

2017

Annual
Report



**CREDIT
UNION**

MALPEQUE BAY

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2017 Highlights

Assets: **\$116,049,430**
Deposits: **\$103,053,063**
Loans: **\$94,196,682**
Membership: **5,136**

Back to Members

\$
501K

Assets

▲
8.5%

Back to Communities

\$
105K

Deposits

▲
9.2%

Loans

8.8%

Avg. Member Savings

7.9%

New Members

242

Members Online

2K

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

Peter Pidgeon
President



Jean Ronahan
Vice President



Barb Mayhew
Secretary



Grafton Cole



Helen Warren



Jack Spencer



Michelle Montgomery



Alisha MacKay



David Sudsbury



President's Report



Another very successful year has come and gone. I measure success using three main factors; financial results, customer service satisfaction and community involvement. I am pleased to report that we have exceeded our expectations in each of these areas.

Dividends, Rebates, Community Investment

On the financial side, it is my pleasure to report that again this year we were able to give a substantial amount back to members and our community in the form of dividends, patronage rebates and community investments. The total of what we have been able to distribute is broken down as follows:

Member Dividend	\$141,901
Patronage Rebate	\$359,249
Direct Community Investment	\$ 60,434
Christmas Tree of Hope Campaign	\$ 21,435
50/50 Draw for Fitplex	\$ 18,250
Misc Staff Fundraisers	\$ 5,235
Total	\$606,504

The average patronage rebate paid back to members was \$147.80

We are very proud of the economic and social impact that Malpeque Bay Credit Union generates in our community. Members should also be proud of their credit union because without them, none of this would be possible.



Credit Union Centre

We are also very pleased to advise that, in our continuing partnership with Community Gardens, MBCU officially became the naming sponsor of the facility last year. We are in the final stages of re-branding Community Gardens to reflect our sponsorship. The new name of the facility will be "Credit Union Centre". It is important to point out that our partnership with Community Gardens started many years ago. In addition to being a major annual contributor to the Zamboni we were one of the major stakeholders in the development of the FitPlex and have raised over \$200,000 so far for its ongoing operations and improvements through our 50/50 draw. We are very proud to have our name associated with the facility as it reflects our level of support and is a vital part of our community in supporting our youth.

A Look at our Premises

The Board of Directors has been talking about our current premises for the past few years. The building is getting tired and is in need of a major rejuvenation. The theme of many of our member suggestions over the last couple of years has centered around this. As we worked through the possibilities, we included the option of building new. I would like to bring you up to date on where we are right now in the process.

We are in the process of securing a piece of land that we feel would suit our needs for a new facility. It is on Sunset Drive across from the funeral home. We are working with an architect on possible designs. Throughout 2018 we will be evaluating our different options; whether to move to a new location with new premises or whether to renovate our existing building. We will keep you updated on our progress.

Closing

In closing I would like to acknowledge our Manager and his excellent staff. We are very appreciative of their dedication to our members and our community. We review very closely the Member Service Survey and judging by the results this past year they continue to exceed our members' expectations. I would also like to thank my fellow directors for their dedication and insight. They always have nothing but the best interests of our members in mind when setting policy and making decisions.

Peter Pidgeon
President

Manager's Report



I am pleased to report that it has been another very successful year for Malpeque Bay Credit Union. Our success is a product of a very special formula made up of dedicated employees, loyal members, our substantial involvement in the community and local control with access to a host of regional, national and international partners that enable us to provide everything from basic to very sophisticated services.

Financial

Last year MBCU grew by 8.5% far outpacing the industry average and is up from a growth rate of 7.0% last year. Total loans and deposits under administration this year has almost reached the \$200 million mark. Total net earnings, prior to dividends, rebates and taxes was \$1.019 million which is on par with last year's results. Our equity level remains very strong at \$11,230,858 or 9.67% of assets; well above regulatory requirements of 5.0%. The impressive financial results indicate that MBCU is a strong, stable and vibrant credit union.

Products and Services

This past year we updated our "Mobile App" to make it more convenient for members to sign in. Instead of entering a PIN number, you can now sign in with your fingerprint from devices that support this feature.

“We are working very hard to ensure our members’ evolving needs and expectations are continually met or exceeded.”

