

# 2014 ANNUAL REPORT



**CREDIT  
UNION**

MALPEQUE BAY

**MISSION** At Malpeque Bay Credit Union, we are focused on you: your community, your future, your prosperity. We want to be a partner in your success. We're committed to providing outstanding financial service and wise financial guidance that will enable you, our members, to reach your financial goals. We are a community-minded co-operative that helps build through involvement, leadership, and monetary generosity in the community. We pride ourselves in our commitment to serving you, our members, and community as best as possible, and we believe that this annual report will be an indication of that commitment.

**VALUES** Honest | Passionate | Holistic | Spiritual | Evolutionary | Simplistic | Inclusive

**TABLE OF CONTENTS**

1	2014 AT A GLANCE
2	STAFF
3	BOARD OF DIRECTORS
4	PRESIDENT'S INTERVIEW
5	MANAGER'S INTERVIEW
6	INVOLVED IN OUR COMMUNITY
8	FOCUSED ON OUR YOUTH
10	AUDITOR'S REPORT
14	FINANCIAL POSITION
15	MEMBERS' EQUITY
16	COMPREHENSIVE INCOME
17	CASH FLOWS
18	NOTES
19	



# 2014 AT A GLANCE

- \* We launched all new Spending and Savings Accounts to better serve our members
- \* For the 10th consecutive year, we were honoured to be ranked #1 in Customer Service Excellence across the country\*
- \* Our ongoing 50/50 Draw raised another \$20,000 for the Kensington Fitplex allowing them to buy new equipment
- \* Renovations to the front entrance were completed
- \* Assets surpassed \$94 Million

\*THE IPSOS 2014 BEST BANKING AWARDS ARE BASED ON QUARTERLY CUSTOMER SERVICE INDEX (CSI) SURVEY RESULTS. SAMPLE SIZE FOR THE TOTAL 2014 CSI PROGRAM YEAR ENDED AUGUST 2014 WAS 45,428 COMPLETED SURVEYS YIELDING 68,738 FINANCIAL INSTITUTION RATINGS







PICTURED LEFT TO RIGHT: AMBYR CLARK | CHERYL JOLLIMORE-REID | BONNIE MACRAE  
VICKIE ARSENAULT | TRACEY MACEWEN | LAURIE GALLANT | MARY ELLEN MCCARVILLE  
AMBYR PAYNTER | MARLA HUNTER | FLO BIRCH | NICOLE SELLAR | PATTI LECLAIR  
SHARON DONALD | ROXANNE CAMPBELL | DAWN HOLMES | SUSAN BOURQUE | HEATHER BERNARD  
MARC LECLAIR | PAUL CHESSMAN | MARK MACAUSLAND | BERNI MACDONALD-FORD | GORD COFFIN

# STAFF



# BOARD OF DIRECTORS

PICTURED LEFT TO RIGHT: PAUL BROWN | PETER PIDGEON | NAOMI HOWARD | BERNARD JAY | JEAN RONAHAN | BARB MAYHEW  
KENT CROKEN | LEONARD RUSSELL | MATTHEW SHARPE



# PRESIDENT'S INTERVIEW

**Q.**

**FOR THOSE THAT ARE UNAWARE OF THE BOARD OF DIRECTORS' ROLE, COULD YOU EXPLAIN THE ROLE OF THE BOARD AND DESCRIBE HOW THE BOARD HAS BEEN FULFILLING THAT ROLE THIS PAST YEAR?**

**A.** It is my pleasure to represent the board and to be able to share some of the work we've been doing and the progress we've been making. The Board's role is to be responsible for representing the interests of members and incorporating those interests into the strategic governance of the credit union. In addition to the annual meeting, we have monthly meetings. In these meetings, everyone's opinions are valued, and we strive to be as progressive as possible and to ensure that we are benefiting our fellow members in the best way possible. In order to remain progressive, we have worked with Atlantic Central to keep up with changes to regulations. We have also examined changes in the marketplace and adapted to those changes in order to become even more competitive.

**Q.**

**WHAT ARE YOU ABLE TO TELL US ABOUT THE BOARD'S DECISION CONCERNING ANNUAL DIVIDENDS?**

**A.** I am happy to announce, on behalf of the Board of Directors, that we have declared a 2.0% dividend for the fiscal year ended on September 30, 2014. This is an extremely good rate of interest on dollars that members invested in their share account last year. It is comparable to a 5 year term deposit rate. Looking ahead, your Board of Directors are currently considering other methods to distribute excess earnings in future years. This may involve lower dividend payments replaced with patronage rebates linked to usage of credit union services.

**Q.**

**WHAT ARE THE BIGGEST CHALLENGES THAT YOUR CREDIT UNION AND BOARD HAVE FACED THIS YEAR?**

**A.** Every year brings some extent of challenges, and this past year was no exception. In recent years, technology has begun to dictate what members expect and thus how our industry operates. People expect more 24/7 convenience, and our credit union must keep up with these expectations in all of our services. One specific technology-related challenge has been the struggle to engage with mobile consumers. The mobile segment has been growing rapidly with new applications being developed that impact our core businesses, redefining how consumers source financial advice and how they purchase products. Another big challenge this year was facing increased competition from banks. The banks have continued to focus on the Canadian retail market with aggressive promotions and product strategies, staying at the forefront of technology and shaping consumer demands. Low margins and the fact that we have higher operating costs than our competitors continue to present challenges in remaining fiscally competitive.



