

# 2016

## Annual Report



**CREDIT  
UNION**

MALPEQUE BAY

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# 2016 Highlights

**+6.9%**  
Assets

**\$506k**  
Back to Members

**+8.2%**  
Avg. Members Savings

**+6.8%**  
Deposits

**\$80k**  
Back to Communities

**2**  
New Ways to Bank

**+9.0%**  
Loans

**1.3k**  
Volunteer Hours

**2k**  
Members Banking Online

**256**  
New Members

**5k**  
Membership



**Credit unions are built on fairness, trust,  
equality and independence.**

**We provide honest banking and make a  
local impact in our communities.**

**Your money stays and works here.**



# 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 communities we serve.

# Values

Honest

Passionate

Holistic

Spiritual

Evolutionary

Simplistic

Inclusive



# Board of Directors



Kent Croken  
**President**



Peter Pidgeon  
**Vice-President**



Jean Ronahan  
**Secretary**



Helen Warren



Alisha MacKay



Jim Blanchard



Barb Mayhew



Bernard Jay



Jack Spencer





# President's Report

Malpeque Bay Credit Union had a very successful year in 2016. The Board of Directors had a single goal in mind over the past 15 years and that was to get the credit union's equity level to ten percent of assets. That could only be accomplished by putting the majority of our net income into retained earnings. I am pleased to report that we have reached that goal. Due to our success this year, and the fact that we did not have to retain as much of our earnings, we were pleased to return over half our net income back to our members and the community in the form of rebates and community investments. The following is a simple breakdown of how we have distributed our earnings for 2016.

Member Rebate	\$337,564	} <b>\$574,679 back to members and our community</b>
Dividends	\$174,115	
Community Investment Fund	\$ 63,000	
Loan Loss Reserve	\$ 95,000	
Income Tax	\$ 76,980	
Retained earnings	<u>\$339,118</u>	
<b>Total Net Income</b>	<b>\$1,085,777</b>	

The rebate was calculated as 7% of Interest paid on loan products plus 7% of interest earned on deposits plus 7% of service charges paid. It is our way of saying thanks to our members for doing business at their local financial institution.

It is important to note that the Board deals with a very complex balancing act when it comes to maintaining equity at adequate levels. Growth, profitability, loan losses, R&D all factor in to what may be left over at the end of the year for patronage rebates. We hope to be able to continue the trend of returning profits to members but in this ever changing and increasingly competitive environment it is far from a certainty.

I believe the reason for our success is both our commitment to community and the excellent service we provide members. Canada's credit unions have been rated first among all financial institutions in Canada for Customer Service Excellence and Branch Service Excellence for 12 years running. Our own members continue to give us extremely high ratings in customer service year after year. The Canadian Federation of Independent Business (CFIB) quotes "Credit Unions continue to be the top performers when it comes to serving small businesses' overall financial needs". Our whole reason for being is our members and we make sure that they know that each and every day.

One of the highlights of 2016 was winning the naming rights for Community Gardens. This is a continuation of our involvement with the facility, particularly the FitPlex that our members raise \$20,000 a year for through the weekly 50/50 draw. In partnership with the Town, we are looking for a new name for the facility and have put it out to the community for ideas. A new name will be decided upon in 2017 and a new brand for the facility will be developed. This will be in addition to all the other things in which we are involved in the community outlined in the "Community Investment" report.

I want to thank the many individuals who have submitted suggestions to us over the past year through our member suggestion program. The Board reviews and takes seriously each and every suggestion on a monthly basis. We try to act on every suggestion, and there have been many improvements made as a result, however, sometimes it is just not possible due to technology and other limitations. Each month we pick one suggestion and award a \$50 thank you prize to that individual. We encourage members if they do have a suggestion to submit it as the more we have the better our organization will become.

This is my last year as President of the Board as my term is expiring. I am proud to have served as President and want to thank all the wonderful, dedicated and hard working Board and Staff folks and of course our Members who have made this organization one of the most successful credit unions in Atlantic Canada.

**Kent Croken**  
President



# Manager's Report

It has been a very busy and successful year for Malpeque Bay Credit Union on many fronts. Financial performance was strong, we introduced a suite of new savings and spending accounts along with new debit cards that enable the “tap” feature at many retailers. We also introduced “Interac Online Payment” making it easier to pay over the internet.

Commenting on the financial position, it is important to first point out that the financial statements for the current 12 month period ended December 31, 2016 are being compared to a 15 month period ending December 31, 2015. This “apples to oranges” comparison is necessary since we have recently amended our fiscal year end from September to December. We experienced a growth rate this year of 7% bringing total assets to \$107 million. Total volume of loans and deposits under administration is now \$181 million. Income was strong at \$1.08 million. Our equity level is very strong at \$10,874,305 or 10.17% of assets; well above regulatory requirements. It is also interesting to note that the PEI credit union system reached a milestone this year hitting \$1 billion in assets. That is a great indication of the level of trust that Islanders have in their local financial institution.