We also introduced new business chequing accounts. We did this to better match what is offered in the industry after 20 years of no changes. We now have a range of packages and customizable solutions to suit everyone’s needs. All our business clients have now been converted over to the new packages and I thank everyone for their co-operation and understanding during the transition. No one likes change.

Our industry is rapidly changing and evolving to meet ever increasing consumer demands. We are working very hard to ensure our members’ evolving needs and expectations are continually met or exceeded. We are working on a number of new initiatives that will make banking with MBCU more convenient. Later this year or early next year we plan to introduce new digital services that will make it easier to open accounts and obtain loans and credit cards on-line. With on-line shopping now a common activity, many members are telling us that they would prefer to access more services on-line from the comfort of their home or office. We are listening and plan to be there shortly.

We are also changing our credit and payment card supplier later this year. More information will be made available to you as we work through the logistics. This is very exciting for us and our cardholders. Stay tuned.

Wealth Management

A very exciting National project has just become a reality. Canadian Credit Unions and Desjardin have combined their wealth management operations to form a new company “Aviso Wealth”. This Major new Canadian wealth management company will have 500,000 clients and over \$55 billion in combined assets under administration and management. This means better access to the best investing, insurance, and financial planning services to MBCU members through “Aviso Wealth” and Paul Chessman; CFP CHS who’s office is right next door.

Customer Service

Again this year Canadian Credit Unions came first in the following IPSOS Best

(continues)

(continued)

Banking Awards categories out of all financial institutions in Canada:

- Customer Service Excellence
- Branch Service Excellence
- Values My Business
- Live Agent Telephone Banking Excellence
- Mobile Banking Excellence
- Financial Planning and Advice
- Mobile Banking Excellence
- Automated Telephone Banking Excellence

MBCU's own Member Service Survey this past year validated these awards by resulting in a score of 9 out of 10. We distributed 2864 surveys and enjoyed a response rate 20.53% (extremely high). An example of the comments that came back were:

- *"Truly disliked doing banking in past (TD & RBC) either for business or personal. Always felt as a non-existent individual. Today I bank at Credit Union and I don't mind banking. I feel accepted. Banking is more on a personal level. Friendly staff & most clerks address me by name. And I love the drive thru window, a real person, not a machine."*
- *"I have nothing but the highest praise in how I am treated as a member, customer service is second to none. I have the utmost respect*

and confidence in my financial advisers who always ensure I am their top priority. Continue to be the number one financial institution."

- *"The best there is
The best there was
The best there ever will be"*
- *"Best idea for a long time to change my accounts to Kensington Credit Union."*

Closing

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
Manager



Community Involvement Report



Giving back to our community has always been important to us. Malpeque Bay Credit Union continues to make Community involvement a priority and this past year over \$60,000.00 in donations and sponsorships provided support to local organizations and to both the young and young at heart.

As well, our staff has volunteered over 1000 hours to various committees, charities and local events. Malpeque Bay Credit Union staff has organized and volunteered at the Kensington Winter Carnival Children's Day; served hot dogs at the Kensington Fishing Derby; hopped on a 'train' and tossed candy to the children during the Harvest Festival parade and helped barbeque to raise funds for Camp Triumph.

The staff has bowled in Big Brothers Big Sisters Bowl for Kids Sake; golfed in the Prince County Hospital and Camp Abegweit Golf Tournaments;

skated to raise funds for the Alysha Toombs Memorial Park; kayaked in a Camp Triumph fundraiser and walked in support of PEI Family Violence Prevention Services.

Youth are the future and our commitment to Island youth continues to grow with annual scholarships of \$1,500.00 which are awarded each year to 5 high school graduating students who are furthering their education. One important factor of this scholarship is student involvement in their community. As well our Credit Union hosts a graduation luncheon for the Queen Elizabeth Elementary School Grade 6 graduation class and their families.

For the past 17 years Malpeque Bay Credit Union has allocated over \$17,000 in donations to the Kensington Scouting Movement. This donation benefits, the beavers, cubs, scouts, and venturers. Also, a donation was made to



the Kensington Girl Guides. These two organizations contribute to the development of our young people in learning important life and leadership skills.

Sporting teams have benefitted from our sponsorships and donations; the Kensington Nor'easters basketball team; the Kensington Wild; Kensington Vipers; Kensington Midget Hockey Team; Under 13 Girls Soccer team, as well as the Ladies Bowling team and each year we are a major sponsor of the Kensington Area Figure Skating Club Ice Show.