## WHAT ARE THE MAIN AREAS OF SUCCESS THAT YOUR CREDIT UNION HAS EXPERIENCED THIS YEAR?

A. I am very pleased to report on this past year's success and am proud of what we have been able to accomplish. We have experienced success in terms of our financial performance this year, as we have reached and exceeded our financial goals for this year. We have reached our 10 percent equity goal this year. This is actually one year ahead of our goal which was set 10 years ago. Another area of success has been the launch of new products. This past summer, new Spending Accounts and Savings Accounts were implemented across the Island credit union system. Their implementation was fairly seamless, and they were well received. This is one way in which we are keeping up with consumer demands and becoming even more competitive in the marketplace. Finally, another main area of success is that our credit union continues to provide industry-leading customer service. This was evidenced by the fact that we were ranked #1 in Customer Service Excellence for the tenth year in a row, recognizing our commitment to making our members happy.



## THINKING AHEAD TO NEXT YEAR, WHAT ARE SOME OF THE GOALS FOR YOUR CREDIT UNION THAT COME TO MIND?

A. Well, one of the biggest changes this past year was the addition of products including new Spending and Savings Accounts. These accounts were provided to all new members and were available to existing members who wanted to change accounts. We had success with the implementation of these accounts, and looking ahead, we hope to transfer all of the old savings or spending accounts to the new Spending and Savings Account. Ideally, our goal for this would be to have all members using the new accounts in the next three years.

Another, more general, goal for the upcoming year is to continue building our relationship with youth further. Recognizing that youth are our future, we have dedicated a considerable amount of resources to the development of products, services, and programs that are relevant to today's youth. We want the credit union to be their first choice, and one of our youth-related goals is for there to be significant growth of our Spending Accounts for Youth. We have already seen success in this area and hope that this will continue in the upcoming years.



## IN CONCLUSION, IS THERE ANYTHING YOU WOULD LIKE TO SAY IN REGARD TO THIS PAST FISCAL YEAR THAT YOU HAVEN'T ALREADY HAD THE CHANCE TO SAY?

A. Absolutely. I would like to extend my gratitude to a number of people. Any success of the credit union would not be possible without the cooperation and hard work of a number of parties. I would like to thank my fellow directors for their dedication and commitment to the success of our credit union. I would also like to thank the manager and staff for the high quality of service they provide to members. In addition, I also extend my gratitude to Atlantic Central for their cooperation and support. Of course, I must also thank the members that give us their continuous support and allow us to grow.

**BERNARD JAY**  
PRESIDENT





# MANAGER'S INTERVIEW



**Q.**

**WHAT DO YOU BELIEVE ARE THE REASONS FOR THE SUCCESS THAT YOUR CREDIT UNION HAS EXPERIENCED THIS YEAR?**

**A.** Of course, much of the success can be contributed to our members. Without their support, input, and dedication, we would not have any success. Our success has also been heavily reliant on our staff and all of the time and hard work that they have contributed this past year. The work of staff has been very influential in the implementation of the new Spending and Savings Accounts, and the positive attitude of staff has also been influential in making our credit union an exceptional place to work. The willingness of the board members to volunteer their time and experience is also essential to the success of our credit union. They have contributed greatly to our financial success this year and have also contributed to the fact that we have created new products and are becoming even more consumer-friendly. I would like to extend my thanks to all of these groups that have contributed to a successful year.

**Q.**

**WHAT HAS BEEN DONE TO OVERCOME CHALLENGES?**

**A.** One way we have worked to overcome challenges is by working with Atlantic Central and other credit unions in the Atlantic region. Atlantic Central has consulted with other Canadian and international credit union systems in order to keep the Board of Directors abreast of necessary changes. Collaborating with Atlantic Central has allowed us to remain competitive in a broader marketplace that is constantly changing and developing. This collaboration has also helped to combat the challenges of keeping up with new technology and consumer demands. Another way that we have worked to compete with banks and become more user-friendly is by investing in technology that focuses on making decisions easy for members and providing them with the advice and information they need, when they need it.

**Q.**

**LOOKING AT SOME OF YOUR CREDIT UNION'S BIGGEST GOALS FOR THE UPCOMING YEARS, WHAT ARE SOME OF THE PRACTICAL WAYS YOU ARE WORKING TO MEET THOSE GOALS?**

**A.** One of our goals for the near future is to have our credit union be more youth-friendly and to have more young people turning to us to take care of their financial needs. We have taken on a number of youth-oriented projects to further our engagement with youth in the community, and we hope that this, combined with the efforts of the new Malpeque Bay Marketing Department, will create the kind of interest for youth that we would like to see.

Another one of our main goals for the upcoming years is to have the majority of our members transitioned over to the new Spending and Savings Accounts. We will do this by isolating certain accounts at various times to see which should be prioritized in terms of the transition. By making transitions in small steps, we will minimize the impact on individual members and allow the overall transition to be more seamless. We will also set dates for specific percentage goals in order to ensure that we are steadily working toward the overall goal.

## WHAT INFORMATION CAN YOU PROVIDE ABOUT THIS YEAR'S FINANCIAL GROWTH?

Q.

