

ANNUAL REPORT

2013



**CREDIT
UNION**

MALPEQUE BAY



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FIRST in Customer Service

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

We 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

* Ipsos 2013 Best Banking Awards are based on ongoing quarterly Customer Service Index (CSI) survey results. The sample source for CSI is from the Ipsos Online Global Opinion Panel for Canada, using online data collection. Sample size for the total 2013 CSI program year ended August 2013 was 45,875 completed surveys yielding 69,268 financial institution ratings. The sample is representative of the general household population based on Statistics Canada census data.

Matthew Sharpe

Barbara Mayhew

Kent Croken

Bernard Jay



Our Mission

"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."

Leonard Russell

Paul Brown

Jean Ronahan

Naomi Howard

Board of
Directors



President's Report

2013 was a very interesting year. Interest rates continued to remain low with little evidence that they will rise in the near future benefitting our borrowing members. The credit market continues to heat up worrying the government as the average debt to income ratio is at an all time high. Stock markets continue to do well despite slower than anticipated growth and the continued uncertainty in Europe. Business consolidation in the credit union sector continued at a steady pace with mergers and amalgamations both regionally, nationally and internationally. The Atlantic Credit Union system, and indeed credit unions all across the country, are considering changes to their operating model in light of increasing operating costs and decreasing margins. Credit Unions were named, for the ninth year in a row, as having the best customer service among all financial institutions in Canada by Ipsos® Best Banking Awards. Closer to home, Malpeque Bay Credit Union continues to do well with good growth and profitability and a continued strong emphasis on customer service and community involvement.

Credit Union Consolidation

In the face of ever increasing regulation and oversight and struggling with higher operating costs and lower margins Atlantic Canada's Credit Unions are collectively looking at different operating models to remain competitive in the future financial services landscape. Credit Union mergers and amalgamations across the region continue and strengthen the overall credit union system. The recent amalgamations of Evangeline Credit Union in Wellington and Central Credit Union in O'Leary and also the amalgamation between Metro Credit Union in Charlottetown and Stella Maris Credit Union in Rustico are examples of local consolidations. These amalgamations strengthen the credit union system and are a positive move forward. The challenge is to maintain emphasis on local communities. That challenge is being met head on and is a cornerstone principal to any PEI Credit Union amalgamation.

Dividend

I am pleased to announce, on behalf of the Board of Directors, that we have declared a 1.50% dividend for the fiscal year ended September 30, 2013. It was paid to members' share accounts on October 4th. The dividend percentage is equivalent to a three year term deposit rate.

Bernard Jay
President



Governance

It was a very busy year for the Board of Directors.

Throughout the year Malpeque Bay Credit Union was represented by the directors at various Provincial, Regional and National meetings and conferences. Now that we are part of an Atlantic Central, most travel goes beyond our provincial boundaries thereby increasing expense and increasing the time burden on our directors.

I am pleased to report that all of our directors have graduated from the Credit Union Director Achievement Program, a comprehensive training program dealing with all aspects of corporate governance. This is a very involved and time consuming course and I applaud the tremendous effort that our individual directors put into graduating.

We received reports, during the year, from different regulatory bodies that provide oversight on our operations. We were very pleased that all reports point to the fact that we have a very strong, stable and well run organization.

Community Investment Program

Malpeque Bay Credit Union has a very robust community investment program. As you can see in the community investment report we are very involved in our communities not only from a monetary standpoint but as well from a human capital investment. Our directors and staff volunteer countless hours to our community organizations along with making annual monetary investments in excess of \$100,000. This is what makes a credit union unique from other financial institutions ... our sense of community. Credit Unions are for the most part rural based and we feel it is very important to help ensure that rural PEI continues to thrive and be vibrant. And we do it on behalf of our member/owners, the ones who live and work in our communities.

Closing

I would personally like to extend sincere appreciation to my fellow directors for their dedication and professionalism. We have a very strong and diverse Board. Also, our Manager and staff work tirelessly to provide the excellent service that our members receive on a day to day basis and a very special thank you goes to them.

Bernard Jay

President

Manager's Report

Financial

The fiscal year for Malpeque Bay Credit Union ending September 30, 2013 was very successful from a financial perspective. Net income was \$643 thousand last year. Total assets increased 4.75% from \$86.1 million to \$90.1 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 \$20 million in assets under administration through our wealth management partner Credential Financial along with approximately \$2 million in written insurance premiums. Equity increased from \$8.2 million (9.55% of assets) to \$8.9 million (9.83% 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 currently have 5149 individual share accounts that translate into approximately 3500 unique member/owners (some individuals have more than one share account). That is 30 – 40 percent of the population in our service area.

