

2018 ANNUAL REPORT



MALPEQUE BAY CREDIT UNION

TABLE OF CONTENTS

3	OUR MISSION	15	CHRISTMAS TREE OF HOPE
3	OUR VALUES	15	JUNIOR ACHIEVEMENT
4	BOARD OF DIRECTORS	16	RONALD MCDONALD HOUSE
5	PRESIDENT'S REPORT	17	50/50 PROGRAM
7	MANAGER'S REPORT	19	FINANCIAL STATEMENTS
9	COMMUNITY INVOLVEMENT REPORT	20	MANAGEMENT'S REPORT
11	IN OUR COMMUNITY	21	AUDITOR'S REPORT
12	CREDIT UNION PLACE	23	STATEMENT OF FINANCIAL POSITION
13	GET ACTIVE	24	STATEMENT OF CHANGES IN MEMBERS' EQUITY
13	ISLAND STORM	25	STATEMENT OF COMPREHENSIVE INCOME
13	GYM REBATE PROGRAM	26	STATEMENT OF CASH FLOW
14	FILL THE YUMOB	27	NOTES TO THE FINANCIAL STATEMENTS
14	SCHOLARSHIPS		

2018 HIGHLIGHTS

\$125M
ASSETS

\$111M
DEPOSITS

5,188
MEMBERS

\$100M
LOANS

\$691K
PAID TO MEMBERS

7.57%
GROWTH IN DEPOSITS

OUR MISSION

**MALPEQUE BAY CREDIT UNION EXISTS
BECAUSE OF AND FOR ITS MEMBERS
AND OUR MISSION IS TO PROVIDE
QUALITY FINANCIAL SERVICES THAT
OUR MEMBERS REQUIRE AND TO
CONTINUALLY STRIVE TO HELP IMPROVE
THE COMMUNITIES WE SERVE.**

HONEST

INCLUSIVE

PASSIONATE

HOLISTIC

SPIRITUAL

SIMPLISTIC

EVOLUTIONARY

OUR VALUES

BOARD OF DIRECTORS



PETER PIDGEON
President



JACK SPENCER
Vice President



BARB MAYHEW
Secretary



GRAFTON COLE



HELEN WARREN



**MICHELLE
MONTGOMERY**



ALISHA MACKAY



DAVID SUDSBURY



NICOLE MOUNTAIN

PRESIDENT'S REPORT



It has truly been a privilege and honor for me to serve as President of the credit union and to represent our members on the Board of Directors.

The Board's role is to be responsible for representing the interests of members and incorporating those interests into the strategic governance of the credit union. In addition to our AGM, we have been committed to monthly meetings. In these meetings, everyone's opinions are valued, and we strive to be as progressive as possible and to ensure that we are benefiting our fellow members in the best way possible. We have worked with various partners, including Atlantic Central, to keep up with changes to regulation. We have also examined changes in the marketplace and adapted to those changes in order to remain competitive and ensure we are providing what our members want and need both today and looking out into the future.

LOAN POLICY

In keeping with representing the interests of members, the Board approved a new Loan Policy

that takes into account some of the unique aspects of our community and needs of our members. Our goal was to make access to credit easier for some of the major industries in our area (fishing, farming, tourism). We have also included provision for "dealer plan" lending which allows us to pair up with most auto, RV and mini-home dealers across the Island to enable our members access to that type of credit through their own credit union.

SHARING PROFITS

This has been one of the best years our credit union has had in a long time from both a growth and profitability aspect. I am very pleased to announce that, as a result of our great year, your Board of Directors have distributed nearly \$800,000 back to our members and community. People always ask what the difference is between a Credit union and a Bank. This is a great example of that difference. Along with local decision making, Credit Unions share their profits with its members, who have contributed to that year's profit, along with the community in which they live. Banks share their



profits with shareholders who may not even be customers. The following is a breakdown of how we've distributed 2018 profits:

Dividend on Share accounts (.75%) **\$115,301**

Patronage Rebate (10% bonus on deposit interest, 10% rebate on loan interest, 10% rebate on services charges) **\$576,172**

Community Investments (see Community Investment Report) **\$104,500**
Total paid back to members and community **\$795,973**

CREDIT UNION CENTER

This has been our first full year as naming sponsor of Credit Union Center. We are very pleased with our partnership with the Town of Kensington and hope to work more closely with them over the next few years to ensure this facility, which is an integral part of our community, continues to thrive and provide the types of services that we need to promote and enable healthy living in our community.