A. First, I must say that I am very pleased with our financial performance this past year despite a difficult economy. I would also like to review the financial statements and to highlight and discuss items of significance in order to present our financial growth in a different light and to make our financial results more than just a bunch of numbers. It is my pleasure to announce that, as of September 30, 2014, our assets have reached \$94 million, which is a growth of \$4million or 4.5%. Loans have remained steady at \$71 million and, member deposits have increased by \$3 million or 3.8%. The result of increased deposits with a lesser growth in loans means that we now have more liquidity. Undistributed income has also increased by \$565,537 which is the income remaining after dividends and taxes for the year. This brings our total equity to 10 percent of assets or \$9,433,975 which was a long term goal that we have finally reached.

All of these positive numbers are signs of the credit union's strength and the work the Board of Directors has been doing to ensure that the credit union continues to grow financially. Because of our financial success, we were able to pay a 2 percent dividend instead of leaving the earnings in our equity.

Q.

## WHAT CHANGES, IF ANY, HAS YOUR CREDIT UNION EXPERIENCED OVER THE PAST FISCAL YEAR?

A. The biggest change would be the introduction of the new spending and savings accounts. It was a "soft release" meaning we haven't really promoted them to our existing members yet. That will happen in the coming year.

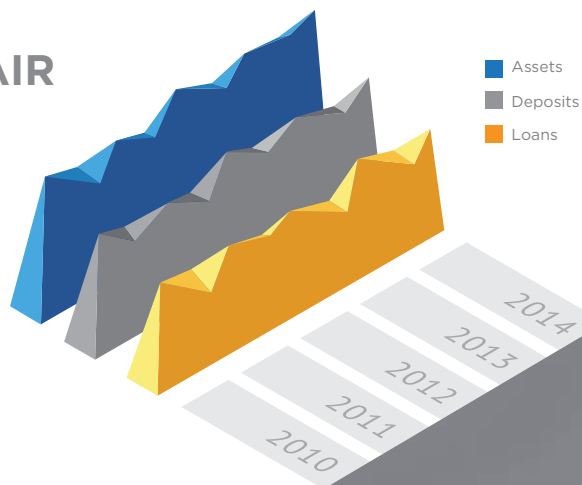
For the last half of the year, due to a pregnancy leave and pending retirement, there have been many staff changes. Our members have seen new faces in new places. Much cross training has been taking place and folks are getting used to their new duties and responsibilities. We hope that this has not caused any inconvenience for our members.

Q.

## IS THERE ANYTHING ELSE YOU WOULD LIKE TO SAY?

A. Yes definitely, my admiration and heartfelt thanks goes to our wonderful staff who work tirelessly to ensure that our members' experience here at Malpeque Bay Credit Union is consistently above their expectations. I also want to thank the Board of Directors for their hard work and guidance throughout the year.

**MARC LECLAIR**  
GENERAL MANAGER



# INVOLVED IN OUR COMMUNITY

Malpeque Bay Credit Union Ltd., continues to make Community Involvement a priority and this past year over \$50,000.00 was donated and distributed back to the Kensington and area community providing support to education, charities, benefits, and service clubs.

In 2014, Malpeque Bay Credit Union staff was very involved volunteering their time to various organizations. From bowling for Big Brothers Big Sisters in March; sponsoring and working at Children's Day during Winter Carnival; fundraising and participating in the Canadian Cancer Society Relay for Life in June, and fundraising for Camp Triumph, a camp located in Malpeque for children who have a family member with a chronic or terminal illness or disability. This past year our staff volunteered over 1,343 hours to various committees, organizations, benefits and local events.

Malpeque Bay Credit Union is committed to supporting health care and this year donations of almost \$5,000 were contributed to the Prince County Hospital Foundation. Province wide P.E.I. Credit Unions continue to be a major sponsor of the Canadian Cancer Relay for Life and the staff of Malpeque Bay Credit Union raised \$5,500.00 for Relay for Life.