Throughout the year we were engaged in switching members' savings and chequing accounts over to our new suite of products designed to be simple to use and understand and designed to save money on service charges. One of the new features was an unlimited transaction “spending” account at a very reasonable cost. We also introduced minimum balance options for those who do not want to pay service charges. We also recognized that our youth need low cost services to get them started in life so we have introduced a free spending account for individuals 25 and under. This year we will be switching our business accounts over to new packages, again, designed to be simple to use and understand.

We also introduced Debit Flash™ that will enable Membercards to now be “tapped” at the merchant's terminal for transactions up to \$100. Safe and secure it is a much more convenient way to pay. Throughout the year we replaced half of our Membercard debit cards and by next year everyone will have the convenience of “tap”.

This past year we introduced a new and secure way to pay for goods and services over the internet called Interac Online Payment. For use with online merchants who offer this method of payment; it is a way to pay directly from your credit union account without having to give any credit card details over the internet. It is a much more convenient and secure way to pay.

We welcomed a new staff member this year. Steve Sentner has joined our commercial lending team. He brings 15 years experience in lending and management and is eager to meet both existing and new members and look after all their business needs.

It is important to continually reinforce the fact that the Board of Directors and the staff have only one thing in mind when developing policy, introducing new products, interacting with stakeholders and making day to day decisions ... and that is “what is in the best interests of our members”. This is the foundation upon which all our activities are built. Malpeque Bay Credit Union exists for one purpose; to make our members lives better through the provision of expert advice and to make our community as strong and successful as possible.

**Marc LeClair**

General Manager



# Members come first.

**Credit unions are ranked #1 in customer service year after year for a reason.**

Solving our members' financial needs is always our top priority, because as a credit union member, you're both the customer and the shareholder.



# Building a Community Together

Malpeque Bay Credit Union is proud to be a part of our Kensington and Area Community and is pleased to make community involvement a priority by providing sponsorships and donations to organizations, school groups, charities and special events.

This past year Malpeque Bay Credit Union donated over \$80,000 back into our Community and in 2016 our staff has donated over 1300 volunteer hours to various committees and fundraising activities.

We were pleased to have purchased the provincial banners you see proudly displayed in the KISH gym. These banners represent Kensington Intermediate Senior High School provincial championships. As well, funds were allocated to high school students attending the Terry Fox Center in Ottawa.

Over \$7,500.00 in bursaries and scholarships was awarded to five high school graduating students in 2016. Two smaller awards were handed out to 2 Grade 6 students who have “given back” to their school by assisting students and teachers. As well, in June Malpeque Bay Credit Union hosted a barbecue for the students and family members of the Queen Elizabeth Elementary School Grade 6 graduating class.

We purchased new jerseys for The Kensington Midget





Hockey Team, The Nor'Easters Grade 1-2 Basketball team as well as the Bulls Rec Hockey Team. Malpeque Bay Credit Union is pleased to support the Kensington Area Figure Skating Club and is the major sponsor of the annual Ice Show. We are a sweater/player sponsor of the Kensington Vipers, the Kensington Wild and the Western Capitals. Donations have been made to the Senior Men's Curling Team and the Annual Foxy Ladies Bonspiel. As well, Malpeque Bay Credit Union held its own curling bonspiel last February at the Silver Fox Curling and Yacht Club in Summerside. This past year donations supported the Special Olympics, Ladies Atlantic Bowling Team, PEI Soccer Association, PEI Youth Baseball Association and many local golf tournaments.

Donations were also made to the Red Oak Shrine Club, Kensington Scout Group, the Kensington Intermediate Senior High School Band, and numerous church functions.

Malpeque Bay Credit Union is proud to sponsor the Kensington and Area Chamber of Commerce Business Award for Best New Business, as well as the Best Community Improvement category in the Prince Edward Island Rural Beautification Society.

You will recognize our staff out and about at the Kensington Area Harvest Festival, manning our booth and as well participating in the Harvest Festival Parade. Malpeque Bay Credit Union is a major sponsor of the Harvest Festival Road Race and the Crokinole tournament as well as the Kensington Winter Carnival Children's Day. For the past few years approximately 100 children have attended the Children's Day activities at the Queen Elizabeth Elementary School. We fundraise for Big Brothers Big Sisters and every March our staff participates in Bowl for Kids Sake.

We are very fortunate to have the Indian River Festival located in our community and we are delighted to sponsor the Youth Legacy Program. This sponsorship benefits the up-and-coming talent on P.E.I. and features the winners of the P.E.I. Provincial Music Festival.

Malpeque Bay Credit Union takes great pride in being a part of our community and each year we continually strive to support our members, community groups and organizations in making our community a better place to live and prosper.

