanced scorecard was produced which will drive the activities of our credit union for the next couple of years.

Community Investment Program

One of the issues the Board dealt with this year was our community investment program, and in particular, how much of what we do is communicated to our members and the community at large. We often do not "blow our own horn" and as a result much of what we do in the community goes unnoticed. The





Community Involvement Report in this booklet touches on some of the things we do but the message must be conveyed on an ongoing basis so that the community is made continually aware of how their credit union is making a difference. We will be working on this in the years to come. I personally have a much greater appreciation of what kind of impact the credit union makes in our community since being on the Board. I think it would be beneficial for others to know that as well.

Dividend

In closing, it is my pleasure to announce that the Board of Directors have declared a dividend of 2%. This is calculated on the minimum monthly balance in members' share accounts throughout the year and was paid on October 4th. This is a very attractive rate of interest when you consider the average interest rate for savings accounts is .25%.

Bernard Jay
President

Manager's Report

Financial

The fiscal year for Malpeque Bay Credit Union ending September 30, 2011 was very successful from a financial perspective. Net income was \$466 thousand compared to \$544 thousand last year. The decrease was as a result of lower margins stemming from much lower investment rates, however, we were on target with our budget and still well above profitability standards. Total assets increased 1.4% from \$76.9 million to \$78.0 million. In addition to our asset base we now have over \$10 million in referred mortgages and deposits at League Savings and Mortgage and Concentra Financial. We also have over \$19 million in assets under administration through our wealth management partner Credential Financial along with approximately \$2 million in written insurance premiums. Equity increased from \$6.8 million (8.9% of assets) to \$7.3 million (9.4% of assets) this year. This is well in excess of the 5% statutory requirement and right on target with the 10% goal the Board of Directors have set for the year 2015.



Ownership

We welcomed 378 new members to Malpeque Bay Credit Union this year bringing the total number of members to 5200. One of the main benefits in being a credit union member/owner is that you can take pride in being an owner of your own financial institution in your own community. Members can also take pride in the fact that their credit union invests their dollars locally for the benefit of their community.

Customer Service

For the seventh year in a row, an independent survey of Canadians ranked credit unions first in overall quality of customer service among financial institutions. Credit Unions also ranked ahead of all other financial institutions in the categories of "Customer Service Excellence", "Values My Business" and "Branch Service Excellence". Our own customer service survey (completed August 2011) certainly validates the national results. We had an excellent score of 93 which is highest since we began doing surveys in 2000. Service excellence is our goal and continually exceeding our members' expectations is how we strive to reach that goal.

Products and Services

We introduced two new services this year to make it more convenient for members to transact business. The first is Mobile Web Banking. Now members can view their accounts, transfer funds, pay bills, view interest rates and receive messages all through their mobile device. The second is Interac e-Transfers where

members can transfer money to anyone with an email address or mobile phone number without giving out any of their personal information. Members can initiate e-Transfers using either On-Line Banking or Mobile Web Banking.

Partnerships

We have developed two new partnerships this past year. The first is with Co-op Fuels. Through this special partnership Malpeque Bay Credit Union members will receive a three or four percent rebate on their home heating fuel. Co-op Fuels now delivers to all of our service area. The other partnership is with Johnson Insurance who have offices in Charlottetown. Malpeque Bay Credit Union members will now have access to preferred home and auto insurance rates through a special credit union group plan. Just another way we are trying to help our members save money in these challenging times.

Closing

It is with great pride and humility that I look upon our organization. From the great vision and leadership of the Board of Directors to our wonderful dedicated and knowledgeable staff to all the things we do in our community to make it a better place for our members to live, Malpeque Bay Credit Union is truly a very important part of the fabric of the Kensington Area community.

Marc LeClair
General Manager







Credential Financial Strategies Report

As I read my review of the markets from last year's Annual Report, I realized how much it appears on the surface to be like the situation we are still in. I talked about how some countries like Greece continue to struggle. I talked about the opportunities in Emerging Markets, and above all, no matter how difficult it is at times, you need to be invested in the markets to take advantage of growth opportunities when they arise.

Investing today (and going forward) is going to be more challenging than we are used to. Many of us grew up with guaranteed rates of return on our Term Deposits that seem unbelievable in today's environment. I remember as recently as 10 years ago guaranteed rates of return were in the 7% range, and Canadian Mutual Funds always seemed to make money as their underlying stocks of large Canadian corporations paid large dividends to their shareholders seemingly year after year. I think we need to accept the fact that there have been some changes though, and they are very likely here to stay.