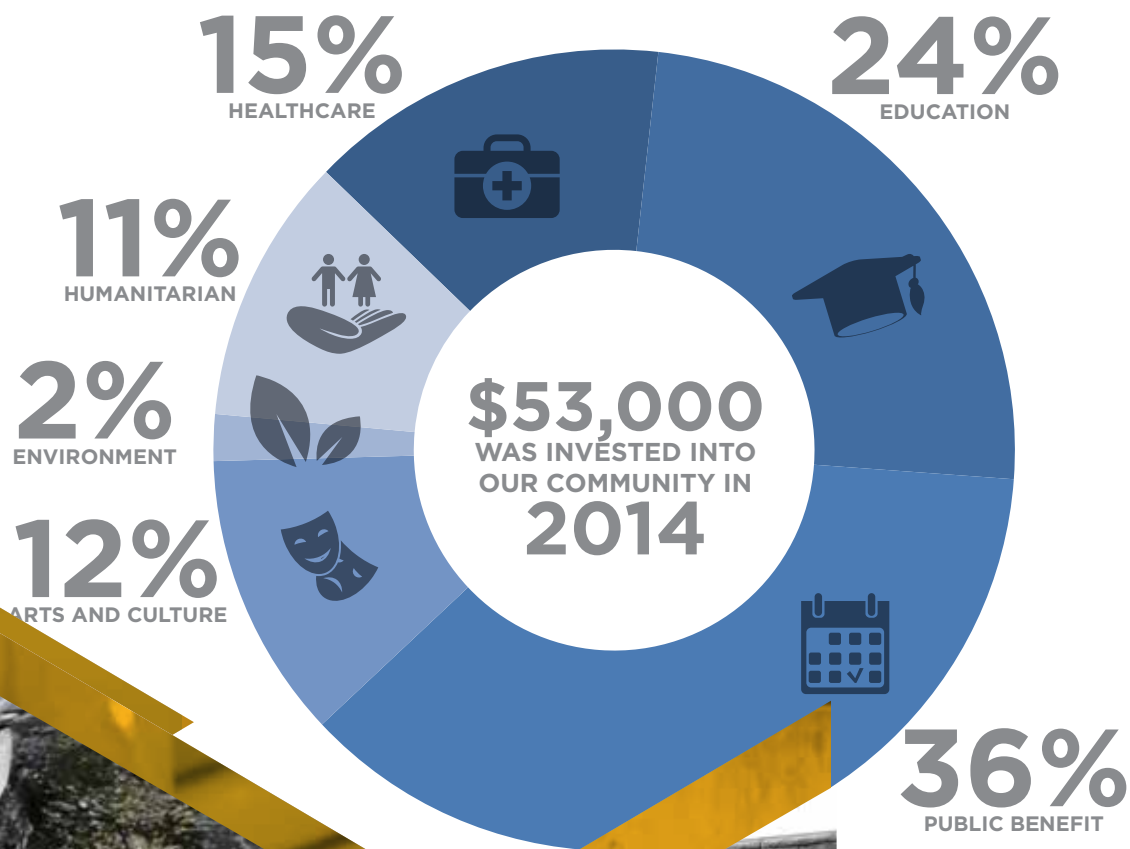
Our commitment to our youth continues. Over the past 5 years P.E.I. Credit Unions have donated \$200,000.00 to Holland College. In addition this past year \$6,0000.00 in bursaries and scholarships was donated to Grade 12 graduating students from Kensington Intermediate Senior High and Kinkora Regional High Schools. Further donations were made to the KISH high school for Grade 12 safe prom and safe grad.

For our younger graduates, Malpeque Bay Credit Union staff hosted a Grade 6 graduation luncheon for students and parents of Queen Elizabeth Elementary School and for the past couple of years the kindergarten classes from QEES stops by and tours Malpeque Bay Credit Union. Each student goes home with his/her own piggy bank.

All ages of athletes have benefited from our sponsorships. From the young to







the young at heart - hockey players; Women's and Men's Orthodox ball teams; Women's and Men's Curling Teams; Ladies' Bowling Team; Harvest Festival Road Race participants; and Special Olympics. As well Malpeque Bay Credit Union is the proud major sponsor of the Kensington Area Figure Skating Ice Show.

Our community has benefited from our contributions to the Scales Pond Restoration Fund, the Kensington North Watersheds Association and the Rural Beautification Society.

Malpeque Bay Credit Union Ltd., is a member of the Kensington and Area Chamber of Commerce, the Kensington Area Tourist Association and a proud sponsor of the Youth Legacy Program as part of the Indian River Festival. Donations were made to the PEI Literacy Alliance which supports family literacy projects on P.E.I., and the Prince Edward Island Co-operative Council Ltd.

Our First Kensington Brownies, Girl Guides, and Scouts have also benefited from our contributions. Each year donations are made to help our local church suppers, Meals on Wheels and the Queen Elizabeth Elementary School Breakfast Program.

Malpeque Bay Credit Union takes great pride in being a part of the Kensington and Area community and giving back to our local community groups and organizations.



# 10 FOCUSED ON OUR YOUTH

Making a positive impact on our youth's financial life is a challenge we have focused on for 2014 and will continue to work towards in the years to come.

## REDEFINED "YOUTH"

The starting point for our youth strategy was to redefine what we mean when we say Youth. Typically in our industry, a youth is anyone under 18 years of age. Once they surpass 18 years of age and are no longer attending school, we consider them adults. If they are attending a post-secondary school, we place them in a sub-category of Youth called Students. The reality is, leaving the school system and entering the real world is where our members need the greatest support. They need to get a good head start on life to prosper down the road. This is why we have redefined our definition of Youth, and all the cost savings that goes along with it, to all members 25 or under, regardless of their status.

## CREDIT UNIONS ARE NOW ON SOCIAL MEDIA

To better reach our young members, we have joined together with all Credit Unions on PEI and launched a single social media touch point in 2014. This makes connecting and staying up to date with your credit union more streamlined and easy for members, wherever and whenever they want.

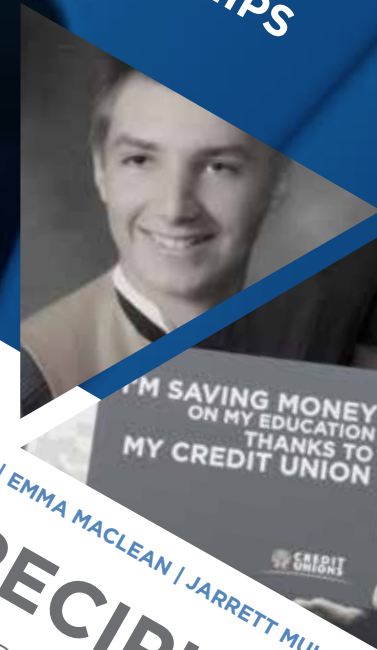
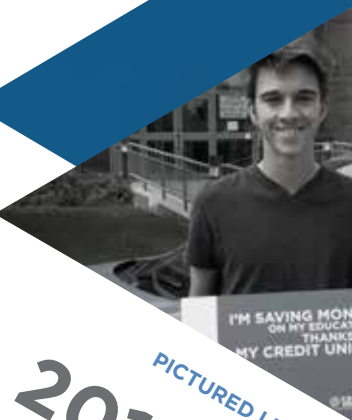
## NEW UNIVERSAL SCHOLARSHIP APPLICATION PROCESS