# A decade of Relay For Life

2016 marked our tenth and final year as the proud provincial event sponsor for the Canadian Cancer Society's Relay For Life. During those past ten years, our staff Team has participated in and fundraised over \$50,000.00 for the Canadian Cancer Society's Relay For Life.

Since 2006, PEI credit unions have together contributed over \$500,000 towards cancer research – with an impressive 60% being staff raised. Through this partnership, we have increased staff's involvement with the Society, educated our stakeholders about cancer prevention and raised significant funds to assist in the delivery of the Society's programs on PEI.

In June we were honored to be recognized as Outstanding Sponsorship Partner at the 30th Annual Maritime Philanthropy Awards thanks to a nomination by the Canadian Cancer Society. We would like to extend our gratitude to the Society for allowing us to be an active part of this amazing initiative over the past 10 years.



## Fill The YuMob

In December our fourth Annual #FilltheYuMob took place, where not one, but TWO, carloads of toys were collected. All toys were given to Santa's Angels, a volunteer group that delivers the toys on Christmas Day to over 300 Island families in need. Thank you to everyone who participated in this notable cause.



A large, close-up image of a hand with the index finger pointing to the right, set against a solid orange background.

# Prince County Hospital Lights for Life

Credit Unions of Prince County have been the presenting sponsors of the Prince County Hospital Lights for Life for the past 9 years. Last year Malpeque Bay Credit Union's contribution amounted to \$3750.00 – our portion of the \$15,000 donated annually. Every dollar raised from Lights for Life supports the purchase of medical equipment for Prince County Hospital.



# Camp Triumph

The staff of Malpeque Bay Credit Union has been involved with fundraising and donating to Camp Triumph for the past 5 years. The camp is free for all children to attend, however they heavily rely on donations to continue to provide this opportunity to children.



# Kensington Christmas Parade

Malpeque Bay Credit Union provided free musical entertainment along with delicious barbequed hot dogs at the Kensington Christmas parade.



# Scholarships

We are pleased to announce 5 Malpeque Bay Credit Union Scholarship Recipients for 2016. Each scholarship recipient received \$1,500 towards furthering their education. In total, Malpeque Bay Credit Union distributed \$7,500.

Not Pictured: Ashley Doucette

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



Ben Morrison



Bethany O'Connor



Jayden Reid



Keegan Dymont

# Investing In People

Investing in People, our primarily social media based campaign, aims to make a small positive financial impact for individuals during their day to day lives. From paying for car services, to helping furnish a student's new apartment, we have helped Islanders from tip to tip. Since its inception in 2015, over one hundred individuals have benefited, which we hope to grow in the upcoming year.

For 2016, we tried to change things up for the holiday season by launching Investing in Cheer.

Three individuals were each given \$500 to spread some much needed Christmas cheer to deserving groups. These groups included the QEH pediatrics unit, Boys and Girls Club Charlottetown, and two families in need in the Kinkora area.





## 2016 Volunteer of the Year

Dawn Holmes and Paul Chessman congratulate Jaunita Boucher, Malpeque Bay Credit Union's 2016 Volunteer of the Year.



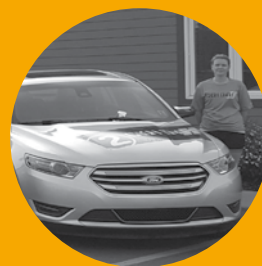
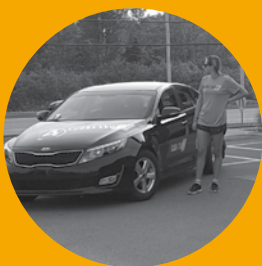
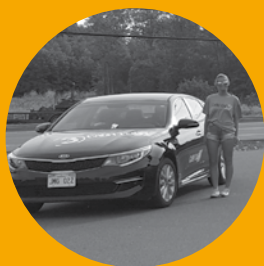
## Tree of Hope

Since 1994 Malpeque Bay Credit Union has partnered with the Kensington Lions Club to provide gifts and clothing to the families less fortunate in our area.

Our community continues to ensure the success of the Tree of Hope by donating toys, clothing, books, knitted goods, and monetary donations. In 2016 over 65 households benefitted from this program.

# Cash Dash 2.0

The Cash Dash, our amazing-race styled event, returned this year with added challenges for participants. Instead of a single day event across PEI, the four teams of two raced for two days across three provinces—PEI, New Brunswick, and Nova Scotia. This year the tasks and services focused on the cooperative movement, with activities like balancing ledgers and earning community support. Teams competed against each other for the grand prize of \$5,000. Our following built upon last year's success, with a tremendous response to both interest and overall online social interactions.



## The Do Good Project

As a cooperative financial institution, credit unions truly believe in giving back and bettering the communities they serve. In 2016, we launched The Do Good Project, which gave the public the opportunity to decide how to make a positive impact within their neighborhood. In addition to coming up with the ideas, the public also chose the two winning projects based on popular vote.