For over 20 years Malpeque Bay Credit Union has sponsored the Harvest Festival Road Race and for the past few years the Harvest Festival Crokinole Tournament.

Our contributions continue with our annual donation to the Indian River Festival Youth Legacy Program as well as sponsoring the Best New Business award

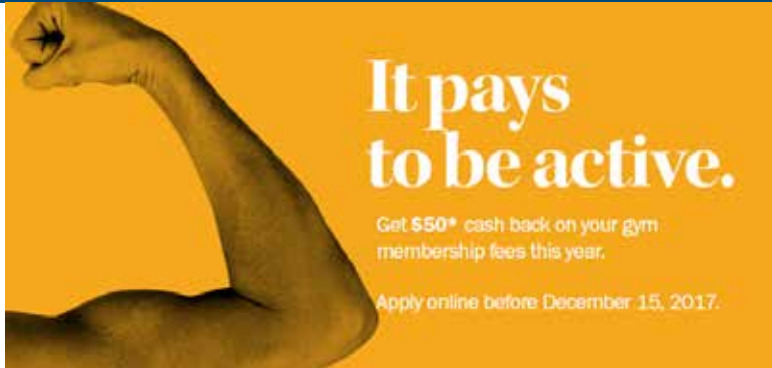
at the Kensington and Area Chamber of Commerce Business Excellence Awards. For the past 10 years Malpeque Bay Credit Union has been proud of its commitment to the Prince County Hospital Lights for Life Campaign. Over \$40,000.00 has been donated to the hospital. These funds are used to provide vital medical equipment for the Hospital.

Credit Unions operate on the principle of people helping people and Malpeque Bay Credit Union is proud to be a part of our community and to support the communities where we live, work and play.

Get Active

2017 marked the launch of our new social cause across Island credit unions – where we are committed to more physically active communities on PEI. This initiative was conceptualized around the 2016 Public Health Officer's Report which reported that over half of Islanders consider themselves physically inactive. Physical inactivity leads to a staggering decrease in overall health resulting in a higher risk factor for the development of health conditions including stroke, heart disease, obesity and type 2 diabetes. This decrease in health can negatively impacts a household's finances, especially in the retirement stages where income is fixed.

Gym Rebate Program



Our commitment to this cause has first been demonstrated by our Get Active Gym Program where we offered \$50 cash back to any of our members who paid gym membership fees in 2017. This resulted in close to \$4,000 being rebated to our members who show a dedication to their physical wellbeing.

Credit unions are committed to a more physically active



Storm Basketball

Continuing with our flagship social cause of inspiring Islanders to get up and get active, Credit Unions signed on as a major sponsor of the Island Storm for the 2017-2018 season.

Teaming up with the professional NBL team has given us many unique opportunities including two Under 25 Free games, where anyone 25 and under was able to attend the Storm game for free. The first of our Under 25 Free game saw 1,028 free tickets distributed to fans – resulting in a savings of \$11,500 for the local community!



Credit Union Place

Since the opening of Credit Union Place in Summerside in 2007 credit unions on the Island have maintained a strong relationship with the multi purpose facility lead by Consolidated Credit Union.

As a fixture to both the Summerside community and the Island as a whole, 2017 marked a new 10-year agreement that all PEI credit unions have invested in. The naming rights of the facility have been immeasurable in true value as Credit Union Place continues to be a top Atlantic Canadian venue for high-end entertainment and sporting events.

Alongside the naming rights, credit union members receive discounts on services offered by the facility – to date this has saved our membership \$75,000 yearly in user fees. We're thrilled to have signed-on for another 10 years and look forward to our future with Credit Union Place.

150 Acts of Kindness



2017 marked our nations 150th birthday. As part of the Canada150 celebrations, credit unions across Canada were challenged to put back 150,000 volunteer hours back into our communities.

Malpeque Bay Credit Union rose to the challenge and took it one step further - instead of just volunteer hours, we committed to doing 150 acts of kindness within our community.

Those 150 acts were all completed by January and you can see over one hundred ways that you can bring a smile to someones face, proudly displayed in the branch!