NEW PARTNERSHIP

Recently, your Board made the decision to become part of a National Credit Union group and form a new partnership with Collabria in order to introduce a new suite of credit cards that have more features, better rewards, and better costs and interest rates than our previous offering. Collabria is a large co-operative organization, like us, and are a major credit card issuer in North America. We now offer both Visa and Mastercard cards with a wide range of options that will suit everyone's needs. We are very pleased with our decision and many members are now benefitting from this great product.

PREMISES

We have been looking at our premises requirements over the last couple of years. Our business is changing fast and the way we provide services to members will change quite dramatically over the

next few years. Our current premises may not be suitable for our anticipated new business model. We made the decision in 2018 to secure a piece of land for a potential new site for a building. It is right across from the Funeral Home. As it becomes clearer what our premises requirements will be over the next year or two we will be in a position to make some decisions on either moving to a new location or renovating our existing building. We recognize that our building is getting a bit tired. While we plan to do some minor cosmetic improvements this year the Board does not feel it would be prudent to put any major dollars into it until we decide on a direction.

CLOSING

This was a very challenging year on a number of fronts. We were faced with many projects that are carried on mostly behind the scenes. Our resources were taxed to the limit. I would like to congratulate our staff for successfully completing most of the projects and at the same time not letting the stress show through and impact member service. They are very much professionals and continue to exceed member service expectations even though there were other priorities. I am also very pleased to have the privilege to reside over a Board whose individuals are dedicated to serving our members and ensuring our credit union is meeting its regulatory requirements. We have a wonderful group of people on the Board who come from many backgrounds; 55% female; 45% male; wide range of ages; reside in most of the communities we serve. And, of course, most importantly, I want to thank our members for the trust and confidence they continue to have in our credit union and for their contribution to one of our most successful years.

PETER PIDGEON
President

MANAGER'S REPORT



As manager of Malpeque Bay Credit Union it is my pleasure to report on last year's results and the great strides we are making toward creating a new banking experience for our members.

We had a great year financially. Thanks to the confidence our members have in their credit union our overall growth last year was 7.7% bringing our total assets to \$125 million. Deposits and loans were up 7.6% and 6.0% respectively. The total amount of business that our members have with us now is up to \$230.7 million. Our equity remains strong at 9.58% of assets or \$11,978,845. Net income was up over 100% to \$795,700 from \$397,662 in 2017 even after paying a patronage rebate and dividends totaling \$691,437 and investing \$104,500 back into our community.

These great financial results did not happen without challenges. During the year we were able to complete the transition for our business clients to new package accounts. We transformed our credit card offering with a new partner and now have a much improved product to offer members. We are also in the middle of winding down our Global Payment Card (GPC) product. This happened

unexpectedly as our GPC provider indicated that they were no longer going to support the product. It is unfortunate but we do not have a choice in the matter. They did not give us enough lead time to acquire a comparable replacement for the card and we are currently working with each member to ensure that a solution is found that will meet their individual needs. We hope to have another product, that acts like the GPC card, available early next year.

In addition to these major projects, we worked through some other challenges related to staffing. We've had a couple of retirements which meant hiring new people and moving folks around. This has resulted in a lot of training and cross-training while trying to maintain our service excellence culture. I must congratulate our staff for their hard work, understanding and great team spirit while folks got up to speed in their new roles. To illustrate, the following are the changes that were made last year:

Laurie Gallant; retired – replaced by Dawn Holmes
Dawn Holmes – replaced by Nicole Sellar
Paul Chessman, Credential; retired – replaced by

Candace Champion

Candace Champion – replaced by Kelly Mann
Welcomed two new employees; Judy O'Connor and
Hillary Koughan

We have also, just recently, turned on a new security feature in our on-line banking platform, MemberDirect. It has resulted in a mild inconvenience at times for some people. However, as crooks get more sophisticated we have to ensure that we are staying a couple of steps ahead of them and that we continue to provide a safe and secure platform for our members to perform on-line transactions. A little inconvenience is worth the extra protection but at the same time I will say that we are working at making the extra security as seamless as possible. I would rather explain to a member why they had to go through an extra step to login rather than explain how all their money disappeared.