We had an overwhelming response to this contest; eight plans submitted and close to two thousand votes cast.

The top two finalists, Lynn Thompson and Lewie Sutherland, earned \$2,500 each to make their community plans a reality. Lynn Thompson will be using the money to enhance the outdoor play-space at Morell Early Learning Centre, and Lewie Sutherland will be improving the Alysha Toombs Memorial Park in Kensington.



# Inspire Learning Centre

Credit unions on PEI were proud to partner with the new and innovative Inspire Learning Centre in 2016. Located in Summerside the state-of-the-art regional learning centre is a bustling hub for job seekers, entrepreneurs, study groups and people of all ages!

The Inspire Learning Centre, dubbed the “library of tomorrow” offers state of the art facilities including semi-private reading pods, collaborative workstations and borrowable media in every category! Credit unions look forward to the year ahead with the Inspire Learning Centre and the impact it will make on the community and surrounding areas.



## Junior Achievement



2016 marked an important partnership for the credit union system on PEI as we teamed up with Junior Achievement to bring our financial knowledge into the classroom. Through JA PEI's Economics for Success program, the credit union has been able to instruct over 1,500 students on the fundamentals of financial literacy and the significance of budgeting.

As a result of the successful and well-received programming, credit union employee, Kate Ryan was awarded JA PEI's Volunteer of the Year award in 2016. Credit unions will continue their partnership with JA for the upcoming year with 500 students already enrolled for the programs upcoming semester.

# Credential Financial Strategies

To say 2016 was an interesting year globally would be quite an understatement. We had everything from the resignations and impeachments of world leaders, to the Zika virus, terrorist attacks, Britain voting to Brexit (an abbreviation for Britain exiting the European Union ) and the “did they or didn’t they” question of whether or not Russia was involved in the US election.

Two of these events, Brexit and the rise of Donald Trump, appear to have been made possible by a dissatisfaction with the status quo. Voters appear to have voted for the choice that they felt would cause the shock that would prompt the major changes they feel are needed.

The first of these events was Brexit. The people of Britain voted to leave the European Union in a referendum in June. This came as a surprise because all the polls had suggested the vote would be to “remain” rather than “exit”, and Britain leaving the EU is considered to be a step backwards economically for both Britain and Europe. Decades of building relationships between the countries of the EU has made London its financial capital and allowed easier travel between these countries. This has resulted in more diverse populations and increased economic growth for all. Whether the referendum alone is enough to invoke Article 50 of the Lisbon Treaty that starts the “exit” process is still being debated.

The election in the US has been equally interesting. Donald Trump is a controversial figure that has said and done things that many

people find distasteful, both in the US and around the world. Whether or not Russia was involved in the US election or not is yet to be determined, but an argument could certainly be made that President Trump might be the most favorable US president yet to Russian global interests.

All this being said, the markets rallied in 2016 after a weak 2015, and continue to do well in 2017 as I write this. Many people expected volatility in the markets following the US election, but the markets have been stable and the returns positive. A lot of this has to do with the fact that investments more and more are being chosen in a “Bottom Up” style that focuses on individual companies and how competent their management is, rather than the “Top Down” approach that in past years focused more on the “big picture” and economic trends. This blends well with many of today’s investments that are built to be defensive, which means they are designed to not be as affected by downturns in the markets brought on by world events.

Always remember that volatile markets offer the best opportunities.

**Paul Chessman**, CFP, CHS, CWC  
Certified Financial Planner

# Financial Statements



March 6, 2017

## 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 December 31, 2016, 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 December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants

# Malpeque Bay Credit Union, Limited

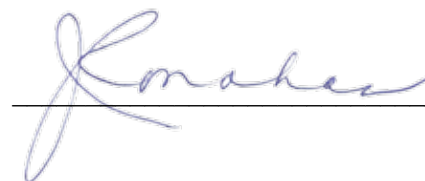
## Statement of Financial Position

As at December 31, 2016

	2016 \$	2015 \$
<b>Assets</b>		
Cash and cash equivalents (note 17)	5,787,771	4,934,442
Loans and mortgages (notes 7, 16 and 17)	86,577,790	79,438,476
Accounts receivable	82,810	115,292
Prepaid expenses and other	145,429	129,723
Income taxes receivable	31,800	14,940
Property and equipment (note 8)	768,221	805,661
Investments (note 9)	13,324,098	14,412,696
Deferred income taxes (note 13)	254,750	248,514
	<u>106,972,669</u>	<u>100,099,744</u>
<b>Liabilities</b>		
Member deposits (notes 10 and 17)	94,398,807	88,367,466
Accrued interest payable	501,362	557,860
Other liabilities	1,190,195	694,231
	<u>96,090,364</u>	<u>89,619,557</u>
<b>Members' Equity</b>		
Undistributed income	<u>10,882,305</u>	<u>10,480,187</u>
	<u>106,972,669</u>	<u>100,099,744</u>