First of all, I think that low guaranteed investment rates will be here for a while. The reasons for this are simple: governments need to keep interest rates low to stimulate sluggish economies by encouraging people to borrow, and the lending business today is extremely competitive. This competition has driven rates down, and the rates financial institutions give you for your deposits are directly tied to the rates they charge you when you borrow.

Secondly, I believe the volatility in the markets is the "new normal". Many of the issues being discussed on the news every night that are causing the turmoil in the financial markets have been that way for years. The difference now is that our insatiable appetite for news coupled with social media is causing knee jerk reactions that directly influence the markets.

The end result going forward could very well force us to "pick our poison"... low guaranteed rates that struggle to keep up with inflation on the one hand, and on the other market volatility that can be very stressful.

In closing I want to finish on a couple of positive points: firstly, the solution to maximize most peoples portfolios is usually a mix that combines guaranteed and fluctuating investments, so no-one has to have any more exposure to the markets than their comfort levels allow, and secondly some new products are now available that offer the guarantees that some people are looking for.

Always remember that volatility creates opportunity!

Paul Chessman, CFP, CHS

Certified Financial Planner / Certified Health Insurance Specialist

Credential Financial Strategies



Investing In Our Community - *Community Involvement Report*

Malpeque Bay Credit Union believes in social responsibility and takes pride in our community and in supporting various organizations and causes in the Kensington and Area.

Over \$55,000.00 in donations was made during this fiscal year and our staff has donated over 2,300 volunteer hours to various organizations, committees and events.

Education is very important to us and this past year we awarded \$7,500.00 in scholarships and bursaries. Two scholarships and two bursaries were awarded to students at Kensington Intermediate Senior High School and a scholarship and bursary was awarded to students at Kinkora High School. Funding was also provided to 8 students who attended the Terry Fox Youth Center in Ottawa. Additional donations were made to the Safe Prom and Safe Grad Programs.

As well, Malpeque Bay Credit Union has partnered with PEI Credit Unions in donating \$200,000.00 to Holland College. On November 9th, the cafeteria at the Charlottetown campus has been renamed the Credit Union Café.

Malpeque Bay Credit Union continues to support our youth programs including Junior Achievement, Minor Hockey, Minor Softball, Soccer, Basketball, Bowling and 4H clubs. Our sponsorship also allowed two students to attend the Atlantic Co-operative Youth Leadership Seminar which was held in Canoe Cove from April 14-17th.

Province wide donations were made to the Special Olympics, Muscular Dystrophy, Easter Seals, Red Oak



Shrine Club, Crohn's & Colitis Foundation, Summerside Food Bank, CNIB and our staff fundraised and bowled in the Big Brothers Big Sisters – Bowl for Kids Sake.

Each January, MBCU is the major sponsor of the Kensington and Area Figure Skating Club Championship and in February, the Kensington and Area Winter Carnival Children's Day. In March we host the Malpeque Bay Credit Union St. Patrick's Day fun spiel at the Silver Fox Curling and Yacht Club in Summerside and in the fall we support the Kensington and Area Chamber of Commerce Business Awards.

Annually, donations are made to the Prince County Hospital Foundation Lights for Life Campaign, the Indian River Festival, the Emerald Junction Summerfest Music Festival and the Kensington Scout Group Committee. Donations were also made to various benefits and church suppers.

For the past 5 years our staff has been involved in fundraising, volunteering at bank nights and participating in the Relay For Life. This year, Island Credit Unions are extending their Provincial Sponsorship for the Relay For Life for another 5 years.

During the Kensington Area Harvest Festival our staff looks forward to dressing up and participating in the parade, manning our booth and cheering on our contestant in the Miss Community Gardens pageant.

By investing in our community, Malpeque Bay Credit Union continues its commitment to supporting our members, community groups and organizations and "to continually strive to help improve the community we serve".



Investing in

Your Credit Union and Holland College share a strong passion for continued community development. Together, we are proud to feature the Credit Union Café, a central area in the Prince of Wales Campus for students to congregate, learn, socialize and, of course, eat.