The financial services industry is facing ever increasing regulation, both Provincial and Federal, and credit unions are not immune. This puts extra pressure on our operations. We are determined to not let it affect our local decision making and service excellence. That is why people deal with a credit union and we are doing everything we can to ensure it continues. One way that we are able to mitigate some of the extra pressures we face is to work in collaboration with other PEI Credit Unions. The PEI Credit Union System has \$1.15 billion in assets, 7 credit unions in 12 locations and employ over 200 islanders. By working closely together, we are able to keep up with all the regulatory pressures and keep costs to a minimum thereby enabling us to continue to support our communities and provide excellence in personalized member service. We are also part of an Atlantic system and indeed a National system and without the support they provide we would not be able to do what we do.

We recognize that people still want personalized

service. However, we are looking to expand our relationship with our busy members who can't always make it into the branch to see us. We recognize that a more functional online platform will be critical to supporting our member's financial lives and we have dedicated a considerable amount of resources to the development of those products and services. We want the credit union to have the most convenient options for our members to conduct their business and carry forward our top ranking customer service into the digital world. Our aim is to be as convenient as possible for all types of clients across all channels whether they be in person, over the phone, or on-line. We are hoping to start rolling out digital capabilities late this year into early next year.

While we are busy and, lately, have been faced with many challenges our number one priority is to continually exceed our members' expectations when it come to products and especially service. I am so proud of our employees who continually go above and beyond for their clients even under unusually heavy workload demands. The increasing complexity of the business and the many things we've been hit with over the past couple of years does not just fall on the shoulders of the staff but also the Board of Directors who I am eternally grateful to for their guidance. We are lucky to have a such dedicated and knowledgeable Board who take their oversight and advisory role very seriously.

In closing I want to thank all our members for continuing to support their credit union. Because of you our community is in a better place.

MARC LECLAIR
General Manager

COMMUNITY INVOLVEMENT REPORT

Giving back to our members and to our community has always been very important to Malpeque Bay Credit Union. Each year we continually strive to improve the community we serve. One of the most significant ways in supporting our community is through donations, sponsorships and volunteering our time with charities, organizations and events. By donating back to our community we benefit families in our area.

In 2018 Malpeque Bay Credit Union donated over \$60,000 to community groups, social causes, education and service clubs and our staff has over 1000 volunteer hours.

As well this past year, our weekly 50/50 draw, generated almost \$17,000 to the Credit Union Centre Fitplex.

Supporting our youth is important to us. Donations were made to KISH Safe Grad, the KISH Breakfast Program as well as hosting a luncheon for the Queen Elizabeth Elementary School Grade 6 graduates and their families. Each fall the Kindergarten classes of Queen Elizabeth Elementary School visit us and learn about our Credit Union.

Malpeque Bay Credit Union is an Ice Sponsor of the Kensington Vipers, a Jersey sponsor of the Kensington Major Midget Wild and a bronze sponsor of the Mid-Isle Matrix Major Bantam AAA team and each year we are pleased to sponsor the Kensington and Area Figure Skating Club Ice Show. We also support young curlers, as well as volleyball, soccer and basketball teams.

Other youth who benefit from our donations are the Kensington Scout Movement and the First Kensington Girl Guides.

Our commitment to our youth's future extends beyond donations and includes scholarships. This past year \$7,500.00 in scholarships was awarded to five high school graduating students from Kensington Intermediate Senior High and Kinkora Regional High Schools. Each recipient received \$1,500 towards furthering their education.