Approved by the Board of Directors

 Director

 Director

# Malpeque Bay Credit Union, Limited

## Statement of Changes in Members' Equity

For the year ended December 31, 2016 and 15 month period ended December 31, 2015

	(12 months) 2016 \$	(15 months) 2015 \$
<b>Undistributed income - Beginning of period</b>	10,480,187	9,433,223
Net earnings for the period	<u>402,118</u>	<u>1,046,964</u>
<b>Undistributed income - End of period</b>	<u>10,882,305</u>	<u>10,480,187</u>

# Malpeque Bay Credit Union, Limited

## Statement of Comprehensive Income

For the year ended December 31, 2016 and 15 month period ended December 31, 2015

	(12 months) 2016 \$	(15 months) 2015 \$
<b>Revenue</b>		
Loan interest (note 17)	3,591,961	4,271,650
Investments (note 17)	154,001	614,512
Service fees	463,042	546,260
Commissions	520,595	499,262
Other income	32,768	39,635
	<u>4,762,367</u>	<u>5,971,319</u>
<b>Expenses</b>		
Staff (notes 14 and 16)	1,403,096	1,693,821
Premises	69,981	104,556
Insurance	151,715	177,769
Office	47,440	64,509
Service fees	665,514	710,708
General	478,541	554,075
Cost of capital	812,435	1,017,527
Amortization	54,104	69,091
	<u>3,682,826</u>	<u>4,392,056</u>
<b>Operating earnings</b>	<u>1,079,541</u>	<u>1,579,263</u>
<b>Other expense</b>		
Share dividends	174,115	267,847
Provision for loan losses (note 7)	95,000	101,477
Member rebates	337,564	-
	<u>606,679</u>	<u>369,324</u>
	<u>472,862</u>	<u>1,209,939</u>
<b>Provision for (recovery of) income taxes</b>		
Current (note 13)	76,980	165,634
Deferred income taxes (note 13)	(6,236)	(2,659)
	<u>70,744</u>	<u>162,975</u>
<b>Net earnings for the period</b>	<u>402,118</u>	<u>1,046,964</u>

# Malpeque Bay Credit Union, Limited

## Statement of Cash Flows

For the year ended December 31, 2016 and 15 month period ended December 31, 2015

	(12 months) 2016 \$	(15 months) 2015 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the period	402,118	1,046,964
Items not affecting cash		
Amortization	54,104	69,091
Provision for loan losses	95,000	101,477
Deferred income taxes	(6,236)	(2,659)
	544,986	1,214,873
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	32,482	(45,947)
Increase in loans and mortgages	(7,234,314)	(8,680,806)
Increase in prepaid expenses and other	(15,706)	(31,553)
Decrease (increase) in income taxes receivable	(16,860)	2,566
Increase in member deposits	6,031,341	5,203,836
Decrease in accrued interest payable	(56,498)	(19,982)
Increase (decrease) in other liabilities	495,964	(185,978)
	(218,605)	(2,542,991)
<b>Investing activities</b>		
Purchase of property and equipment	(16,664)	(40,668)
Decrease (increase) in investments	1,088,598	(1,948,684)
	1,071,934	(1,989,352)
<b>Increase (decrease) in cash and cash equivalents</b>	853,329	(4,532,343)
<b>Cash and cash equivalents - Beginning of period</b>	4,934,442	9,466,785
<b>Cash and cash equivalents - End of period</b>	5,787,771	4,934,442
<b>Supplementary disclosure</b>		
Interest paid	819,224	997,421
Interest received	3,795,036	4,377,477
Dividends paid	267,847	263,812
Dividends received	16,876	344,113
Income taxes paid	108,780	181,025
Income taxes received	14,940	17,506

# Notes to the Financial Statements



# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

December 31, 2016

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### 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 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 March 6, 2017.

#### (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.

### 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 cash equivalents and investments in the liquidity reserve deposit.

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

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- 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

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- 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 accounts receivable and 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

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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 cash equivalents

Cash and cash 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

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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 December 31, 2016.

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

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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 period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous periods.

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
- 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.

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

December 31, 2016

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(h) 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.

(i) Standards issued but not yet effective

As at December 31, 2016, 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.

#### 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

December 31, 2016

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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 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 occurs 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

December 31, 2016

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:

	2016 \$	2015 \$
Cash and cash equivalents	5,787,771	4,934,442
Accounts receivable	82,810	115,292
Loans and mortgages	86,577,790	79,438,476
Investments	1,766,483	-
	<u>94,214,854</u>	<u>84,488,210</u>

Cash and cash equivalents, accounts receivable 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

December 31, 2016

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:

	2016 \$	2015 \$
Cash and cash equivalents	<u>5,787,771</u>	<u>4,934,442</u>

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 December 31, 2016.