In 2014, Credit Unions on PEI launched a uniform scholarship application process for all students looking to apply for a credit union scholarship. This ensured that all students are treated equally regardless of what school or credit union they belong to. The application process was also moved exclusively online to make it more accessible to students to apply from a computer or mobile device. In total, over 140 students applied for credit union scholarships across the Island, with 42 students sharing over \$42,000 in scholarships to further their education.





**\$6K**  
IN SCHOLARSHIPS



PICTURED LEFT TO RIGHT: AIDAN HARRINGTON | BROOKE MILES | EMMA MACLEAN | JARRETT MULLIGAN

## 2014 SCHOLARSHIP RECIPIENTS

We are pleased to announce 4 Malpeque Bay Credit Union Scholarship Recipients for 2014. Each scholarship recipient received \$1,500 towards furthering their education. In total, Malpeque Bay Credit Union distributed \$6,000. We wish everyone the best of luck on their studies and future endeavors.



# MALPEQUE BAY CREDIT UNION IN 2014



**1**  
LOCATION



**5K**  
MEMBERS



**\$94**  
MILLION IN ASSETS



**\$83**  
MILLION IN DEPOSITS



**\$70**  
MILLION IN LOANS



**317**

**1,740**  
LOCATIONS



**5.32**  
MILLION



**\$165.6**  
BILLION

CANADIAN  
SYSTEM

**55**

**159**  
LOCATIONS

**8**

CREDIT UNIONS

**14**  
POINTS OF SERVICE

**54**  
THOUSAND  
MEMBERS

**\$856**  
MILLION

ASSETS  
PROVINCIAL  
SYSTEM

**328**  
THOUSAND

**\$4.9**  
BILLION

REGIONAL  
SYSTEM



**18.9%**  
COST OF CAPITAL

**12.5%**  
REINVESTED INTO THE  
CREDIT UNION

**30.5%**  
STAFF

**16.3%**  
INSURANCE AND FEES

**5.9%**  
BACK TO MEMBERS

**1.2%**  
BACK TO THE  
COMMUNITY

**8.0%**  
GENERAL EXPENSES

**2.3%**  
TAXES

**4.4%**  
LOCATIONS AND OFFICES

FOR  
EVERY  
\$1  
EARNED  
IN 2014





**ArsenaultBestCameronEllis**  
CHARTERED ACCOUNTANTS

A Member Firm of The AC Group of Independent Accounting Firms Limited

Chartered Accountants &  
Business Advisors  
Prince Edward Place  
80 Water Street  
PO Box 455  
Charlottetown, Prince Edward Island  
Canada C1A 7L1  
Telephone (902) 368-3100  
Fax (902) 566-5074  
www.acgca.ca

October 23, 2014

## 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, 2014, 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, 2014, 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



**AUDITOR'S REPORT**



# FINANCIAL POSITION

## Malpeque Bay Credit Union, Limited

Statement of Financial Position

As at September 30, 2014

15

	2014 \$	2013 \$
<b>Assets</b>		
Cash and equivalents	9,466,785	7,464,853
Loans and mortgages (notes 7, 17 and 18)	70,859,147	71,704,612
Prepaid expenses and other (note 8)	167,515	217,910
Income taxes receivable	17,506	-
Property and equipment (note 9)	834,084	820,373
Investments (note 10)	12,464,012	9,709,928
Deferred income taxes (note 14)	245,855	232,525
	<u>94,054,904</u>	<u>90,150,201</u>
<b>Liabilities</b>		
Member deposits (notes 7, 11 and 18)	83,163,630	80,093,797
Accrued interest payable	577,842	497,001
Other liabilities	880,209	676,983
Income taxes payable	-	13,982
	<u>84,621,681</u>	<u>81,281,763</u>
<b>Members' Equity</b>		
<b>Undistributed income</b>	<u>9,433,223</u>	<u>8,868,438</u>
	<u>94,054,904</u>	<u>90,150,201</u>

Approved by the Board of Directors

Bernard Jay Director

Naomi Howard Director

## Malpeque Bay Credit Union, Limited

Statement of Changes in Members' Equity  
For the year ended September 30, 2014

	2014 \$	2013 \$
<b>Undistributed income - Beginning of year</b>	8,868,438	8,225,006
Net earnings for the year	564,785	643,432
<b>Undistributed income - End of year</b>	9,433,223	8,868,438