Our staff donates their time at various community events such as the Kensington and Area Winter Carnival Children's Day, Kensington Fishing Derby, Kensington Harvest Festival, the Kensington Christmas Parade, as well as a number of benefits held throughout the community. You will also find



us bowling in Big Brothers Big Sisters Bowl for Kids Sake, Golfing in the Prince County Hospital Foundation, Kensington and Area Chamber of Commerce and Summerside Rotary Golf Tournaments and supporting and participating in the Children's Wish Heroes Challenge.

Last May we prepared, cooked and served an assortment of horderves at the Canadian Cancer Society Black Dress Soiree and we have walked together to show our support in the Family Violence Prevention Walk.

Malpeque Bay Credit Union is proud to sponsor the Youth Legacy Celebration at Indian River Festival and the Malpeque Bay Community Impact Award at the Kensington and Area Chamber of Commerce Business Awards.

In July our own Ashley Doucette agreed to have her hair cut for Young Adult Cancer Canada's largest fundraiser- Shave for the Brave. Over \$4,000 was raised to "help young adults in Canada live with, through and beyond cancer".

For over 10 years, Malpeque Bay Credit Union has partnered with Prince County Credit Unions as the major sponsor of the Prince County Hospital Lights

for Life Campaign. Our contribution amounted to \$3,750.00 which is our portion of the \$15,000 donated annually. Every dollar raised for Lights for Life supports the purchase of medical equipment for the hospital.

PEI Credit Unions are also in partnership with Ronald McDonald House- which provides accommodations for families who have a child staying at the IWK hospital. PEI Credit Unions will pay the cost of lodging at Ronald McDonald house for all of our members.

Malpeque Bay Credit Union is proud to be a part of the Kensington and Area community. We are committed to supporting our members, community groups and organizations by volunteering our time and through donations and sponsorships in helping to improve the community we serve.

IN OUR COMMUNITY

THIS YEAR, WE SPENT OVER
\$104,500
TO MAKE OUR COMMUNITY EVEN BETTER.

THIS CONTRIBUTED TO THE
\$600,000
TOTAL THAT CREDIT UNIONS IN PEI
SPEND EACH YEAR.

CREDIT UNION PLACE

350K
VISITORS

150K
TICKETS SOLD

\$75K
MEMBERS SAVED IN FEES

15
FREE EVENTS

A STRONG PART OF OUR ISLAND COMMUNITY

In 2018, Credit Union Place in Summerside continued to be a strong partnership for the credit union system on PEI. Working on enhancing our presence within the building, 2018 marked the announcement that a new branch concept would be opening in Credit Union Place giving our members a new and convenient location to bank at.

A new credit union ding-free ATM will be incorporated into the new branch as well as a contemporary meeting space and re-vamped seating area, complete with electronic charging stations. We are excited to expand into this

premiere venue as Credit Union Place continues to be one of the top entertainment destinations in the Maritimes.

In 2019 not only will our members experience a more convenient location to visit with us at Credit Union Place but they will also continue to enjoy the many discounts offered to them through our partnership. To date we have seen a yearly savings of \$75,000 for our members through discounts on gym memberships, pool use, bowling and other services offered at the multipurpose facility. We look forward to serving you in a more convenient location in 2019!

GET ACTIVE

2018 marked the second year of our 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 impact a household's finances, especially in the retirement stages where income is fixed.



1.4K

ISLAND STORM

A returning sponsorship for the credit union system in 2018 was our continued involvement with the Island Storm – our local professional NBL team. Through the Storm we have been able to give added value to our local communities through the offering of free events such as the popular Under 25 Free games, where anyone aged twenty-five or younger could see the game for free. Over 1,400 free tickets were used last year.

Also in partnership with the Storm we were able to bring you the Cancer Awareness game with proceeds going to the Canadian Cancer Society PEI Division. This game was unique as we were able to auction off custom purple jerseys worn by the players during the game, resulting in over \$3,000 raised for CCS. We continue to enjoy our partnership with the Storm and the added value it brings to our communities!



\$6K

GYM REBATE PROGRAM

The Get Active Gym Program offered \$50 cash back to any of our members who paid some sort of gym membership fees in 2018 returned for its second year. This resulted in close to \$6,250 being rebated to our members across PEI. We're so proud to be able to assist these members and in turn, encouraging more Islanders to get physically active.