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

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	2016 Total \$
Member deposits	54,822,160	19,936,732	-	74,758,892
Share account	19,639,915	-	-	19,639,915
Accrued interest payable	501,362	-	-	501,362
Other liabilities	1,190,195	-	-	1,190,195
	<u>76,153,632</u>	<u>19,936,732</u>	<u>-</u>	<u>96,090,364</u>

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	2015 Total \$
Member deposits	49,924,955	20,283,455	-	70,208,410
Share account	18,159,056	-	-	18,159,056
Accrued interest payable	557,860	-	-	557,860
Other liabilities	694,231	-	-	694,231
	<u>69,336,102</u>	<u>20,283,455</u>	<u>-</u>	<u>89,619,557</u>

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

December 31, 2016

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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.

	<b>Net interest income change 2016 \$</b>	<b>Net interest income change 2015 \$</b>
Before tax impact of		
1% increase in interest rates	288,200	287,600
1% decrease in interest rates	(112,900)	(73,800)

(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

December 31, 2016

### (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 December 31, 2016, the equity level for regulatory purposes is as follows:

	2016 \$	2015 \$
Ownership shares (note 12)	25,140	25,200
Members' equity	10,882,305	10,480,187
Total regulatory equity	10,907,445	10,505,387
Total assets	106,972,669	100,099,744
Equity level	10.19%	10.50%
	#	2016 \$
Opening, January 1, 2016	5,089	25,200
Net change	(61)	(60)
Closing, December 31, 2016	5,028	25,140

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

December 31, 2016

### 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:

	2016		2015	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
<b>Assets carried at fair value</b>				
Financial assets held for trading -				
Cash and cash equivalents	5,787,771	5,787,771	4,934,442	4,934,442
Liquidity reserve deposit (note 9)	6,557,615	6,557,615	6,224,403	6,224,403
	<u>12,345,386</u>	<u>12,345,386</u>	<u>11,158,845</u>	<u>11,158,845</u>
<b>Assets carried at amortized cost</b>				
Accounts receivable	82,810	82,810	115,292	115,292
Loans and mortgages	86,577,790	86,577,790	79,438,476	79,438,476
Investments - held to maturity (note 9)	5,000,000	5,000,000	6,500,000	6,500,000
Investments - available for sale (note 9)	1,765,495	1,765,495	1,688,293	1,688,293
	<u>93,426,095</u>	<u>93,426,095</u>	<u>87,742,061</u>	<u>87,742,061</u>
<b>Liabilities carried at amortized cost</b>				
Member deposits	94,398,807	94,398,807	88,367,466	88,367,466
Accrued interest payable	501,362	501,362	557,860	557,860
Other liabilities	1,190,195	1,190,195	694,231	694,231
	<u>96,090,364</u>	<u>96,090,364</u>	<u>89,619,557</u>	<u>89,619,557</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

December 31, 2016

### 7 Loans and mortgages

#### (a) Summary

	2016				2015	
	Total \$	Impaired Loans \$ (included in total)	Specific Provision \$	Collective Provision \$	Net \$	Net \$
Personal	32,299,714	605,168	26,328	40,689	32,232,697	27,373,191
Business (note 17)	38,032,848	2,048,776	338,699	129,065	37,565,084	34,682,080
Mortgages	5,536,175	-	-	-	5,536,175	6,594,162
Lines of credit and overdrafts	10,207,397	2,409	2,409	152	10,204,836	9,627,536
League Savings and Mortgage	785,380	-	-	-	785,380	852,235
Accrued loan interest	253,618	-	-	-	253,618	309,272
	87,115,132	2,656,353	367,436	169,906	86,577,790	79,438,476

#### *Mortgages and loans*

Mortgage loans are secured by realty mortgages with interest rates of 2.84% - 7.39% (2015 - 2.94% - 7.39%). Loans other than mortgages are priced at market rates unless circumstances warrant special considerations. The interest rates range from 1.25% - 24% (2015 - 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 Canadian chartered banks. The rate as at December 31, 2016 was 3.25% (2015 - 3.25%).

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

	Specific \$	Collective \$	Total \$
<b>Balance - December 31, 2015</b>	386,107	136,056	522,163
Increase in allowance	61,150	33,850	95,000
Amounts written off during the year	(79,821)	-	(79,821)
<b>Balance - December 31, 2016</b>	367,436	169,906	537,342

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

December 31, 2016

### (c) Provision for loan losses

	2016 \$	2015 \$
Increase in allowance	95,000	120,000
Recoveries of loans previously written off	-	(18,523)
	<u>95,000</u>	<u>101,477</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:

	\$
December 31, 2016	1,244,142
December 31, 2015	2,634,312

## 8 Property and equipment

	Land \$	Buildings \$	Furniture, equipment and computers \$	Pavement \$	Total \$
<b>Cost</b>					
Balance - Beginning of period	87,066	1,428,137	1,194,375	23,607	2,733,185
Additions	-	-	16,664	-	16,664
Balance - End of period	<u>87,066</u>	<u>1,428,137</u>	<u>1,211,039</u>	<u>23,607</u>	<u>2,749,849</u>
<b>Accumulated amortization</b>					
Balance - Beginning of period	-	789,310	1,124,632	13,582	1,927,524
Current period amortization	-	32,341	20,961	802	54,104
Balance - End of period	<u>-</u>	<u>821,651</u>	<u>1,145,593</u>	<u>14,384</u>	<u>1,981,628</u>
<b>Carrying value</b>					
December 31, 2015	87,066	638,827	69,743	10,025	805,661
December 31, 2016	87,066	606,486	65,446	9,223	768,221

# Malpeque Bay Credit Union, Limited

Notes to Financial Statements

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## 9 Investments

	2016 \$	2015 \$
<b>Financial assets</b>		
<i>Fair value through profit or loss:</i>		
Liquidity reserve deposit	6,557,615	6,224,403
<i>Held to maturity:</i>		
Term deposits	5,000,000	6,500,000
<i>Available for sale:</i>		
Atlantic Central shares	1,186,570	1,108,380
Concentra shares	500,000	500,000
League Savings & Mortgage shares	26,865	26,865
League Data shares	27,060	27,060
Co-operative membership	25,000	25,000
CU PEI Investment Corp.	988	988
	1,766,483	1,688,293
Total investments	13,324,098	14,412,696

### *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	1.40%	May 4, 2017
	3,000,000	0.79%	January 9, 2017
Total	5,000,000		

### *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.

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

December 31, 2016

### 10 Member deposits

	2016 \$	2015 \$
Ownership shares and share accounts (note 12)	19,639,915	18,159,056
Savings and Plan 24	24,399,090	21,543,145
Chequing accounts (note 17)	19,979,664	17,610,957
Term deposits	11,679,502	12,860,520
RRSP and RRIF	18,700,636	18,193,788
	<u>94,398,807</u>	<u>88,367,466</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 2016 was 1.0% (2015 - 1.50%) for the year (2015 - 15 month period) 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 0.00% - 1.80% (2015 - 0.10% - 1.80%).

*Chequing accounts* are held on a call basis and pay the account holders interest at the Credit Union's stated rates, 0.00% - 0.34% (2015 - 0% - 0.33%).

*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 0.75% - 3.00% (2015 - 0.75% - 3.00%) 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 0.10% - 3.55% (2015 - 0.10% - 3.55%).

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

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

December 31, 2016

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### 11 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 December 31, 2016 was \$12,958 (2015 - \$19,723).

Included in the loans and mortgages balance is a provision of \$650 (2015 - \$1,000) relating to the student loan guarantees.

### 12 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.

### 13 Income taxes

#### (a) Tax rate reconciliation

	2016 \$	2015 \$
Income before income taxes	472,862	1,209,939
Taxes at statutory rates - 31.00% (2015 - 31.00%)	146,587	375,081
Impact of the 16% (2015 - 15.5%) small business deduction	(77,916)	(97,034)
Permanent differences and other	8,347	2,605
Impact of non-taxable dividend of \$123 (2015 - \$371,029)	(38)	(115,018)
	76,980	165,634

#### (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% (2015 - 31.00%) as follows:

	2016 \$	2015 \$
Balance, December 31, 2015	248,514	245,855
Comprehensive income recovery	6,236	2,659
Balance, December 31, 2016	254,750	248,514

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

December 31, 2016

Deferred income tax assets are attributable to the following items:

	2016 \$	2015 \$
<b>Deferred income tax assets</b>		
Property and equipment	38,453	38,537
Allowance for impaired loans	216,297	209,977
	<u>254,750</u>	<u>248,514</u>

### 14 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 period, the Credit Union expensed \$60,843 (2015 - \$76,468) in contributions to the plan. This expense is included with staff expenses on the Statement of Comprehensive Income.

### 15 Line of credit availability

In 2016, the Credit Union had an approved line of credit with Atlantic Central of \$2,200,000. As of December 31, 2016, the line of credit was not being utilized.

### 16 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

	2016 \$	2015 \$
Salaries and short-term employee benefits	313,555	607,761
Retirement benefit obligations	5,730	26,971

#### (b) Directors' remuneration

	2016 \$	2015 \$
Honorariums	9,400	9,150
Payment for expenses while on credit union business	9,396	28,269



# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

December 31, 2016

(c) Loans to directors and key management personnel

	2016 \$	2015 \$
Loans outstanding at beginning of period	727,256	421,572
Loans issued during the period	240,473	111,059
Loan repayments during the period	(343,960)	(99,135)
Net increase in lines of credit	50,468	293,760
Loans outstanding at end of period	674,237	727,256
Interest income earned	20,983	40,630

No provisions have been recognized in respect of loans to key management (2015 - nil). The loans to directors and key management personnel and close family members during the year of \$240,473 (2015 - \$111,059) are repayable over 1 - 12 years and have interest rates ranging from 1.25% - 5.25% (2015 - 1.25% to 6.25%).