"From our earliest beginnings, credit unions have been intrinsically tied to the idea of community education. In fact, many credit unions began as 'study groups', learning community economic concepts and cooperative principles, often over kitchen tables. Of course, the kitchen table image is particularly relevant in this case, and we hope as students gather over the tables in the Credit Union Café, the results of their conversations will be

as far-reaching and important as those of our forebearers. In fact, we have every confidence they will be." - Sarah Millar, Credit Union Manager's Association

Our commitment to our youth's future extends beyond donations and includes scholarships, special rates, services, advice, and products.



n the future of our youth

Malpeque Bay Credit Union is pleased to announce our 2011 scholarship and bursary recipients; *all the best in your future endeavors!*



Mathew Hannah
Holland College



Sherilynne
Montgomery
Memorial University



Taylor Baglole
St. Thomas University



Zachary Thomson
Holland College



Brittany Noonan
Oulton College



Josh Adams
St. Thomas University



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October 24, 2011

Auditors' Report

To the Members of Malpeque Bay Credit Union, Limited

We have audited the accompanying financial statements of **Malpeque Bay Credit Union, Limited**, which comprise the balance sheet as at September 30, 2011 and the statements of earnings, undistributed income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Malpeque Bay Credit Union, Limited** as at September 30, 2011, 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

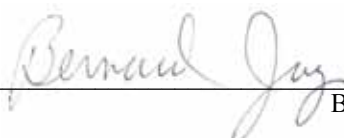
Balance Sheet

As at September 30, 2011

	2011 \$	2010 \$
Assets		
Current assets		
Cash and equivalents	1,276,219	1,154,259
Current accounts	6,264,826	6,183,821
Loans and mortgages (note 3)	61,431,442	60,950,656
Accrued loan interest receivable	295,196	303,438
Prepaid expenses and other	114,072	124,933
Income taxes receivable	42,728	119,029
	<u>69,424,483</u>	<u>68,836,136</u>
Property and equipment (note 4)	925,284	958,024
Investments (note 5)	<u>7,661,105</u>	<u>7,140,561</u>
	<u>78,010,872</u>	<u>76,934,721</u>
Liabilities		
Current liabilities		
Member deposits (note 6)	68,877,217	68,764,962
Accrued interest payable	634,406	663,601
Other liabilities	<u>1,198,070</u>	<u>671,569</u>
	70,709,693	70,100,132
Contingent liability (note 7)		
Members' Equity		
Undistributed income	<u>7,301,179</u>	<u>6,834,589</u>
	<u>78,010,872</u>	<u>76,934,721</u>

Approved by the Board of Directors

 Director
Matthew Sharpe

 Director
Bernard Jay

 ArsenaultBestCameronEllis
CHARTERED ACCOUNTANTS

Malpeque Bay Credit Union, Limited

Statement of Undistributed Income

For the year ended September 30, 2011

	2011 \$	2010 \$
Undistributed income - Beginning of year	6,834,589	6,289,640
Net earnings for the year	466,590	544,949
Undistributed income - End of year	7,301,179	6,834,589

Malpeque Bay Credit Union, Limited

Statement of Earnings

For the year ended September 30, 2011

	2011 \$	2010 \$
Revenue		
Loan interest	3,430,009	3,477,444
Investment	121,385	285,066
Service fees	429,423	418,114
Commissions	422,001	383,223
Other income	30,511	46,758
	<u>4,433,329</u>	<u>4,610,605</u>
Expenses		
Staff	1,247,288	1,296,603
Premises	133,995	123,127
Insurance	127,286	124,239
Office	99,419	97,990
Service fees	511,890	507,001
General	293,121	208,372
Cost of capital	1,058,194	1,236,269
	<u>3,471,193</u>	<u>3,593,601</u>
Operating earnings	<u>962,136</u>	<u>1,017,004</u>
Other expense		
Share dividends	194,746	139,361
Provision for loan losses	231,300	220,466
	<u>426,046</u>	<u>359,827</u>
	536,090	657,177
Provision for current income taxes	<u>69,500</u>	<u>112,228</u>
Net earnings for the year	<u>466,590</u>	<u>544,949</u>