\$7.5K

SCHOLARSHIPS

We are pleased to announce 5 Malpeque Bay Credit Union Scholarship Recipients for 2018. 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.



BETHANY SPENCER



CALLIE THOMSON



HANNAH JOHNSTONE



JILLIAN FERGUSON



MARK FERRISH



FILL THE YUMOB

In December our sixth Annual #FilltheYuMob took place outside of Toys'R'Us.

As a direct result of the general public's generosity, we filled our new, much larger YuMob to the top in under 4 hours. The generosity was so great that we had to use an additional pick-up truck to transport all the toys.

A huge thank you to the Pownal Peewee AA team 2 who volunteered to be our elves and help us out this year, as well as Santa and Geoffrey the Giraffe who both made an appearance.

Of course, this wouldn't have been possible without the support from the Toys'R'Us Charlottetown store and staff, thank you for being amazing every year.

All the toys were delivered to Santa's Angels, a volunteer group that delivers the toys on Christmas Day to over 300 local families in need. Thank you to everyone who participated in this incredible cause.



CHRISTMAS TREE OF HOPE



In December, countless 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.

3.6K

JUNIOR ACHIEVEMENT

Since 2016, credit unions on the Island have built 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 3,600 students at 14 different Island high-schools.

RONALD MCDONALD HOUSE CHARITIES ATLANTIC

13
FAMILIES

246
NIGHTS

FAMILY COMES FIRST

We are proud of our ongoing partnership with Ronald McDonald House Charities Atlantic in many different capacities for 2018. With our Members Stay Free program, credit union members are able to stay at the Ronald McDonald House in Halifax for free while their child is being treated at the IWK. During 2018, this program was able to help 13 families on PEI totaling 246 nights spent at the Ronald McDonald House.

Alongside our member program, 2018 marked the first year we were involved with the annual PJ Walk – a major fundraiser for the RMHC Atlantic held in three cities across the Maritimes. The PJ Walk raised \$230,000 in total, with the event on PEI raising more than \$63,000 of that amount.

We look forward to continuing our support for our members who have to visit Halifax for their child's treatment into 2019. We're proud to help ease a small portion of the inevitable stress.

50/50 PROGRAM

\$17,000
DONATED TO THE FITPLEX

Our weekly 50-50 draw is our key fundraiser for the Credit Union Centre Fitplex and continues to be a huge success. In keeping with the credit union philosophy, this money is given back to our community to help reduce the costs of a physically active lifestyle.

**A BIG THANK YOU TO ALL THOSE
WHO SUPPORT THESE EFFORTS.**

**\$796
THOUSAND
REASONS
TO DO MORE
WITH YOUR
MONEY**

**IN 2018,
MALPEQUE BAY CREDIT UNION
SHARED
\$795,973
IN PROFITS
WITH OUR MEMBERS AND
COMMUNITIES.**

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

The integrity, relevance and comparability of the data in the accompanying financial statements are the responsibility of management.

The financial statements are prepared by management in accordance with International Financial Reporting Standards established by the International Accounting Standards Board. A summary of the significant accounting policies is disclosed in note 3 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current period cannot be finalized with a certainty until future periods.

To meet its responsibility, management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

Management is accountable to the Board of Directors of Malpeque Bay Credit Union, Limited on matters of financial reporting and internal control. Management provides the Board of Directors with externally audited financial statements annually. The Board also discusses any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by ArsenaultBestCameronEllis, independent external auditors appointed by the Board. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the financial statements.

On behalf of Malpeque Bay Credit Union, Limited

MARC LECLAIR

General Manager

March 11, 2019

Independent Auditor's Report

**To the Members of
Malpeque Bay Credit Union, Limited**

Opinion

We have audited the accompanying financial statements of Malpeque Bay Credit Union, Limited, which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Malpeque Bay Credit Union, Limited as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of Malpeque Bay Credit Union, Limited in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International 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.