### 17 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 \$1,999,487 (2015 - \$1,133,648) in loans to CU PEI Investment Corp. The loans to CU PEI Investment Corp. bear interest at 1% with no set terms of repayment. Included in cash and member deposits is \$2,004,121 (2015 - \$2,394,515) of cash deposits held for CU PEI Investment Corp.

Included in loan interest and investment revenue is \$14,309 (2015 - \$17,878) of interest income and nil (2015 - \$370,533) of dividend income, received from CU PEI Investment Corp.

The Credit Union is a shareholder in CU PEI Investment Corp.

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

December 31, 2016

### 18 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.

					2016
	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
<b>Assets</b>					
Cash and cash equivalents	5,196,981	-	-	590,790	5,787,771
Effective interest rate	0.80%				
Investments	12,554,135	769,963	-	-	13,324,098
Effective interest rate	1.00%	2.99%			
Loans and mortgages	53,542,234	32,937,564	391,748	(293,756)	86,577,790
Effective interest rate	4.27%	4.12%	5.23%		
Accounts receivable	-	-	-	82,810	82,810
Income taxes receivable	-	-	-	31,800	31,800
Prepaid expenses and other	-	-	-	145,429	145,429
Property and equipment	-	-	-	768,221	768,221
Deferred income taxes	-	-	-	254,750	254,750
Total assets	71,293,350	33,707,527	391,748	1,580,044	106,972,669
<b>Liabilities and surplus</b>					
Member deposits	54,822,160	19,936,732	-	-	74,758,892
Effective interest rate	0.70%	2.02%			
Share deposits	19,639,915	-	-	-	19,639,915
Effective interest rate	1.00%				
Accrued interest payable	-	-	-	501,362	501,362
Other liabilities	-	-	-	1,190,195	1,190,195
Undistributed earnings	-	-	-	10,882,305	10,882,305
Total liabilities and surplus	74,462,075	19,936,732	-	12,573,862	106,972,669
<b>Interest rate sensitivity gap</b>	(3,168,725)	13,770,795	391,748	(10,993,818)	-

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

December 31, 2016

	2015				
	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
<b>Assets</b>					
Cash and cash equivalents	4,186,342	-	-	748,100	4,934,442
Effective interest rate	0.91%				
Investments	13,642,708	769,988	-	-	14,412,696
Effective interest rate	0.98%	2.99%			
Loans and mortgages	47,435,847	32,117,626	97,894	(212,891)	79,438,476
Effective interest rate	4.50%	4.43%	5.25%		
Accounts receivable	-	-	-	115,292	115,292
Income taxes receivable	-	-	-	14,940	14,940
Prepaid expenses and other	-	-	-	129,723	129,723
Property and equipment	-	-	-	805,661	805,661
Deferred income taxes	-	-	-	248,514	248,514
Total assets	65,264,897	32,887,614	97,894	1,849,339	100,099,744
<b>Liabilities and surplus</b>					
Member deposits	49,924,955	20,283,455	-	-	70,208,410
Effective interest rate	0.71%	2.09%			
Share deposits	18,159,056	-	-	-	18,159,056
Effective interest rate	1.50%				
Accrued interest payable	-	-	-	557,860	557,860
Other liabilities	-	-	-	694,231	694,231
Undistributed earnings	-	-	-	10,480,187	10,480,187
Total liabilities and surplus	68,084,011	20,283,455	-	11,732,278	100,099,744
<b>Interest rate sensitivity gap</b>	(2,819,114)	12,604,159	97,894	(9,882,939)	-

As at December 31, 2016, the Credit Union's net interest spread was 2.77% (2015 - 3.53%). The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average period-end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average period-end interest bearing liabilities.

## 19 Commitments

The Credit Union had lines of credit and loans and mortgages approved but not disbursed at December 31, 2016 amounting to \$2,730,596 (2015 - 2,008,891).

## 20 Change in year end

Malpeque Bay Credit Union, Limited, in conjunction with the other Prince Edward Island member credit unions, changed its year end from September 30 to December 31 so that the members have the same year end in Atlantic Central Credit Union.

# Malpeque Bay Credit Union, Limited

## Notes to Financial Statements

December 31, 2016

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On the change in year end, Malpeque Bay Credit Union, Limited chose to report on a 15 month period from October 1, 2014, the date of the prior period end, to December 31, 2015. These financial statements include comparative figures in the statement of comprehensive income, change in members' equity and cash flows for a 15 month period. The corporation balances for December 31, 2016 include results for a 12 month period and are therefore not for the same reporting period.

### **21 Comparative figures**

Certain comparative figures presented for the 2015 fiscal year have been restated to conform with the financial statement presentation adopted in the current year.

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