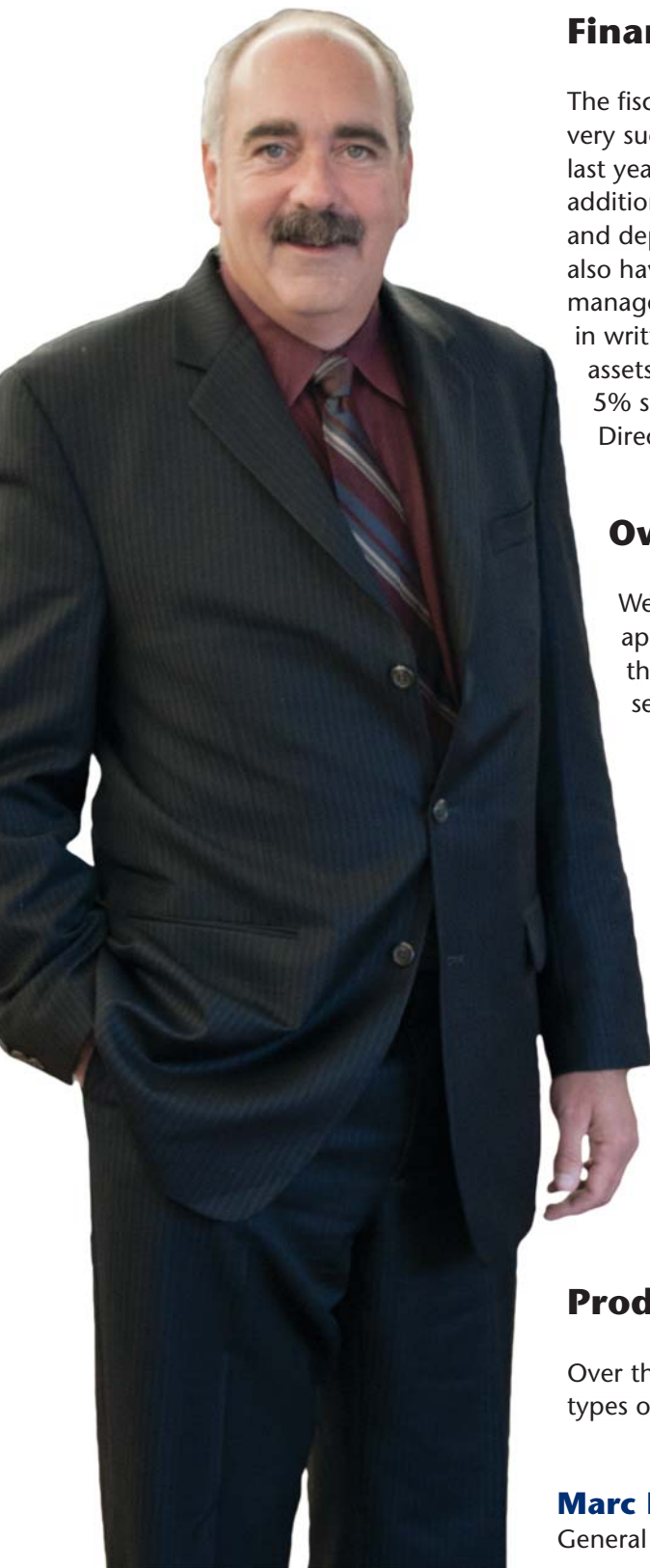
Customer Service

For the ninth 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 (just completed August 2013) certainly validates the national results. We had an excellent score of 93 which means that 93% of our members are satisfied or extremely satisfied in the overall service they receive from their credit union. Service excellence is our goal and continually exceeding our members' expectations is how we strive to reach that goal.

Products and Services

Over the past year we have done a considerable amount of research into what types of savings and transaction accounts would benefit our members the

Marc LeClair
General Manager



most. We think that we have developed a very user friendly and cost effective suite of new accounts and we are excited to announce that they will be rolled out the first of the year and available to all members. Members will have a new choice of “spending accounts” (formerly called chequing accounts) and a choice of new savings accounts at very attractive interest rates. Members can continue to operate the accounts they presently have, however, it is our hope that they will see the extra benefits offered by the new accounts and take advantage of them.

We know that convenience is the key when dealing with a financial institution and it is our intention to be first to market with emerging trends and services that will be available over the next couple of years. New ways to pay such as “Interac on-line” and “Mobile Payment”. The ability to take a picture of a cheque with your smartphone and deposit it to your account. We are also working on and improving all our channels of access such as Mobile Banking, ATM functionality, MemberDirect, our Web Site, and in branch contact. We know it is important for our members to access their credit union when and how they want and we are working hard to ensure that all channels are consistent and easy to access.

Youth and the Future of our Credit Union

The PEI Credit Union system has long ago recognized that our youth are our future. The past couple of years a considerable amount of money and resources has gone into developing products, services and programs that are relevant to today’s youth. We want the credit union to be their first choice in where to deal. We have hired a “youth ambassador” to go out and spread the word to the youth in our communities and show them the innovative things that the credit union has to offer them. We are rolling our new youth program out in the new year and we expect it to be tremendously successful and really resonate with the youth in our communities.

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

Investing in Our Community

This year Malpeque Bay Credit Union added four new questions to the Member Service Survey that was mailed out to over 2500 members. The questions related to how well the members felt Malpeque Bay Credit Union was doing in the area of Social Responsibility.

Social Responsibility is defined “as a theory that compels individuals and groups to act in a way that benefits the greater good of the society.” For a business to be Socially Responsible means contributing to the growth and well-being of the community.

This past fiscal year donations of over \$75,000 were made to our Community and area.

Our commitment to Holland College continued with our annual donation of over \$4,000., benefiting students attending Holland College all across P.E.I.

Each year scholarships and bursaries are awarded to Grade 12 graduates who plan on attending a post secondary institution. Two scholarships and one bursary were awarded to KISH students and one scholarship and one bursary was awarded to KRHS students. Each award was valued at \$1500.

Additionally, donations were made to the KISH Grade 12 after prom Safe Grad activity and also the Safe Grad Program. Thirteen students from KISH attended the Terry Fox Center in Ottawa and a donation was given to each student. Eleven students had an opportunity to attend the Nike High School Invitational Track & Field Competition in Toronto and Malpeque Bay Credit Union was able to help them with their travelling expenses.

Regarding our younger students, this past June our staff hosted a luncheon for the Queen Elizabeth Elementary School Grade 6 graduation class, as well our Credit Union purchased two bicycles for the Kensington Police Bike Rodeo. Ensuring that our youth have a safe place to play a donation of \$5,000 was awarded to the QEES Playground Equipment Fund. Donations were also made to the P.E.I. 4-H Council, the French River 4-H Club, the Town of Kensington Fishing Derby, Camp Abegweit, Camp Triumph, the Kensington Scout Group, the First Kensington Girl Guides, the Junior Achievement Program of P.E.I., and many more.