MEMBERS' EQUITY



# Malpeque Bay Credit Union, Limited

## Statement of Comprehensive Income

For the year ended September 30, 2014

	2014 \$	2013 \$
<b>Revenue</b>		
Loan interest (note 18)	3,385,626	3,369,298
Investment (note 18)	285,614	289,683
Service fees	444,544	432,244
Commissions	372,112	350,117
Other income	30,268	30,909
	<u>4,518,164</u>	<u>4,472,251</u>
<b>Expenses</b>		
Staff (note 17)	1,379,312	1,237,270
Premises	80,890	66,908
Insurance	136,239	129,661
Office	54,360	53,781
Service fees	601,468	541,267
General	375,071	413,609
Cost of capital	855,404	888,129
Amortization	64,024	83,772
	<u>3,546,768</u>	<u>3,414,397</u>
<b>Operating earnings</b>	<u>971,396</u>	<u>1,057,854</u>
<b>Other expense</b>		
Share dividends	263,912	186,821
Provision for loan losses (note 7)	40,000	80,000
	<u>303,912</u>	<u>266,821</u>
	<u>667,484</u>	<u>791,033</u>
<b>Provision for (recovery of) income taxes</b>		
Current (note 14)	116,029	160,601
Deferred income taxes (note 14)	(13,330)	(13,000)
	<u>102,699</u>	<u>147,601</u>
<b>Net earnings for the year</b>	<u>564,785</u>	<u>643,432</u>

COMPREHENSIVE  
INCOME



# Malpeque Bay Credit Union, Limited

## Statement of Cash Flows

For the year ended September 30, 2014

	2014 \$	2013 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the year	564,785	643,432
Items not affecting cash		
Amortization	64,024	83,772
Provision for loan losses	40,000	80,000
Deferred income taxes	(13,330)	(13,000)
	655,479	794,204
Net change in non-cash working capital items		
Decrease (increase) in loans and mortgages	805,465	(7,498,067)
Decrease (increase) in prepaid expenses and other	50,395	(34,590)
Increase in income taxes receivable	(17,506)	-
Increase in member deposits	3,069,833	3,533,744
Increase (decrease) in accrued interest payable	80,841	(99,471)
Decrease in income taxes payable	(13,982)	(63,137)
Increase in other liabilities	203,226	81,633
	4,833,751	(3,285,684)
<b>Investing activities</b>		
Purchase of property and equipment	(77,735)	(11,342)
Increase in investments	(2,754,084)	(3,439,533)
	(2,831,819)	(3,450,875)
<b>Increase (decrease) in cash</b>	2,001,932	(6,736,559)
<b>Cash - Beginning of year</b>	7,464,853	14,201,412
<b>Cash - End of year</b>	9,466,785	7,464,853
<b>Supplementary disclosure</b>		
Interest paid	851,654	906,221
Interest received	3,652,365	3,593,075
Dividends paid	186,821	268,201
Dividends received	73,311	31,938
Income taxes paid	157,836	223,738

CASH FLOWS



# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

---

## 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 23, 2014.

### (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.

NOTES



**3 Summary of significant accounting policies****(a) Foreign currency translation**

Transactions in foreign currencies are translated to the functional currency of the Credit Union as stated in note 2(c), 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, 2014

- 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, 2014

- 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, 2014

---

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 losses 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 (AFS)

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

Notes to Financial Statements

September 30, 2014

### (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, 2014.

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.



# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

## 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

## Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

- 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, 2014, 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.





# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

## (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 is 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.

## Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

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:

	2014	2013
	\$	\$
Cash and equivalents	9,466,785	7,464,853
Loans and mortgages	70,859,147	71,704,612
Investments	12,464,012	9,709,928
	<u>92,789,944</u>	<u>88,879,393</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.



# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

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:

	2014	2013
	\$	\$
Cash and equivalents	9,466,785	7,464,853

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, 2014.

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, 2014 Total \$
Member deposits	50,920,711	17,542,043	-	68,462,754
Share account	14,700,876	-	-	14,700,876
Accrued interest payable	577,842	-	-	577,842
Other liabilities	880,209	-	-	880,209
	67,079,638	17,542,043	-	84,621,681

	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

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



# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

(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 2014 \$	Net interest income change 2013 \$
Before tax impact of		
1% increase in interest rates	355,900	346,000
1% decrease in interest rates	(135,000)	(347,100)

(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.



# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

(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 at least equal to 5% of the total assets.

In accordance with the recommendations of the Canadian Public 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, 2014, the equity level for regulatory purposes is as follows:

	2014 \$	2013 \$
Ownership shares (note 13)	25,445	25,745
Members' equity	9,433,223	8,868,438
Total regulatory equity	9,458,668	8,894,183
Total assets	94,054,904	90,150,201
Equity level	10.1%	9.9%
	#	2014 \$
Opening, October 1	5,149	25,745
Issued	511	2,555
Redeemed	(571)	(2,855)
Closing, September 30	5,089	25,445

# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

## 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, 2014		September 30, 2013	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
<b>Assets carried at fair value</b>				
Financial assets held for trading -				
Cash and equivalents	9,466,785	9,466,785	7,464,853	7,464,853
Liquidity reserve deposit (note 10)	5,771,054	5,771,054	5,525,970	5,525,970
	<u>15,237,839</u>	<u>15,237,839</u>	<u>12,990,823</u>	<u>12,990,823</u>
<b>Assets carried at amortized cost</b>				
Loans and mortgages	70,859,147	70,859,147	71,704,612	71,704,612
Investments - held to maturity (note 10)	5,500,000	5,500,000	3,000,000	3,000,000
Investments - available for sale (note 10)	1,192,958	1,192,958	1,183,958	1,183,958
	<u>77,552,105</u>	<u>77,552,105</u>	<u>75,888,570</u>	<u>75,888,570</u>
<b>Liabilities carried at amortized cost</b>				
Member deposits	83,163,630	83,163,630	80,093,797	80,093,797
Accrued interest payable	577,842	577,842	497,001	497,001
Other liabilities	880,209	880,209	676,983	676,983
	<u>84,621,681</u>	<u>84,621,681</u>	<u>81,267,781</u>	<u>81,267,781</u>