In preparing the financial statements, management is responsible for assessing Malpeque Bay Credit Union, Limited's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Malpeque Bay Credit Union, Limited or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Malpeque Bay Credit Union, Limited's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Malpeque Bay Credit Union, Limited's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Malpeque Bay Credit Union, Limited's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Malpeque Bay Credit Union, Limited to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Arsenault Best Cameron Ellis

Chartered Professional Accountants

MALPEQUE BAY CREDIT UNION


STATEMENT OF FINANCIAL POSITION

December 31, 2018

	2018	2017
	\$	\$
Assets		
Cash and cash equivalents (note 16)	11,047,970	4,614,176
Loans and mortgages (notes 6, 15 and 16)	99,885,650	94,196,682
Accounts receivable	40,321	123,553
Prepaid expenses and other	195,596	202,050
Income taxes receivable	-	2,051
Property and equipment (note 7)	879,795	724,763
Investments (note 8)	12,680,795	15,892,755
Deferred income taxes (note 12)	286,000	293,400
	<u>125,016,127</u>	<u>116,049,430</u>
Liabilities		
Member deposits (notes 9 and 16)	110,858,931	103,053,063
Accrued interest payable	456,311	465,610
Other liabilities	1,656,681	1,299,899
Income taxes payable	65,359	-
	<u>113,037,282</u>	<u>104,818,572</u>
Members' Equity		
Undistributed income	<u>11,978,845</u>	<u>11,230,858</u>
	<u>125,016,127</u>	<u>116,049,430</u>

Approved by the Board of Directors

 Director

 Director

MALPEQUE BAY CREDIT UNION

STATEMENT OF CHANGES IN MEMBERS' EQUITY
Year Ended December 31, 2018

	2018 \$	2017 \$
Undistributed income - Beginning of year	11,230,858	10,882,305
Cumulative effect of adopting IFRS 9 (note 20)	<u>112,805</u>	<u>-</u>
Balance as restated	11,343,663	10,882,305
Net earnings for the year	<u>635,182</u>	<u>348,553</u>
Undistributed income - End of year	<u>11,978,845</u>	<u>11,230,858</u>

MALPEQUE BAY CREDIT UNION

STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2018

	2018 \$	2017 \$
Revenue		
Loan interest (note 16)	4,204,222	3,776,333
Investments (note 16)	395,157	216,718
Service fees	518,080	491,724
Commissions	581,774	394,002
Other income	31,685	38,169
	<hr/> 5,730,918	<hr/> 4,916,946
Expenses		
Staff (notes 13 and 15)	1,609,167	1,507,751
Premises	70,411	70,238
Insurance	171,222	160,636
Office	43,708	45,135
Service fees	743,526	667,678
General	605,572	571,050
Cost of capital	946,845	826,530
Amortization	43,256	49,116
	<hr/> 4,233,707	<hr/> 3,898,134
Operating earnings	<hr/> 1,497,211	<hr/> 1,018,812
Other expense		
Share dividends	115,301	141,901
Provision for loan losses (note 6)	10,038	95,000
Provision for investment losses (note 8)	-	25,000
Member rebates	576,172	359,249
	<hr/> 701,511	<hr/> 621,150
	<hr/> 795,700	<hr/> 397,662
Provision for (recovery of) income taxes		
Current (note 12)	153,118	87,759
Deferred income taxes (note 12)	7,400	(38,650)
	<hr/> 160,518	<hr/> 49,109
Net earnings for the year	<hr/> 635,182	<hr/> 348,553