Several sporting teams in the area benefited from our Donations – the Women’s Orthodox softball team, the Men’s Orthodox softball team and this year we were able to help purchase team uniforms for the Kensington Crusaders Bantam AAA baseball team. Also, Malpeque Bay Credit Union is a sweater sponsor of the Kensington Vipers Jr. Hockey team and a sponsor of the Kensington Granites. As well, MBCU is the major sponsor of the Harvest Festival Road Race, the Kensington Area Figure Skating Club Ice Show and the St Patrick’s Curling Funspiel.

Our commitment to the Scales Pond Restoration Project continued with our second donation of \$2,500. This project will help to re-establish walking trails and also allow for wheelchair accessible fishing platforms.

MBCU partnered with the Kensington North Watersheds Association who this year selected to work on the Southwest River in Burlington. Our donation will help with the work required in order to allow the Spring Valley Brook to return to a natural flowing stream by restoring fish passage and good wildlife habitat.

For the past seven years Malpeque Bay Credit Union has been involved with the Canadian Cancer Relay for Life. Although P.E.I. Credit Unions are the title sponsor of this event, our Credit Union Staff fundraises throughout the year and this year raised almost \$3,000 for this worthwhile cause.

Our Credit Union continues its commitment to the Prince County Hospital by way of the Lights for Life Campaign with its annual donation of \$3,000. Also, a donation was made to the Prince County Hospital through our MasterCard iCare

program in an amount of \$1,308.51. Every time you use your Malpeque Bay Credit Union MasterCard a percentage of the proceeds are donated to the Prince County Hospital.

We were pleased to provide funding to the Emerald Junction Summerfest and also the Indian River Festival Youth Legacy Program. As well, we sponsored the Kensington Art Gallery with the "Paint the Shed" program enabling artists to display a variety of murals on the sides of the shed.

Each year a couple of our staff oversees the Christmas Tree of Hope Campaign. This program helps to ensure that children in the Kensington and area really do enjoy a Merry Christmas. We are extremely thankful to our members and businesses for their donations of toys, knitted wear, clothing and cash donations all together amounting to over \$10,000 a year.

And as for our staff their commitment to our community is immeasurable. Our staff has contributed over 1400 volunteer hours to various organizations, activities and local events such as working at Camp Triumph, The Kensington & Area Winter Carnival, Relay for Life, The Kensington and Area Harvest Festival, Church Suppers and benefits held throughout the area.

Malpeque Bay Credit Union is very proud to be a part of the Kensington Community and of the accomplishments we have made this past year to our members and organizations. We truly believe in giving back to our Community and adhering to the true definition of Social Responsibility.

Investing in Our Youth

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.

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

Congratulations to our **2013** Scholarship and Bursary Recipients.

				
Michaela Harris Saint Mary's U. \$1,500 Scholarship	Johanna Reid St. Thomas \$1,500 Scholarship	Mikayla Clark U.P.E.I. \$1,500 Bursary	Jett Roberts Holland College \$1,500 Bursary	Jessica Smith Memorial U. \$1,500 Scholarship

All the best in **your future** endeavors!

focused on me

 **CREDIT UNION**
MALPEQUE BAY



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October 28, 2013

Independent Auditor's 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 statement of financial position as at September 30, 2013, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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, 2013, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ArsenaultBestCameronEllis

Chartered Accountants

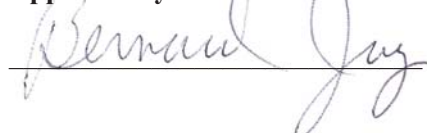
Malpeque Bay Credit Union, Limited

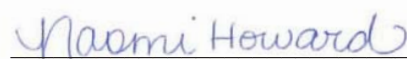
Statement of Financial Position

As at September 30, 2013

	2013 \$	2012 \$
Assets		
Cash and equivalents	7,464,853	14,201,412
Loans and mortgages (notes 7 and 18)	71,704,612	64,286,545
Prepaid expenses and other (note 8)	217,910	183,320
Property and equipment (note 9)	820,373	892,803
Investments (note 10)	9,709,928	6,270,395
Deferred income taxes (note 14)	232,525	219,525
	<u>90,150,201</u>	<u>86,054,000</u>
Liabilities		
Member deposits (notes 7, 11 and 18)	80,093,797	76,560,053
Accrued interest payable	497,001	596,472
Other liabilities	676,983	595,350
Income taxes payable	13,982	77,119
	<u>81,281,763</u>	<u>77,828,994</u>
Members' Equity		
Undistributed income	<u>8,868,438</u>	<u>8,225,006</u>
	<u>90,150,201</u>	<u>86,054,000</u>

Approved by the Board of Directors


 Director


 Director

Malpeque Bay Credit Union, Limited

Statement of Changes in Members' Equity

For the year ended September 30, 2013

	2013 \$	2012 \$
Undistributed income - Beginning of year	8,225,006	7,535,857
Net earnings for the year	643,432	689,149
Undistributed income - End of year	8,868,438	8,225,006

Malpeque Bay Credit Union, Limited

Statement of Comprehensive Income

For the year ended September 30, 2013

	2013 \$	2012 \$
Revenue		
Loan interest (note 18)	3,369,298	3,419,283
Investment (note 18)	289,683	199,375
CUCPEI dividend	-	376,257
Service fees	432,244	437,499
Commissions	350,117	335,107
Other income	30,909	28,861
	<u>4,472,251</u>	<u>4,796,382</u>
Expenses		
Staff (note 17)	1,237,270	1,358,099
Premises	66,908	72,054
Insurance	129,661	126,594
Office	53,781	65,642
Service fees	541,267	522,768
General	413,609	356,247
Cost of capital	888,129	940,244
Amortization	83,772	83,855
	<u>3,414,397</u>	<u>3,525,503</u>
Operating earnings	<u>1,057,854</u>	<u>1,270,879</u>
Other expense		
Share dividends	186,821	268,201
Provision for loan losses	80,000	151,757
	<u>266,821</u>	<u>419,958</u>
	<u>791,033</u>	<u>850,921</u>
Provision for (recovery of) income taxes		
Current (note 14)	160,601	146,619
Deferred income taxes (note 14)	(13,000)	15,153
	<u>147,601</u>	<u>161,772</u>
Net earnings for the year	<u>643,432</u>	<u>689,149</u>