Junior Achievement

For the last two years' credit unions on the Island have held a valuable partnership with JA PEI. Working off JA's already well-received programming we teamed up to enhance their Economics for Success program with the additional knowledge of a financial expert.

Economics for Success focuses on the importance of financial literacy and teaches students budgeting skills which they'll need for the future. Through the growing popularity of the program we have currently been able to instruct over 2,400 students at 14 different Island high-schools. With having signed on as a partner again in 2018, we look forward to reaching more students and continuing the conversation about financial literacy!



Christmas Tree of Hope

In December, 85 children in the greater Kensington area were able to have a happy Christmas this year through our Christmas Tree of Hope.

Malpeque Bay Credit Union and the Kensington Lions Club have partnered together for the last 20 years to bring a magical Christmas to families in need.

Through the generosity of our members, our local businesses and the public at large, the Christmas Tree of Hope has become more and more successful. This year alone we surpassed \$21,000 raised in cash and donations for children aged 0 to 18.

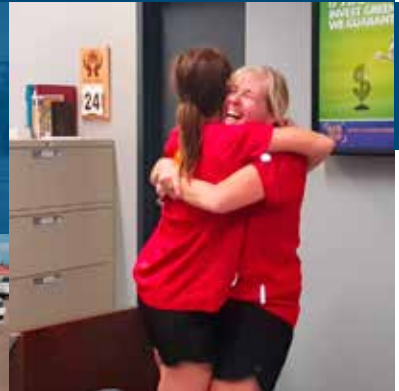


Cash Dash 3

The Cash Dash, our amazing-race styled summer event, returned for it's third consecutive year!

Continuing with our two-day event, four teams of two raced across the three maritime provinces tackling over 30 different challenge stops.

This year our stops were centered around the Game of Life – and all of the impromptu and sometimes inconvenient challenges that will be thrown your way. With this being our third year under our belt and a \$5,000 grand prize we noticed a strong increase in general interest as well as high numbers in social interactions as people checked in to cheer on their favourite team!



Commercial Accounts

2017 marked the launch of our new Commercial Accounts, bringing over many of the features of our personal products. Our new Operating and Investment Accounts bring the ease of use, and new money saving features such as free Me-to-Me Online transfers, Merchant discounts, and lower fee options for Not-For-Profits.

Our new accounts also change the way we charge for business deposits. Now, those who don't need the service avoid any overcharges, while still offering the lowest fees in our industry for those that do .

Scholarships

We are pleased to announce 5 Malpeque Bay Credit Union Scholarship Recipients for 2017. Each scholarship recipient received \$1,500 towards furthering their education. In total, Malpeque Bay Credit Union distributed \$7,500.

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



Alexis Mulligan



Annie Tuplin



Jaime Wood



Jillian Marchbank



Mary Kate Picketts

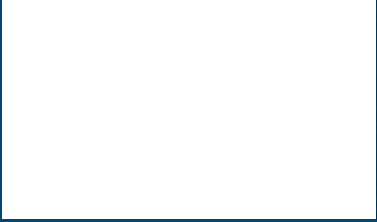
Financial Lit. Escape Room

In 2017 we brought financial literacy to life by jumping on the crazed trend of escape rooms.

Our free murder mystery escape room; "Stolen", intertwined the excitement of a frantic mystery plot while subtly teaching the importance of credit reports, using strong passwords and how to spot fraudulent transactions. Stolen operated out of a local warehouse where we were able to transform a portion of their offices into the run-down living quarters of our villain. Stolen functioned as a retail operation for two weeks with our 60 time-slots being 90% booked in the first 24 hours, resulting in more than 220 thrill-seeking individuals visiting the space.

Ultimately, Stolen was a great success in creating a new and innovative way to explain different financial topics.





Financial Statements



February 26, 2018

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, 2017, 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, 2017, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ArsenaultBestCameronEllis

Chartered Professional Accountants

Malpeque Bay Credit Union Limited

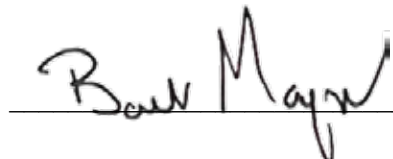
Statement of Financial Position

December 31, 2017

	2017 \$	2016 \$
Assets		
Cash and cash equivalents (note 17)	4,614,176	5,787,771
Loans and mortgages (notes 7, 16 and 17)	94,196,682	86,577,790
Accounts receivable	123,553	82,810
Prepaid expenses and other	202,050	145,429
Income taxes receivable	2,051	31,800
Property and equipment (note 8)	724,763	768,221
Investments (note 9)	15,892,755	13,324,098
Deferred income taxes (note 13)	293,400	254,750
	<u>116,049,430</u>	<u>106,972,669</u>
Liabilities		
Member deposits (notes 10 and 17)	103,053,063	94,398,807
Accrued interest payable	465,610	501,362
Other liabilities	1,299,899	1,190,195
	<u>104,818,572</u>	<u>96,090,364</u>
Members' Equity		
Undistributed income	<u>11,230,858</u>	<u>10,882,305</u>
	<u>116,049,430</u>	<u>106,972,669</u>

Approved by the Board of Directors

 Director

 Director

Malpeque Bay Credit Union Limited

Statement of Changes in Members' Equity

Year Ended December 31, 2017

	2017 \$	2016 \$
Undistributed income - Beginning of period	10,882,305	10,480,187
Net earnings for the period	<u>348,553</u>	<u>402,118</u>
Undistributed income - End of period	<u>11,230,858</u>	<u>10,882,305</u>

Malpeque Bay Credit Union Limited

Statement of Comprehensive Income

Year Ended December 31, 2017

	2017 \$	2016 \$
Revenue		
Loan interest (note 17)	3,776,333	3,591,961
Investments (note 17)	216,718	154,001
Service fees	491,724	463,042
Commissions	394,002	520,595
Other income	38,169	32,768
	<u>4,916,946</u>	<u>4,762,367</u>
Expenses		
Staff (notes 14 and 16)	1,507,751	1,403,096
Premises	70,238	69,981
Insurance	160,636	151,715
Office	45,135	47,440
Service fees	667,678	665,514
General	571,050	478,541
Cost of capital	826,530	812,435
Amortization	49,116	54,104
	<u>3,898,134</u>	<u>3,682,826</u>
Operating earnings	<u>1,018,812</u>	<u>1,079,541</u>
Other expense		
Share dividends	141,901	174,115
Provision for loan losses (note 7)	95,000	95,000
Provision for investment losses (note 9)	25,000	-
Member rebates	359,249	337,564
	<u>621,150</u>	<u>606,679</u>
	<u>397,662</u>	<u>472,862</u>
Provision for (recovery of) income taxes		
Current (note 13)	87,759	76,980
Deferred income taxes (note 13)	(38,650)	(6,236)
	<u>49,109</u>	<u>70,744</u>
Net earnings for the period	<u>348,553</u>	<u>402,118</u>

	2017 \$	2016 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	348,553	402,118
Items not affecting cash		
Amortization	49,116	54,104
Provision for loan losses	95,000	95,000
Provision for investment losses	25,000	-
Deferred income taxes	(38,650)	(6,236)
	<hr/> 479,019	<hr/> 544,986
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	(40,743)	32,482
Increase in loans and mortgages	(7,713,892)	(7,234,314)
Increase in prepaid expenses and other	(56,621)	(15,706)
Decrease (increase) in income taxes receivable	29,749	(16,860)
Increase in member deposits	8,654,256	6,031,341
Decrease in accrued interest payable	(35,752)	(56,498)
Increase in other liabilities	109,704	495,964
	<hr/> 1,425,720	<hr/> (218,605)
Investing activities		
Purchase of property and equipment	(5,658)	(16,664)
Decrease (increase) in investments	(2,593,657)	1,088,598
	<hr/> (2,599,315)	<hr/> 1,071,934
Increase (decrease) in cash and cash equivalents	<hr/> (1,173,595)	<hr/> 853,329
Cash and cash equivalents - Beginning of period	<hr/> 5,787,771	<hr/> 4,934,442
Cash and cash equivalents - End of period	<hr/> 4,614,176	<hr/> 5,787,771
Supplementary disclosure		
Interest paid	830,068	819,224
Interest received	3,828,524	3,795,036
Dividends paid	174,115	267,847
Dividends received	16,599	16,876
Income taxes paid	58,010	108,780
Income taxes received	31,800	14,940

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

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 February 26, 2018.

(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.

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

- 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. The Credit Union's investment in these shares are carried at cost. Therefore, the Credit Union's investment in certain shares are carried at cost. 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.