Malpeque Bay Credit Union, Limited

Statement of Cash Flows

For the year ended September 30, 2011

	2011 \$	2010 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the year	466,590	544,949
Items not affecting cash		
Amortization	77,689	85,392
Provision for loan losses	231,300	220,466
	<u>775,579</u>	<u>850,807</u>
Net change in non-cash working capital items		
Decrease in accrued loan interest receivable	8,242	41,509
Decrease in prepaid expenses and other	10,861	30,892
Decrease (increase) in income taxes receivable	76,301	(70,947)
Decrease in accrued interest payable	(29,195)	(182,395)
Increase in other liabilities	526,501	100,301
	<u>1,368,289</u>	<u>770,167</u>
Financing activities		
Repayment of loan payable	-	(150,000)
Increase (decrease) in member deposits	112,255	(2,948,877)
	<u>112,255</u>	<u>(3,098,877)</u>
Investing activities		
Increase in loans and mortgages	(712,086)	(2,615,379)
Purchase of property and equipment	(44,949)	(5,726)
Decrease (increase) in investments	(520,544)	691,174
	<u>(1,277,579)</u>	<u>(1,929,931)</u>
Increase (decrease) in net cash	<u>202,965</u>	<u>(4,258,641)</u>
Net cash - Beginning of year	<u>7,338,080</u>	<u>11,596,721</u>
Net cash - End of year	<u>7,541,045</u>	<u>7,338,080</u>
Net cash consists of		
Cash and equivalents	1,276,219	1,154,259
Current accounts	6,264,826	6,183,821
	<u>7,541,045</u>	<u>7,338,080</u>
Supplementary disclosure		
Interest paid	1,142,775	1,449,248
Interest received	3,559,636	3,804,019
Dividends paid	139,361	108,777
Dividends received	468	468
Income taxes paid	112,228	231,257
Income taxes received	119,028	48,082

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2011

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 certain loans 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, 2011

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%, 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 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, 2011

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, fair 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, 2011

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, 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.

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2011

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.

Future accounting changes

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS), effective for Malpeque Bay Credit Union, Limited's 2012 fiscal year.

Malpeque Bay Credit Union, Limited will present its IFRS opening balance sheet as at October 1, 2010 which represents the first day of the earliest comparative period to be included in its 2012 financial statements. As at that date, Malpeque Bay Credit Union, Limited will record adjustments to amounts reported on its Canadian GAAP balance sheet to reflect the balance which would have been presented had IFRS always been used. Differences between Canadian GAAP and IFRS will be debited or credited to undistributed income as appropriate. The 2011 comparatives will be presented under IFRS standards as well.

The impact of transitioning to IFRS is undetermined at this time but the areas expected to have the most significant impact are financial instruments and note disclosure to the financial statements.

3 Loans and mortgages

	2011				2010	
	Total \$	Impaired Loans \$ (included in total)	General Provision \$	Specific Provision \$	Net \$	Net \$
Personal	19,049,773	172,081	39,909	28,959	18,980,905	17,713,313
Business	24,795,541	2,654,814	39,909	549,710	24,205,922	23,665,977
Mortgage	9,182,530	40,457	39,909	37,975	9,104,646	10,220,677
Lines of credit and overdrafts	8,517,857	8,909	39,908	6,890	8,471,059	8,670,351
League Savings and Mortgage	668,910	-	-	-	668,910	680,338
	62,214,611	2,876,261	159,635	623,534	61,431,442	60,950,656

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Continuity of provision for impaired loans

	2011 \$	2010 \$
Provision for impaired loans - Beginning of year	770,860	632,378
Add: Recoveries during the year	1,214	27,925
Provision for loan losses	231,300	220,466
Less: Amounts written off during the year	(220,205)	(109,909)
Provision for impaired loans - End of year	<u>783,169</u>	<u>770,860</u>

Mortgages and other loans

Mortgage loans are secured by realty mortgages with interest rates of 3.3% - 7.39%. 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, 2011 was 3.25% (2010 - 3.25%).

4 Property and equipment

	2011		2010	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	87,066	-	87,066	87,066
Building	1,341,363	642,866	698,497	715,608
Furniture, equipment and computers	1,113,167	979,966	133,201	148,263
Pavement	16,767	10,247	6,520	7,087
	<u>2,558,363</u>	<u>1,633,079</u>	<u>925,284</u>	<u>958,024</u>

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2011

5 Investments

		2011 Amortized Cost \$		2010 Amortized Cost \$
<i>Held to maturity:</i>				
Liquidity reserve deposit		4,606,034		4,775,000
Debentures		<u>1,711,104</u>		<u>1,702,027</u>
		<u>6,317,138</u>		<u>6,477,027</u>
	Fair Value \$	2011 Cost \$	Fair Value \$	2010 Cost \$
<i>Available for sale:</i>				
Credit Union Central shares	246,461	246,461	612,878	612,878
League Savings & Mortgage shares	23,596	23,596	23,596	23,596
League Data shares	27,060	27,060	27,060	27,060
Atlantic Central shares	<u>1,046,850</u>	<u>1,046,850</u>	<u>-</u>	<u>-</u>
	<u>1,343,967</u>	<u>1,343,967</u>	<u>663,534</u>	<u>663,534</u>
Total investments		<u>7,661,105</u>		<u>7,140,561</u>

In order to meet Credit Union national standards, Malpeque Bay Credit Union, Limited is required to maintain on deposit in Atlantic Central an amount equal to 6% of the prior quarter's assets. The deposit bears interest at a variable rate.