Malpeque Bay Credit Union, Limited

Statement of Cash Flows

For the year ended September 30, 2013

	2013 \$	2012 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the year	643,432	689,149
Items not affecting cash		
Amortization	83,772	83,855
Provision for loan losses	80,000	151,757
Deferred income taxes	(13,000)	15,153
	794,204	939,914
Net change in non-cash working capital items		
Increase in loans and mortgages	(7,498,067)	(2,789,685)
Decrease (increase) in prepaid expenses and other	(34,590)	8,773
Decrease in income taxes receivable	-	42,728
Increase in member deposits	3,533,744	7,682,836
Decrease in accrued interest payable	(99,471)	(11,609)
Increase (decrease) in income taxes payable	(63,137)	77,119
Increase (decrease) in other liabilities	81,633	(629,045)
	(3,285,684)	5,321,031
Investing activity		
Purchase of property and equipment	(11,342)	(51,374)
Decrease (increase) in investments	(3,439,533)	1,390,710
	(3,450,875)	1,339,336
Increase (decrease) in cash	(6,736,559)	6,660,367
Cash - Beginning of year	14,201,412	7,541,045
Cash - End of year	7,464,853	14,201,412
Supplementary disclosure		
Interest paid	906,221	1,051,633
Interest received	3,593,075	3,514,979
Dividends paid	268,201	194,746
Dividends received	31,938	421,732
Income taxes paid	223,738	69,500
Income taxes received	-	42,728

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2013

1 General information

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

The Credit Union's head office is located in Kensington, Prince Edward Island.

2 Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These financial statements have been approved for issue by the Board of Directors on October 28, 2013.

(b) Basis of measurement

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in note 3.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments that have the most significant effect on the amounts recognized in the financial statements are detailed in note 4.

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2013

3 Summary of significant accounting policies

(a) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between cost in the functional currency at the beginning of the period, and the cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on the translation are recognized in the statement of comprehensive income.

(b) Financial instruments

i) Recognition and measurement

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued. At initial recognition, the Credit Union classifies its financial instruments as follows:

- Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL through the statement of comprehensive income are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term, if so designated by management or it is a derivative that is not designated and not effective as a hedging instrument.

Financial assets carried at fair value through the statement of comprehensive income are initially recognized, and subsequently carried at fair value, with changes recognized in the statement of comprehensive income. Transaction costs are expensed.

Assets in this category include cash and equivalents and investments in the liquidity reserve deposit.

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2013

- Held to maturity investments

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has the positive intent and ability to hold to maturity, and which are not designated as at FVTPL or as available for sale.

Held to maturity investments are carried at amortized cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held to maturity investments would result in the reclassification of all held to maturity investments as available for sale, and would prevent the Credit Union from classifying investment securities as held to maturity for the current and the following two financial years. However sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- ◆ Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value
- ◆ Sales or reclassifications after the Credit Union has collected substantially all of the asset's original principal
- ◆ Sales or reclassifications attributable to non-recurring isolated events beyond the Credit Union's control that could not have been reasonably anticipated.

Assets in this category include investments in term deposits.

- Available for sale ("AFS")

Available for sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available for sale investments are recognized initially at fair value plus transactions costs, and are subsequently carried at fair value, other than the Credit Union's investment in certain shares as their fair value cannot be reliably measured. Upon such time that their fair value can be reliably measured, the carrying amount of these financial assets will be adjusted to fair value. Gains and losses arising from remeasurement are recognized in other comprehensive income.

Dividends or distributions on available for sale investments are recognized in the statement of comprehensive income as investment income, when the Credit Union's right to receive payment is established.

Assets in this category include investments in credit union and co-operative type shares.

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2013

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recorded at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

Assets in this category include loans and mortgages.

- Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

Liabilities in this category include member deposits, accrued interest payable, and other liabilities.

ii) Impairment of financial assets

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

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as conditions that correlate with defaults in the group.

- Financial assets classified as loans and receivables

For the purposes of individual evaluation of impairment, the amount of the impairment loss on a loan or receivable is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. The calculation of the carrying value reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2013

For the purposes of a collective evaluation of impairment, financial assets are categorized on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The Credit Union adjusts the inputs to its collective allowance methodology on an ongoing basis, taking into account factors such as historical loss experience and adjusting for current observable data that did not impact the period which the historical loss experience was based on. Estimates of changes in future cash flows from groups of assets reflects and are directionally consistent with changes in related observable data from period to period.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off after all the necessary procedures have been completed and the amount of loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in provision for loan loss expense.

Loans that were past due and either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are not considered to be past due but are treated as new loans. In subsequent years, if the loan becomes past due, this will be disclosed only if renegotiated again.

- Assets classified as available for sale

At each statement of financial position date, the Credit Union assesses if there is objective evidence that an AFS financial asset or a group of AFS financial assets may be impaired. A significant or prolonged decline in the fair value of an AFS security below its costs is considered objective evidence in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is reclassified from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed.

(c) Cash and equivalents

Cash and equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Malpeque Bay Credit Union, Limited

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(d) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost can be measured reliably. Repairs and maintenance costs are charged to expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated using the declining balance method at the following annual rates:

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

Depreciation of some computer equipment is calculated using the straight-line method over 5 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were identified as impaired as at September 30, 2013.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds to the net book value of the asset and are presented as a gain or loss on disposal in the statement of comprehensive income.