- 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.

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

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.

(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, 2017.

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.

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

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.

(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, 2017, a number of standards and interpretations had been issued by IASB which are not effective for these financial statements and have not yet been adopted by the Credit Union. Other than the introduction of IFRS 9, these changes are not expected to have a material impact on the financial statements.

IFRS 9 - Financial instruments

On July 24, 2014, IASB issued the complete version of IFRS 9. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets are to be measured at fair value through profit and loss (FVTPL) unless certain conditions are met which permit measurement at amortized cost or fair value through other comprehensive income. The classification and measurement of liabilities remain generally unchanged, with the exception of liabilities recorded at FVTPL.

IFRS 9 also introduces a new loss impairment model for all financial assets not at FVTPL, which results in credit losses being recognized regardless of whether a loss event has occurred. This expected credit loss (ECL) model replaces the current "incurred loss" model and requires an entity to recognize expected credit losses at all times and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of financial instruments.

IFRS 9 is effective January 1, 2018 and will be applied retrospectively. The Credit Union is currently analyzing the potential effects of adopting this new standard.

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:

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

(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.

(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.

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:

	2017 \$	2016 \$
Cash and cash equivalents	4,614,176	5,787,771
Accounts receivable	123,553	82,810
Loans and mortgages	94,196,682	86,577,790
Investments	15,892,755	13,324,098
	<u>114,827,166</u>	<u>105,772,469</u>

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

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.

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:

	2017 \$	2016 \$
Cash and cash equivalents	4,614,176	5,787,771

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, 2017.

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

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	2017 Total \$
Member deposits	68,157,465	16,031,900	-	84,189,365
Share account	18,863,698	-	-	18,863,698
Accrued interest payable	465,610	-	-	465,610
Other liabilities	1,299,899	-	-	1,299,899
	88,786,672	16,031,900	-	104,818,572

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

	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>

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

(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 2017 \$	Net interest income change 2016 \$
Before tax impact of		
1% increase in interest rates	277,700	288,200
1% decrease in interest rates	(150,200)	(112,900)

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

(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.

(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 Chartered Professional Accountants Handbook related to the financial statement presentation of financial instruments, the ownership shares are presented in the balance sheet as financial liabilities. At December 31, 2017, the equity level for regulatory purposes is as follows:

	2017 \$	2016 \$
Ownership shares (note 12)	26,965	25,140
Members' equity	11,230,858	10,882,305
Total regulatory equity	11,257,823	10,907,445
Total assets	116,049,430	106,972,669
Equity level	9.70%	10.19%
	#	2017 \$
Opening, January 1, 2017	5,028	25,140
Net change	365	1,825
Closing, December 31, 2017	5,393	26,965

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:

	2017		2016	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Assets carried at fair value				
Financial assets held for trading -				
Cash and cash equivalents	4,614,176	4,614,176	5,787,771	5,787,771
Liquidity reserve deposit (note 9)	7,119,972	7,119,972	6,557,615	6,557,615
	<u>11,734,148</u>	<u>11,734,148</u>	<u>12,345,386</u>	<u>12,345,386</u>
Assets carried at amortized cost				
Accounts receivable	123,553	123,553	82,810	82,810
Loans and mortgages	94,196,682	94,196,682	86,577,790	86,577,790
Investments - held to maturity (note 9)	7,000,000	7,000,000	5,000,000	5,000,000
Investments - available for sale (note 9)	1,821,795	1,821,795	1,765,495	1,765,495
	<u>103,142,030</u>	<u>103,142,030</u>	<u>93,426,095</u>	<u>93,426,095</u>
Liabilities carried at amortized cost				
Member deposits	103,053,063	103,053,063	94,398,807	94,398,807
Accrued interest payable	465,610	465,610	501,362	501,362
Other liabilities	1,299,899	1,299,899	1,190,195	1,190,195
	<u>104,818,572</u>	<u>104,818,572</u>	<u>96,090,364</u>	<u>96,090,364</u>