MALPEQUE BAY CREDIT UNION

STATEMENT OF CASH FLOW
Year Ended December 31, 2018

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the year	635,182	348,553
Items not affecting cash		
Amortization	43,256	49,116
Cumulative effect of adopting IFRS 9	(112,805)	-
Provision for loan losses	10,038	95,000
Provision for investment losses	-	25,000
Deferred income taxes	7,400	(38,650)
	<hr/>	<hr/>
	583,071	479,019
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	83,232	(40,743)
Increase in loans and mortgages	(5,473,396)	(7,713,892)
Decrease (increase) in prepaid expenses and other	6,454	(56,621)
Decrease in income taxes receivable	2,051	29,749
Increase in member deposits	7,805,868	8,654,256
Decrease in accrued interest payable	(9,299)	(35,752)
Increase in income taxes payable	65,359	-
Increase in other liabilities	356,782	109,704
	<hr/>	<hr/>
	3,420,122	1,425,720
Investing activities		
Purchase of property and equipment	(198,288)	(5,658)
Decrease (increase) in investments	3,211,960	(2,593,657)
	<hr/>	<hr/>
	3,013,672	(2,599,315)
Increase (decrease) in cash and cash equivalents	6,433,794	(1,173,595)
Cash and cash equivalents - Beginning of year	4,614,176	5,787,771
	<hr/>	<hr/>
Cash and cash equivalents - End of year	11,047,970	4,614,176
	<hr/>	<hr/>
Supplementary disclosure		
Interest paid	929,544	830,068
Interest received	4,518,236	3,828,524
Dividends paid	141,901	174,115
Dividends received	103,007	16,599
Income taxes paid	87,759	58,010
Income taxes received	2,051	31,800

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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 11, 2019.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

3 Summary of significant accounting policies

(a) Change in accounting policy

The Credit Union has adopted IFRS 9 as issued by the IASB with a date of transition of January 1, 2018, which resulted in a change in accounting policy and adjustments to amounts previously recognized in the financial statements. The Credit Union did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Credit Union elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening undistributed income of the current period.

Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

Refer to note 20, Transition to IFRS 9, for the impact on the opening statement of financial position at January 1, 2018.

(b) Financial instruments

i) *Classification and measurement of financial assets*

From January 1, 2018, the Credit Union has applied IFRS 9 and classifies its financial assets into one of the following measurement categories:

- Amortized cost;
- Fair value through profit or loss (FVTPL); or
- Fair value through other comprehensive income (FVOCI).

Financial assets include both debt and equity instruments.

Debt instruments

Classification and subsequent measurement of debt instruments depend on:

- i) the Credit Union's business model for managing the asset; and
- ii) the cash flow characteristics of the asset.

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Credit Union's business model assessment is based on the following categories:

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

The Credit Union assesses the business model at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. For the assessment of a business model, the Credit Union takes into consideration the following factors:

- How the performance of assets in a portfolio is evaluated and reported to group heads and other key decision makers within the Credit Union's business lines;
- Whether the assets are held for trading purposes (ie. assets that the Credit Union acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking;
- The risks that affect the performance of assets held within a business model and how those risks are managed; and
- The frequency and volume of sales in prior periods and expectations about future sales activity.

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the Credit Union identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Based on these factors, the Credit Union classifies its debt instruments into one of the following three measurement categories:

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in note 6. Interest income from these financial assets is included in 'Loan interest' using the effective interest rate method.

Fair value through profit or loss

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Investment revenue" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Investment revenue". Interest income from these financial assets is included in "Investment revenue" using the effective interest method.

Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Investment revenue". Interest income from these financial assets is included in "Investment revenue" using the effective interest rate method.

Equity instruments

The Credit Union subsequently measures all equity investments at FVTPL, except where the Credit Union's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and reversals of impairment losses are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Credit Union's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in "Investment revenue" in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

ii) *Classification and measurement of financial liabilities*

Financial liabilities are classified into one of the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Amortized cost; or
- Designated at FVTPL.

Financial liabilities measured at FVTPL

Financial liabilities measured at FVTPL are held principally for the purpose of repurchasing in the near term, or form a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-making. Financial liabilities are recognized on a trade date and are accounted for at fair value, with changes in fair value and any gains or losses recognized in the Statement of Comprehensive Income as part of the non-interest income. Transaction costs are expensed as incurred.

Financial liabilities measured at amortized cost

Member deposits are accounted for at amortized cost. Interest on deposits, calculated using the effective interest rate method, is recognized as interest expense. Interest on subordinated notes and debentures, including capitalized transaction costs, is recognized using the effective interest rate method as interest expense.