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





# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

## 7 Loans and mortgages

### (a) Summary

					2014	2013
	Total \$	Impaired Loans \$ (included in total)	Specific Provision \$	Collective Provision \$	Net \$	Net \$
Personal	24,186,775	615,515	39,985	26,250	24,120,540	21,226,866
Business (note 18)	29,417,615	3,126,743	275,000	117,185	29,025,430	30,105,907
Mortgages	7,566,392	-	-	-	7,566,392	8,623,819
Lines of credit and overdrafts	9,062,396	7,048	1,775	-	9,060,621	10,677,170
League Savings and Mortgage	894,421	-	-	-	894,421	815,345
Accrued loan interest	191,743	-	-	-	191,743	255,505
	<u>71,319,342</u>	<u>3,749,306</u>	<u>316,760</u>	<u>143,435</u>	<u>70,859,147</u>	<u>71,704,612</u>

### *Mortgages and loans*

Mortgage loans are secured by realty mortgages with interest rates of 2.99% - 7.39% (2013 - 2.99% - 7.39%). Loans other than mortgages are priced at market rates unless circumstances warrant special considerations. The interest rates range from 1.25% - 24% (2013 - 1.25% - 24%). 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 Canadian chartered banks. The rate as at September 30, 2014 was 3.25% (2013 - 3.25%).

### (b) Continuity of allowance for impaired loans

	Specific \$	Collective \$	Total \$
<b>Balance - September 30, 2013</b>	292,275	138,973	431,248
Increase in allowance	96,228	4,462	100,690
Amounts written off during the year	(71,743)	-	(71,743)
<b>Balance - September 30, 2014</b>	<u>316,760</u>	<u>143,435</u>	<u>460,195</u>

# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

(c) Provision for loan losses

	2014 \$	2013 \$
Increase in allowance	100,690	94,862
Recoveries of loans previously written off	(60,690)	(14,862)
	<u>40,000</u>	<u>80,000</u>

(d) 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 according to the accounting policy in note 3(b)ii):

	\$
September 30, 2014	2,129,956
September 30, 2013	2,239,192

## 8 Prepaid expenses and other

	2014 \$	2013 \$
Prepaid expenses	99,920	86,715
Accrued investment interest receivable	<u>67,595</u>	<u>131,195</u>
	<u>167,515</u>	<u>217,910</u>



# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

## 9 Property and equipment

	Land \$	Buildings \$	Furniture, equipment and computers \$	Pavement \$	Total \$
<b>Cost</b>					
Balance - Beginning of year	87,066	1,343,506	1,166,900	23,607	2,621,079
Additions	-	57,779	19,956	-	77,735
Balance - End of year	87,066	1,401,285	1,186,856	23,607	2,698,814
<b>Accumulated amortization</b>					
Balance - Beginning of year	-	712,224	1,076,959	11,523	1,800,706
Current year amortization	-	33,514	29,546	964	64,024
Balance - End of year	-	745,738	1,106,505	12,487	1,864,730
<b>Carrying value</b>					
September 30, 2013	87,066	631,282	89,941	12,084	820,373
September 30, 2014	87,066	655,547	80,351	11,120	834,084

## 10 Investments

	2014 \$	2013 \$
<b>Financial assets</b>		
<i>Fair value through profit or loss:</i>		
Liquidity reserve deposit	5,771,054	5,525,970
<i>Held to maturity:</i>		
Term deposits	5,500,000	3,000,000
<i>Available for sale:</i>		
Atlantic Central shares	1,113,070	1,104,070
League Savings & Mortgage shares	26,865	26,865
League Data shares	27,060	27,060
Co-operative membership	25,000	25,000
7730543 Canada Inc. shares	963	963
Total investments	12,464,012	9,709,928



## Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

### *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
1,000,000	2.00%	November 14, 2014
2,000,000	1.78%	November 15, 2014
<u>2,500,000</u>	1.55%	January 7, 2015
 Total		
<u>5,500,000</u>		

### *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.

## 11 Member deposits

	2014 \$	2013 \$
Ownership shares and share accounts (note 13)	14,700,876	13,874,697
Savings and Plan 24	20,894,533	21,693,114
Chequing accounts (note 18)	17,599,440	13,405,614
Term deposits	12,116,863	13,260,373
RRSP and RRIF	17,851,918	17,859,999
	<u>83,163,630</u>	<u>80,093,797</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 2014 was 2.00% (2013 - 1.5%) based on the average minimum monthly share account balance.



## Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

---

*Savings and Plan 24* are deposits on a call basis that pay holders interest at various rates ranging from 0% - 1.75% (2013 - 0% - 1.75%).

*Chequing accounts* are held on a call basis and pay the account holders interest at the Credit Union's stated rates, 0% - 0.88% (2013 - 0% - 0.88%).