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

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

7 Loans and mortgages

(a) Summary

	2017				2016	
	Total \$	Impaired Loans \$ (included in total)	Specific Provision \$	Collective Provision \$	Net \$	Net \$
Personal	29,797,072	511,441	26,000	48,603	29,722,469	32,232,697
Business (note 17)	41,211,789	1,918,360	250,000	181,178	40,780,611	37,565,084
Mortgages	12,756,362	-	-	-	12,756,362	5,536,175
Lines of credit and overdrafts	9,585,686	12,688	12,688	1,198	9,571,800	10,204,836
League Savings and Mortgage	1,008,352	-	-	-	1,008,352	785,380
Accrued loan interest	357,088	-	-	-	357,088	253,618
	94,716,349	2,442,489	288,688	230,979	94,196,682	86,577,790

Mortgages and loans

Mortgage loans are secured by realty mortgages with interest rates of 2.84% - 7.39% (2016 - 2.84% - 7.39%). Loans other than mortgages are priced at market rates unless circumstances warrant special considerations. The interest rates range from 1.25% - 24% (2016 - 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 of Directors. The rate as at December 31, 2017 was 3.20% (2016 - 3.25%).

(b) Continuity of allowance for impaired loans

			2017	2016
	Specific	Collective	Total	Total
	\$	\$	\$	\$
Balance - December 31, 2016	367,436	169,906	537,342	522,163
Increase in allowance	33,927	61,073	95,000	95,000
Amounts written off during the year	(119,413)	-	(119,413)	(79,821)
Recoveries of previous write offs	6,738	-	6,738	-
Balance - December 31, 2017	288,688	230,979	519,667	537,342

(c) Provision for loan losses

	2017	2016
	\$	\$
Increase in allowance	95,000	95,000

(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, 2017	1,457,743
December 31, 2016	1,244,142

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

8 Property and equipment

	Land \$	Buildings \$	Furniture, equipment and computers \$	Pavement \$	Total \$
Cost					
Balance - Beginning of year	87,066	1,428,137	1,211,039	23,607	2,749,849
Additions	-	-	5,658	-	5,658
Balance - End of year	87,066	1,428,137	1,216,697	23,607	2,755,507
Accumulated amortization					
Balance - Beginning of year	-	821,651	1,145,593	14,384	1,981,628
Current year amortization	-	30,684	17,631	801	49,116
Balance - End of year	-	852,335	1,163,224	15,185	2,030,744
Carrying value					
December 31, 2016	87,066	606,486	65,446	9,223	768,221
December 31, 2017	87,066	575,802	53,473	8,422	724,763

9 Investments

	2017 \$	2016 \$
Financial assets		
<i>Fair value through profit or loss:</i>		
Liquidity reserve deposit	7,119,972	6,557,615
<i>Held to maturity:</i>		
Term deposits	7,000,000	5,000,000
<i>Available for sale:</i>		
Atlantic Central shares	1,217,870	1,186,570
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
	1,797,783	1,766,483
Total investments before provision	15,917,755	13,324,098
Less: provision for investment losses	(25,000)	-
Total investments	15,892,755	13,324,098

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 Concentra Financial 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	1.50%	February 5, 2018
3,000,000	1.30%	February 5, 2018
2,000,000	1.40%	May 17, 2018
Total		
7,000,000		

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

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.

Continuity of allowance for investment losses

	2017	2016
	\$	\$
Balance - December 31, 2016	-	-
Increase in allowance	25,000	-
	<hr/>	<hr/>
Balance - December 31, 2017	25,000	-

10 Member deposits

	2017	2016
	\$	\$
Ownership shares and share accounts (note 12)	18,863,698	19,639,915
Savings and Plan 24	29,338,423	24,399,090
Chequing accounts (note 17)	22,530,245	19,979,664
Term deposits	13,689,464	11,679,502
RRSP and RRIF	18,631,233	18,700,636
	<hr/>	<hr/>
	103,053,063	94,398,807

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 2017 was 0.75% (2016 - 1.0%) for the year 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% (2016 - 0.00% - 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% - 0.75% (2016 - 0.00% - 0.34%).

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 0.00% - 2.75% (2016 - 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% (2016 - 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.

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, 2017 was \$7,076 (2016 - \$12,958).