No market exists for shares of Credit Union Central of Prince Edward Island and Atlantic Central 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.

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2011

Debentures

Debentures are invested with the Atlantic Central, and are carried at cost. These debentures have the following maturity dates and rates of return:

Amount \$	Rate of Return	Maturity
<u>1,711,104</u>	1.17%	December 12, 2011

6 Member deposits

	2011 \$	2010 \$
Share accounts (notes 8 and 12)	10,846,477	10,978,799
Savings and Plan 24	17,568,212	15,573,089
Chequing accounts	10,249,134	10,132,377
Term deposits	11,995,234	13,451,568
RRSP and RRIF	18,218,160	18,629,129
	<u>68,877,217</u>	<u>68,764,962</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 2011 was 2.0% (2010 - 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.

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.

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2011

7 Contingent liability

	2011 \$	2010 \$
(a) Outstanding guarantees on behalf of members	162,000	265,000
(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, 2011 was \$113,760 (2010 - \$872,409).		

Included in the loans and mortgages balance is a general provision of \$42,500 (2010 - \$11,756) relating to the student loan guarantees.

8 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.

9 Income taxes

Malpeque Bay Credit Union, Limited has an unrecognized future income tax benefit of \$234,678 (2010 - \$248,768). The unrecognized future income tax benefit is as a result of \$750,968 (2010 - \$759,597) of timing differences available to reduce taxable income in future years.

10 Line of credit availability

In 2011, Malpeque Bay Credit Union, Limited had an approved line of credit with Atlantic Central of \$10,000,000. As of September 30, 2011, the line of credit was not being utilized.

11 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.

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2011

12 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, 2011, the equity level for regulatory purposes is as follows:

	2011 \$	2010 \$
Ownership shares	26,035	26,630
Members' equity	7,301,179	6,834,589
Total regulatory equity	7,327,214	6,861,219
Total assets	78,010,872	76,934,721
Equity level	9.4%	8.9%

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2011

13 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 \$
Assets					
Cash and equivalents	-	-	-	1,276,219	1,276,219
Short-term deposits	6,264,826	-	-	-	6,264,826
Effective interest rate	0.80%				
Investments	7,661,105	-	-	-	7,661,105
Effective interest rate	1.54%				
Loans and mortgages	31,296,703	21,656,283	74,858	-	53,027,844
Effective interest rate	4.96%	6.26%	5.55%		
Lines of credit and overdrafts	8,517,857	-	-	-	8,517,857
Effective interest rate	5.21%	-	-		
League Savings & Mortgage reverse MOP program	-	668,910	-	-	668,910
		4.68%			
General risk on loan portfolio	-	-	-	(783,169)	(783,169)
Accrued loan interest receivable	-	-	-	295,196	295,196
Income taxes receivable	-	-	-	42,728	42,728
Prepaid expenses	-	-	-	114,072	114,072
Property and equipment	-	-	-	925,230	925,230
Total assets	53,740,491	22,325,193	74,858	1,870,276	78,010,818
Liabilities and surplus					
Member deposits	44,211,074	13,819,666	-	-	58,030,740
Effective interest rate	1.39%	2.58%			
Share deposits	10,846,477	-	-	-	10,846,477
Effective interest rate	2.0%				
Accrued interest payable	-	-	-	634,406	634,406
Accounts payable and accrued liabilities	-	-	-	1,198,070	1,198,070
Undistributed earnings	-	-	-	7,301,179	7,301,179
Total liabilities and surplus	55,057,551	13,819,666	-	9,133,655	78,010,872
Interest rate sensitivity gap	(1,317,060)	8,505,527	74,858	(7,263,379)	(54)

As at September 30, 2011, Malpeque Bay Credit Union, Limited's net interest spread was 3.13% (2010 - 3.14%). The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year-end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year-end interest bearing liabilities.





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