*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% (2013 - 1.0% - 4.655%) 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% (2013 - 0.25% - 4.0%).

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

## 12 Contingent liability

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, 2014 was \$35,806 (2013 - \$59,962).

Included in the loans and mortgages balance is a provision of \$1,790 (2013 - \$3,000) 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.

# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

## 14 Income taxes

### (a) Tax rate reconciliation

	2014 \$	2013 \$
Income before income taxes	667,484	791,033
Taxes at statutory rates - 31.00% (2013 - 31.00%)	206,920	245,220
Impact of the 15.5% (2013 - 17.245%) small business deduction	(103,460)	(86,225)
Permanent differences and other	12,569	1,606
	116,029	160,601

### (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% (2013 - 31.00%) as follows:

	2014 \$	2013 \$
Balance, October 1	232,525	219,525
Comprehensive income recovery	13,330	13,000
Balance, September 30	245,855	232,525

Deferred income tax assets are attributable to the following items:

	2014 \$	2013 \$
<b>Deferred income tax assets</b>		
Property and equipment	39,005	37,521
Allowance for impaired loans	54,285	52,141
Retirement allowance	152,565	142,863
	245,855	232,525

## 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 \$63,199 (2013 - \$62,897) in contributions to the plan. This expense is included with staff expenses on the Statement of Comprehensive Income.





# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

## 16 Line of credit availability

In 2014, the Credit Union had an approved line of credit with Atlantic Central of \$2,200,000. As of September 30, 2014, 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

	2014 \$	2013 \$
Salaries and short-term employee benefits	377,403	371,215
Retirement benefit obligations	10,382	14,282

### (b) Directors' remuneration

	2014 \$	2013 \$
Honorariums	8,850	8,350
Payment for expenses while on credit union business	8,547	36,936

### (c) Loans to directors and key management personnel

	2014 \$	2013 \$
Loans outstanding at beginning of year	500,437	513,160
Loans issued during the year	155,000	27,112
Loan repayments during the year	(281,065)	(59,026)
Net increase in lines of credit	47,200	19,191
Loans outstanding at end of year	421,572	500,437
Interest income earned	33,061	19,204

No provisions have been recognized in respect of loans to key management (2013 - nil). The loans to directors and key management personnel and close family members during the year of \$155,000 (2013 - \$27,112) are repayable over 1 - 25 years and have interest rates ranging from 1.25% to 6.25% (2013 - 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 \$2,036,415 (2013 - \$2,172,840) 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 \$1,169,983 (2013 - \$852,638) of cash deposits in chequing accounts from 7730543 Canada Inc.

Included in loan interest and investment revenue is \$20,232 (2013 - \$20,235) and \$73,330 (2013 - \$83,806), respectively, of income received from 7730543 Canada Inc.

The Credit Union is a shareholder in 7730543 Canada Inc.



# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

## 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, 2014				
	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
<b>Assets</b>					
Cash and equivalents	8,753,258	-	-	713,527	9,466,785
Effective interest rate	0.91%				
Investments	12,194,049	269,963	-	-	12,464,012
Effective interest rate	1.42%	0.00%			
Loans and mortgages	48,364,794	22,204,334	558,471	(268,452)	70,859,147
Effective interest rate	4.52%	4.56%	5.56%		
Income taxes receivable	-	-	-	17,506	17,506
Prepaid expenses and other	-	-	-	167,515	167,515
Property and equipment	-	-	-	834,084	834,084
Deferred income taxes	-	-	-	245,855	245,855
Total assets	69,312,101	22,474,297	558,471	1,710,035	94,054,904
<b>Liabilities and surplus</b>					
Member deposits	50,920,711	17,542,043	-	-	68,462,754
Effective interest rate	0.98%	2.25%			
Share deposits	14,700,876	-	-	-	14,700,876
Effective interest rate	2.00%				
Accrued interest payable	-	-	-	577,842	577,842
Other liabilities	-	-	-	880,209	880,209
Undistributed earnings	-	-	-	9,433,223	9,433,223
Total liabilities and surplus	65,621,587	17,542,043	-	10,891,274	94,054,904
Interest rate sensitivity gap	3,690,514	4,932,254	558,471	(9,181,239)	-



# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2014

					September 30, 2013
	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
<b>Assets</b>					
Cash and equivalents	6,723,711	-	-	741,142	7,464,853
Effective interest rate	0.92%				
Investments	8,439,965	1,269,963	-	-	9,709,928
Effective interest rate	1.35%	1.57%			
Loans and mortgages	49,371,785	22,235,379	273,191	(175,743)	71,704,612
Effective interest rate	4.64%	5.03%	6.16%		
Deferred income taxes	-	-	-	232,525	232,525
Prepaid expenses and other	-	-	-	217,910	217,910
Property and equipment	-	-	-	820,373	820,373
Total assets	64,535,461	23,505,342	273,191	1,836,207	90,150,201
<b>Liabilities and surplus</b>					
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	1.50%				
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
<b>Interest rate sensitivity gap</b>	2,159,498	5,787,508	273,191	(8,220,197)	-

As at September 30, 2014, the Credit Union's net interest spread was 2.99% (2013 - 3.08%). 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, 2014 amounting to \$5,713,931.













1 Commercial St  
Kensington, PE  
COB 1M0  
[www.malpequebaycreditunion.com](http://www.malpequebaycreditunion.com)