(e) Revenue recognition

i) Loan interest

Interest on loans and mortgages is recognized on an amortized cost basis using the effective interest rate method. The effective rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan and mortgage to the net carrying amount of the loan and mortgage. When estimating the future cash flows the Credit Union considers all contractual terms of the loan and mortgage excluding any future credit losses. The calculation includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium or discounts. Mortgage prepayment fees are recognized in income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the expected remaining term of the original mortgage using the effective interest rate method. All interest is recognized on an accrual basis.

ii) Investment and other income

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

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iii) Service fees

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

iv) Commissions

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

(f) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly to equity.

i) Current income tax

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

ii) Deferred income tax

Deferred tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(g) Related parties

A related party is a person or an entity that is related to the Credit Union.

A person or a close member of that person's family is related to the Credit Union if that person:

- i) Has control or joint control over the Credit Union, with the power to govern the Credit Union's financial and operating policies;
- ii) Has significant influence over the Credit Union, participating in financial and operating policy decisions, but not control over these policies; or

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iii) Is a member of the key management personnel of the Credit Union. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director of the Credit Union.

(h) Standards issued but not yet effective

As at September 30, 2013, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these financial statements. These changes are not expected to have a material impact on the financial statements.

(i) Capital disclosures

The Credit Union considers its capital to be its members' equity. The Credit Union's objectives when managing its capital are to safeguard its ability to continue as a going concern in order to provide services to its members. Capital is under the direction of the Board with the objective of minimizing risk and ensuring adequate liquid investments are on hand to meet the Credit Union's national standards.

4 Critical accounting estimates and judgments

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

(a) Provision for loan losses

The Credit Union regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of members in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

(b) Estimated useful lives of property and equipment

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

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(c) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using specific valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments. Where market observable data inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. To the extent practical, models use only observable data.

For investments in co-operatives and credit unions, consideration was given as to whether or not par value was equal to redemption value and whether the co-operative or credit union had the right to redeem those shares at their discretion. To the extent that the redemption value of those shares is equal to their par value, then these shares will also be designated as AFS at fair value with fair value equal to (or in the case of potential impairment, less than) par value. In certain cases, the fair value of co-operative or credit union investments exceeds par value when applying a discounted cash flow method of valuation and using market rates of return for similar investments available in public markets. Despite fair value exceeding par value, these investments are reported at par value on the basis that they are not liquid investments and have a limited number of potential purchasers. Where fair value cannot be reliably measured, these investments are recorded at cost.

(d) Income taxes

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

5 Risk management

The Credit Union's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market and operational risk. Authority for all risk-taking activities rests with the Board, which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Credit Union manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

(a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Credit Union's commercial and consumer loans and advances, and loan commitments arising from such lending activities.

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Credit risk is the single largest risk for the Credit Union's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is done by management who report to the Board.

The Credit Union's maximum exposure to credit risk at the reporting date in relation to each class of recognized financial asset is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities or parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements the credit union holds as security for loans include (i) insurance and mortgages over residential lots and properties, (ii) recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and (iii) recourse to liquid assets, guarantees and securities. The value of collateral held against individual exposures is generally only assessed at the time of borrowing and when a specific review of that exposure is undertaken in accordance with policy.

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

	2013 \$	2012 \$
Cash and equivalents	7,464,853	14,201,412
Loans and mortgages	71,704,612	64,286,545
Investments	9,709,928	6,270,395
	<u>88,879,393</u>	<u>84,758,352</u>

Cash and equivalents and investments have low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the Credit Union's underwriting methodologies and risk modelling is customer based rather than product based. The Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing risk.

(b) Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations associated with financial liabilities as they come due. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/or market events.

The Credit Union's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

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Exposure to liquidity risk:

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to deposits. For this purpose, liquid assets may comprise of the following:

	2013 \$	2012 \$
Cash and equivalents	7,464,853	14,201,412

The Credit Union is required to maintain 6% of the prior quarter's assets in liquid investments of which 100% must be held by Atlantic Central. The Credit Union was in compliance with this requirement at September 30, 2013.

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	September 30, 2013 Total \$
Member deposits	48,501,266	17,717,834	-	66,219,100
Share account	13,874,697	-	-	13,874,697
Accrued interest payable	497,001	-	-	497,001
Other liabilities	676,983	-	-	676,983
Income taxes payable	13,982	-	-	13,982
	63,563,929	17,717,834	-	81,281,763

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	September 30, 2012 Total \$
Member deposits	49,070,912	14,280,697	-	63,351,609
Share account	13,208,444	-	-	13,208,444
Accrued interest payable	596,472	-	-	596,472
Other liabilities	595,350	-	-	595,350
Income taxes payable	77,119	-	-	77,119
	63,548,297	14,280,697	-	77,828,994

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

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(c) Market risk

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Credit Union as part of its normal trading activities. As the Credit Union does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk. The objective of market rate risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For the Credit Union, mismatches in the balances of assets, liabilities and off-balance sheet financial instruments that mature and reprice in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the Credit Union manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the credit union to enhance profitability.

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

	Net interest income change 2013 \$	Net interest income change 2012 \$
Before tax impact of		
1% increase in interest rates	346,000	318,000
1% decrease in interest rates	(347,100)	(235,300)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

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(f) Capital management

The primary objective of the Credit Union's capital management is to ensure that it maintains a healthy financial position in order to support its business. The Credit Union manages its capital structure and makes changes to it in light of changes in economic conditions.