Included in the loans and mortgages balance is a provision of \$300 (2016 - \$650) 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

	2017 \$	2016 \$
Income before income taxes	397,662	472,862
Taxes at statutory rates - 31.00% (2016 - 31.00%)	123,275	146,587
Impact of the 16% (2016 - 16%) small business deduction	(63,626)	(77,916)
Temporary differences	38,650	6,236
Permanent differences and other	(10,213)	2,111
Impact of non-taxable dividend of \$1,056 (2016 - \$123)	(327)	(38)
	87,759	76,980

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

(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% (2016 - 31.00%) as follows:

	2017 \$	2016 \$
Balance, December 31, 2016	254,750	248,514
Comprehensive income recovery	38,650	6,236
Balance, December 31, 2017	293,400	254,750

Deferred income tax assets are attributable to the following items:

	2017 \$	2016 \$
Deferred income tax assets		
Property and equipment	38,327	38,453
Allowance for impaired loans and accounting reserves	255,073	216,297
	293,400	254,750

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 \$69,292 (2016 - \$60,843) in contributions to the plan. This expense is included with staff expenses on the Statement of Comprehensive Income.

15 Line of credit availability

In 2017, the Credit Union had an approved line of credit with Atlantic Central of \$2,200,000. As of December 31, 2017, 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

	2017 \$	2016 \$
Salaries and short-term employee benefits	410,474	313,555
Retirement benefit obligations	-	5,730

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

(b) Directors' remuneration

	2017 \$	2016 \$
Honorariums	14,200	9,400
Payment for expenses while on credit union business	16,563	9,396

(c) Loans to directors and key management personnel

	2017 \$	2016 \$
Loans outstanding at beginning of period	674,237	727,256
Loans issued during the period	543,800	240,473
Loan repayments during the period	(152,962)	(343,960)
Net increase (decrease) in lines of credit	(49,661)	50,468
Loans outstanding at end of period	1,015,414	674,237
Interest income earned	20,583	20,983

No provisions have been recognized in respect of loans to key management (2016 - nil). The loans to directors and key management personnel and close family members during the year of \$543,800 (2016 - \$240,473) are repayable over 1 - 12 years and have interest rates ranging from 1.25% - 5.25% (2016 - 1.25% to 5.25%).

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.

Included in cash and member deposits is \$1,486,468 (2016 - \$2,004,121) of cash deposits held for CU PEI Investment Corp. The loans and mortgages balance includes \$2,649,487 (2016 - \$1,999,487) 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 loan interest and investment revenue is \$24,504 (2016 - \$14,309) of interest income received from CU PEI Investment Corp.

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

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

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.

2017

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
Cash and cash equivalents	3,972,197	-	-	641,979	4,614,176
Effective interest rate	0.37%				
Investments	15,122,767	769,988	-	-	15,892,755
Effective interest rate	1.17%	2.99%			
Loans and mortgages	60,636,195	31,214,185	2,508,881	(162,579)	94,196,682
Effective interest rate	4.07%	4.15%	4.28%		
Accounts receivable	-	-	-	123,553	123,553
Income taxes receivable	-	-	-	2,051	2,051
Prepaid expenses and other	-	-	-	202,050	202,050
Property and equipment	-	-	-	724,763	724,763
Deferred income taxes	-	-	-	293,400	293,400
Total assets	79,731,159	31,984,173	2,508,881	1,825,217	116,049,430
Liabilities and surplus					
Member deposits	68,157,465	16,031,900	-	-	84,189,365
Effective interest rate	0.80%	1.93%			
Share deposits	18,863,698	-	-	-	18,863,698
Effective interest rate	0.75%				
Accrued interest payable	-	-	-	465,610	465,610
Other liabilities	-	-	-	1,299,899	1,299,899
Undistributed earnings	-	-	-	11,230,858	11,230,858
Total liabilities and surplus	87,021,163	16,031,900	-	12,996,367	116,049,430
Interest rate sensitivity gap	(7,290,004)	15,952,273	2,508,881	(11,171,150)	-

Notes to the Financial Statements

Malpeque Bay Credit Union Limited
Year Ended December 31, 2017

	2016				
	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
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
Liabilities and surplus					
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
Interest rate sensitivity gap	(3,168,725)	13,770,795	391,748	(10,993,818)	-

As at December 31, 2017, the Credit Union's net interest spread was 2.79% (2016 - 2.77%). 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, 2017 amounting to \$3,272,149 (2016 - 2,730,596).

20 Comparative figures

Certain comparative figures presented for the 2016 fiscal year have been restated to conform with the financial statement presentation adopted in the current year.

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