The Credit Union 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, 2013, the equity level for regulatory purposes is as follows:

	2013 \$	2012 \$
Ownership shares (note 13)	25,745	25,660
Members' equity	8,868,438	8,225,006
Total regulatory equity	8,894,183	8,250,666
Total assets	90,150,201	86,054,000
Equity level	9.9%	9.6%
	#	2013 \$
Opening, October 1	5,132	25,660
Issued	637	3,185
Redeemed	(620)	(3,100)
Closing, September 30	5,149	25,745

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2013

6 Financial instruments

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	September 30, 2013		September 30, 2012	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Assets carried at fair value				
Financial assets held for trading -				
Cash	7,464,853	7,464,853	14,201,412	14,201,412
Liquidity reserve deposit (note 10)	5,525,970	5,525,970	5,168,946	5,168,946
	<u>12,990,823</u>	<u>12,990,823</u>	<u>19,370,358</u>	<u>19,370,358</u>
Assets carried at amortized cost				
Loans and mortgages	71,704,612	71,704,612	64,286,545	64,286,545
Investments - held to maturity (note 10)	3,000,000	3,000,000	-	-
Investments - available for sale (note 10)	1,183,958	1,183,958	1,101,449	1,101,449
	<u>75,888,570</u>	<u>75,888,570</u>	<u>65,387,994</u>	<u>65,387,994</u>
Liabilities carried at amortized cost				
Member deposits	80,093,797	80,093,797	76,560,053	76,560,053
Accrued interest payable	497,001	497,001	596,472	596,472
Other liabilities	676,983	676,983	595,350	595,350
	<u>81,267,781</u>	<u>81,267,781</u>	<u>77,751,875</u>	<u>77,751,875</u>

The fair value of financial assets held for trading is determined by their quoted market value at the reporting date.

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September 30, 2013

7 Loans and mortgages

(a) Summary

	2013				2012	
	Total \$	Impaired Loans \$ (included in total)	Specific Provision \$	Collective Provision \$	Net \$	Net \$
Personal	21,275,296	50,728	42,275	6,155	21,226,866	20,034,799
Business (note 18)	30,477,013	2,213,127	250,000	121,106	30,105,907	26,650,608
Mortgages	8,635,531	214,021	-	11,712	8,623,819	7,979,648
Lines of credit and overdrafts	10,677,170	1,405	-	-	10,677,170	8,436,597
League Savings and Mortgage	815,345	-	-	-	815,345	864,707
Accrued loan interest	255,505	-	-	-	255,505	320,186
	72,135,860	2,479,281	292,275	138,973	71,704,612	64,286,545

Mortgages and loans

Mortgage loans are secured by realty mortgages with interest rates of 2.99% - 7.39% (2012 - 3.35% - 7.39%). Loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 1.25% - 24% (2012 - 1.25% - 18%). The loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities.

The Credit Union's prime lending rate

The Credit Union's prime lending rate is set by the Board based on the prime interest rate of chartered banks in Canada. The rate as at September 30, 2013 was 3.25% (2012 - 3.25%).

(b) Continuity of allowance for impaired loans

	Specific \$	Collective \$	Total \$
Balance - September 30, 2012	305,188	131,880	437,068
Increase in allowance	72,907	7,093	80,000
Amounts written off during the year	(100,682)	-	(100,682)
Recoveries of loans previously written off	14,862	-	14,862
Balance - September 30, 2013	292,275	138,973	431,248

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(c) Members' loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired:

	\$
September 30, 2013	1,756,718
September 30, 2012	578,304

8 Prepaid expenses and other

	2013 \$	2012 \$
Prepaid expenses	86,715	105,299
Accrued investment interest receivable	131,195	78,021
	<u>217,910</u>	<u>183,320</u>

9 Property and equipment

	Land \$	Buildings \$	Furniture, equipment and computers \$	Pavement \$	Total \$
Cost					
Balance - Beginning of year	87,066	1,343,506	1,162,398	16,767	2,609,737
Additions	-	-	4,502	6,840	11,342
Balance - End of year	<u>87,066</u>	<u>1,343,506</u>	<u>1,166,900</u>	<u>23,607</u>	<u>2,621,079</u>
Accumulated amortization					
Balance - Beginning of year	-	678,406	1,027,759	10,769	1,716,934
Current year amortization	-	33,818	49,200	754	83,772
Balance - End of year	<u>-</u>	<u>712,224</u>	<u>1,076,959</u>	<u>11,523</u>	<u>1,800,706</u>
Carrying value					
September 30, 2012	87,066	665,100	134,639	5,998	892,803
September 30, 2013	87,066	631,282	89,941	12,084	820,373

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10 Investments

	2013 \$	2012 \$
Financial assets		
<i>Fair value through profit or loss:</i>		
Liquidity reserve deposit	5,525,970	5,168,946
<i>Held to maturity:</i>		
Term deposits	3,000,000	-
<i>Available for sale:</i>		
Atlantic Central shares	1,104,070	1,024,830
League Savings & Mortgage shares	26,865	23,596
League Data shares	27,060	27,060
Co-operative membership	25,000	25,000
7730543 Canada Inc. shares	963	963
Total investments	9,709,928	6,270,395

Liquidity reserve deposit

In order to meet Credit Union national standards, the Credit Union is required to maintain on deposit in Atlantic Central an amount equal to 6% of the prior quarter's assets (see note 5b). The deposit bears interest at a variable rate.

Term deposits

Term deposits are invested with Atlantic Central and are carried at cost which approximates for value. These term deposits have the following maturity dates and rates of return:

	Amount \$	Rate of Return	Maturity
	2,000,000	1.35%	November 14, 2013
	1,000,000	2.00%	November 14, 2014
Total	3,000,000		

Available for sale

No market exists for the available for sale share investments. Certain of the available for sale share investments may be surrendered on withdrawal from membership for proceeds equal to the paid-in value.

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September 30, 2013

11 Member deposits

	2013 \$	2012 \$
Ownership shares and share accounts (note 13)	13,874,697	13,208,444
Savings and Plan 24	21,693,114	20,039,156
Chequing accounts (note 18)	13,405,614	12,989,199
Term deposits	13,260,373	11,881,453
RRSP and RRIF	17,859,999	18,441,801
	<u>80,093,797</u>	<u>76,560,053</u>

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

Share accounts pay members a dividend at the discretion of the Board. Privileges of the shares are under the authority of the Board. The members dividend rate declared and paid for 2013 was 1.5% (2012 - 2.5%) based on the average minimum monthly share account balance.

Savings and Plan 24 are deposits on a call basis that pay holders interest at various rates ranging from 0% - 1.75% (2012 - 0% - 2.0%).

Chequing accounts are held on a call basis and pay the account holders interest at the Credit Union's stated rates, 0% - 0.88% (2012 - 0% - 0.84%).

Term deposits are 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 ranging from 1.0% - 4.655% (2012 - 1.0% - 5.29%) 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 members. Under an agreement with the trust company, members' 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 the member, or the parties designed by them, by the credit unions, on behalf of the trust company. RRSP and RRIF term deposits bear interest at various rates ranging from 0.25% - 4.0% (2012 - 0.25% - 5.6%).

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

12 Contingent liability

	2013 \$	2012 \$
(a) Outstanding guarantees on behalf of members	-	162,000

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- (b) In 2009, all student loans issued by the company were transferred to Consolidated Credit Union Ltd. However, the Credit Union remains as guarantor on these loans. The loan balance as at September 30, 2013 was \$59,962 (2012 - \$77,682).

Included in the loans and mortgages balance is a provision of \$3,000 (2012 - \$10,000) relating to the student loan guarantees.

13 Share accounts

An unlimited number of membership shares are available for issuance with a par value of \$5 each. These shares are non-transferable, redeemable by the Credit Union, retractable by shareholders subject to the Credit Union's right to suspend redemptions, if the redemption would impair the financial stability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Insurance Corporation. Dividends on membership shares are payable at the discretion of the Board.

14 Income taxes

- (a) Tax rate reconciliation

	2013 \$	2012 \$
Income before income taxes	791,033	850,921
Taxes at statutory rates - 31.00% (2012 - 31.38%)	245,220	267,019
Impact of the 17.245% (2012 - 19%) small business deduction	(86,225)	(96,900)
Permanent differences and other	1,751	(23,500)
	160,746	146,619

- (b) Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 31.00% (2012 - 31.00%) as follows:

	2013 \$	2012 \$
Balance, October 1	219,525	234,678
Comprehensive income recovery (expense)	13,000	(15,153)
Balance, September 30	232,525	219,525

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Deferred income tax assets are attributable to the following items:

	2013 \$	2012 \$
Deferred income tax assets		
Property and equipment	37,521	33,792
Allowance for impaired loans	52,141	50,343
Retirement allowance	142,863	135,390
	<u>232,525</u>	<u>219,525</u>

15 Pension plan

The Credit Union provides employees with a voluntary defined contribution pension plan in which the Credit Union matches employee contributions to the plan, within specified limits. During the year, the Credit Union expensed \$62,897 (2012 - \$61,586) in contributions to the plan. This expense is included with staff expenses on the Statement of Comprehensive Income.

16 Line of credit availability

In 2013, the Credit Union had an approved line of credit with Atlantic Central of \$10,000,000. As of September 30, 2013, the line of credit was not being utilized.

17 Composition of key management

Key management includes the Board of Directors, manager, assistant manager, member service manager and financial services manager. Compensation awarded to key management included:

(a) Key management, excluding directors

	2013 \$	2012 \$
Salaries and short-term employee benefits	371,215	413,787
Retirement benefit obligations	14,282	8,964

(b) Directors' remuneration

	2013 \$	2012 \$
Honorariums	8,350	8,900
Payment for expenses while on credit union business	36,936	18,457

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(c) Loans to directors and key management personnel

	2013 \$	2012 \$
Loans outstanding at beginning of year	513,160	557,704
Loans issued during the year	27,112	31,292
Loan repayments during the year	(59,026)	(50,533)
Net increase (decrease) in lines of credit	19,191	(25,303)
Loans outstanding at end of year	500,437	513,160
Interest income earned	19,204	20,150

No provisions have been recognized in respect of loans given to key management (2012 - nil). The loans issued to directors and key management personnel and close family members during the year of \$27,112 (2012 - \$31,292) are repayable over 1 - 13 years and have interest rates ranging from 1.25% to 6.25% (2012 - 1.25% to 6.25%).

18 Related party transactions

The Credit Union 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.

The loans and mortgages balance includes \$2,172,840 (2012 - \$2,009,130) in loans to 7730543 Canada Inc. The loans to 7730543 Canada Inc. bear interest at 1% with no set terms of repayment. Included in member deposits is \$852,638 (2012 - \$822,010) of cash deposits in chequing accounts from 7730543 Canada Inc.

Included in loan interest and investment revenue is \$20,235 (2012 - \$10,864) and \$83,806 (2012 - \$45,475), respectively, of income received from 7730543 Canada Inc.

The Credit Union is a shareholder in 7730543 Canada Inc.

Malpeque Bay Credit Union, Limited

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September 30, 2013

19 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 Credit Union's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

	September 30, 2013				
	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
Cash and equivalents	-	-	-	741,142	741,142
Short-term deposits	12,249,681	-	-	-	12,249,681
Effective interest rate	0.99%				
Investments	2,913,995	1,269,963	-	-	4,183,958
Effective interest rate	1.87%	1.57%			
Loans and mortgages	38,694,615	21,420,034	273,191	-	60,387,840
Effective interest rate	4.72%	5.07%	6.16%		
Lines of credit and overdrafts	10,677,170	-	-	-	10,677,170
Effective interest rate	5.12%				
League Savings & Mortgage reverse MOP program	-	815,345	-	-	815,345
Effective interest rate		4.00%			
General risk on loan portfolio	-	-	-	(431,248)	(431,248)
Accrued loan interest receivable	-	-	-	255,505	255,505
Prepaid expenses and other	-	-	-	217,910	217,910
Property and equipment	-	-	-	820,373	820,373
Deferred income taxes	-	-	-	232,525	232,525
Total assets	64,535,461	23,505,342	273,191	1,836,207	90,150,201
Liabilities and surplus					
Member deposits	48,501,266	17,717,834	-	-	66,219,100
Effective interest rate	0.96%	2.65%			
Share deposits	13,874,697	-	-	-	13,874,697
Effective interest rate	1.5%				
Accrued interest payable	-	-	-	497,001	497,001
Other liabilities	-	-	-	676,983	676,983
Income taxes payable	-	-	-	13,982	13,982
Undistributed earnings	-	-	-	8,868,438	8,868,438
Total liabilities and surplus	62,375,963	17,717,834	-	10,056,404	90,150,201
Interest rate sensitivity gap	2,159,498	5,787,508	273,191	(8,220,197)	-

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2013

	September 30, 2012				
	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
Cash and equivalents	-	-	-	962,440	962,440
Short-term deposits	18,407,918	-	-	-	18,407,918
Effective interest rate	0.89%				
Investments	1,049,389	52,060	-	-	1,101,449
Effective interest rate	2.30%	0%			
Loans and mortgages	20,553,593	29,320,926	5,226,861	-	55,101,380
Effective interest rate	4.39%	5.46%	5.22%		
Lines of credit and overdrafts	8,437,340	-	-	-	8,437,340
Effective interest rate	4.92%				
League Savings & Mortgage reverse MOP program	-	864,707	-	-	864,707
Effective interest rate		4.73%			
General risk on loan portfolio	-	-	-	(437,068)	(437,068)
Accrued loan interest receivable	-	-	-	320,186	320,186
Deferred income taxes	-	-	-	219,525	219,525
Prepaid expenses and other	-	-	-	183,320	183,320
Property and equipment	-	-	-	892,803	892,803
Total assets	48,448,240	30,237,693	5,226,861	2,141,206	86,054,000
Liabilities and surplus					
Member deposits	49,070,912	14,280,697	-	-	63,351,609
Effective interest rate	1.60%	2.01%			
Share deposits	13,208,444	-	-	-	13,208,444
Effective interest rate	2.05%				
Accrued interest payable	-	-	-	596,472	596,472
Other liabilities	-	-	-	595,350	595,350
Income taxes payable	-	-	-	77,119	77,119
Undistributed earnings	-	-	-	8,225,006	8,225,006
Total liabilities and surplus	62,279,356	14,280,697	-	9,493,947	86,054,000
Interest rate sensitivity gap	(13,831,116)	15,956,996	5,226,861	(7,352,741)	-

As at September 30, 2013, the Credit Union's net interest spread was 3.08% (2012 - 3.2%). 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.

20 Commitments

The Credit Union had lines of credit and loans and mortgages approved but not disbursed at September 30, 2013 amounting to \$3,554,025.

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2013

21 Comparative figures

Certain comparative figures presented for the 2012 fiscal year have been restated to conform with the financial statement presentation adopted in the current year.

Credential Financial Strategies Report



2013 saw some large gains in the markets. Just to give everyone a refresher, most investments fall into one of three categories: equity based, bond based or are guaranteed interest rate investments like term deposits. With an equity you have ownership in the company. With the other 2 options you are a lender (for example if you buy a Canada Savings Bond, you are in effect lending money to the Federal Government). With a term deposit you are given an interest rate that is guaranteed, and it is calculated by each financial institution based on their lending rate margins and deposits. After you invest in a term deposit, the financial institution then lends that money out to a borrower at a higher interest rate. A Financial Advisor's role is to try to match up the right products for each investor; too much volatility for their personality and the investor is likely to be uncomfortable – too conservative an investment and an investor is missing opportunities for growth.

Dating back to when tracking the market's performance first began, equities have always out-performed the other investments over every 10 year period. Why doesn't everybody invest in equities then you might ask? Good question, and there are a couple of reasons. One is that some people just don't like the uncertainty of investing in the "markets". Another reason is the time horizon of the investor. An example of this are Investors # 1, who sell their house and are planning on renting temporarily while they decide whether to buy or build their next home. These are people that I would encourage to be conservative to ensure they're not exposed to a short term drop in the market just as they want to take their money out. On the other side of this coin, Investors # 2 sell their home and have no intention of buying another and want to invest this money to generate an income for the long term. Investors # 1 are very vulnerable to short term market fluctuations, whereas with Investors # 2 it really doesn't matter whether their investments fluctuate in the short term as long as they get their income stream and their investments grow steadily over the long term.

With investing one size does not fit all, and every investor needs to have a plan designed just for them. These plans then need to be reviewed on a regular basis, and adjustments made to their portfolios as their circumstances dictate.

Always remember that the most volatile markets offer the best opportunities.

Paul Chessman, CFP CHS CWC
Certified Financial Planner

We are making miracles happen with the
Adopt-a-Room sponsorship at
Ronald McDonald House® Atlantic Canada.



We are proud to sponsor Ronald McDonald House® Atlantic Canada to help families in need of a place to stay in Halifax while their child receives medical treatment.

The actual operating cost for a bedroom at the Ronald McDonald House ® is over \$85 per night. The Adopt-a-Room program allows the House to maintain a comfortable, healthy, well-kept, environment for families for the nominal fee of \$11 per night.

In addition to the sponsorship program, Credit Unions of PEI are pleased to pay the nightly fee of \$11 for credit union members, and proud to help Ronald McDonald House® give sick children what they need most...their families.

“Great relief not to have to worry about a place to stay while our daughter was at the IWK”, says Benjamin Elwood, **“the credit union was a big help”**. The Elwoods needed to stay in Halifax while their daughter, Esther, was receiving treatment at the IWK last year. As a member of a PEI credit union, the Elwoods were able to focus more on their family, and less on paying for a place to stay.



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