Financial liabilities designated at FVTPL

Financial liabilities classified in this category are those that have been designated by the Credit Union upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is only available for those financial liabilities for which a reliable estimate of fair value can be obtained.

Financial liabilities are designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- A group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial liabilities designated at FVTPL are recorded in the Statement of Financial Position at fair value and any changes in fair value are recognized in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

iii) *Determination of fair value*

Fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the Credit Union has access at the measurement date.

The Credit Union measures instruments carried at fair value under the following fair value hierarchy. The different levels have been defined as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

iv) *Derecognition of financial assets and liabilities*

The derecognition criteria are applied to the transfer of part of an asset rather than the asset as a whole, only if such part comprises specifically identified cash flows from the asset, a fully proportionate share of the cash flows from the asset, or a fully proportionate share of specifically identified cash flows from the asset.

A financial asset is derecognized when the contractual rights to the cash flows from the asset has expired or the Credit Union transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party, or the Credit Union has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Credit Union has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Credit Union derecognizes the transferred asset only if it has lost control over the asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Credit Union retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognized as a gain/loss in the Statement of Comprehensive Income.

iv) *Impairment*

The Credit Union applied a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 for the financial assets measured at amortized cost.

The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – when a financial instrument experiences a credit risk subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The probability of default (PD), exposure at default (EAD) and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical inputs are as follows:

- PD – the probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life.
- EAD – the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

- LGD – the loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral and the impact of forward-looking macroeconomic factors. Common assessments for credit risk include management judgment, delinquency and monitoring.

When measuring expected credit loss, the Credit Union considers the maximum contractual period over which the Credit Union is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment and extension and rollover options.

The Credit Union considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- Default or delinquency in interest or principal payments;
- High probability of the borrower entering a phase of bankruptcy or a financial recognition;
- Measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Credit Union considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

The Credit Union writes off an impaired financial asset, either partially or fully, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Financial instruments effective prior to November 1, 2017:

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

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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.

- 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 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 an 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.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

- 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. 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. Available for sale investments are classified as non-current unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

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 liabilities, and other liabilities.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

ii) Impairment of financial assets

The Credit Union assesses, at each reporting 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.

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

Loans that were past due and either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer 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.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

- Assets classified as available for sale

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

(c) Foreign currency translation

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

(d) 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.

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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, 2018.

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.

(f) 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.

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.

(g) 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.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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.

(h) 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.

(i) Capital disclosures

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

(j) Standards issued but not yet effective

The following new standard has been issued but is not effective for the fiscal year ended December 31, 2018 and, accordingly, has not been applied in preparing these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

IFRS 16 Leases

This standard replaces IAS 17 Leases and introduces a single accounting model for lessees and for all leases with more than a 12-month term unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a corresponding lease liability, representing its obligation to make lease payments. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. While early adoption is permitted, the Credit Union has chosen not to early adopt this standard.

The Credit Union is currently evaluating the potential impact, if any, of this 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:

(a) Allowance for loan losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. The assessment of a significant increase in credit risk requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

(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

Fair value measurement techniques are used to value various financial assets and financial liabilities and are used in impairment testing on certain non-financial assets.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

The fair values of the credit union's financial instruments were estimated using the valuation methods and assumptions described below. Since many of the credit union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in interest rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Fair values of floating loans and deposits approximate book value as the interest rates on these instruments automatically re-price to market and the spread remains appropriate. Fixed rate loans and deposits are valued by discounting their contractual future cash flow.

The fair value for the credit union's investments as detailed in note 5 is determined as follows:

- Membership shares in Atlantic Central, Concentra, League Data, League Savings & Mortgage, Co-operative membership and CU PEI Investment Corp. do not trade in a public market. Fair market value approximate par value as the shares are subject to regular rebalancing across the membership; and
- Liquidity reserve deposits are fair valued by discounting the contractual future cash flows at current market rates of similar financial instruments with similar terms.

(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.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

5 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:

		2018		December 31, 2017	
	Fair level hierarchy	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Financial assets					
Loans and mortgages	Level 2	99,885,650	99,885,650	94,196,682	94,196,682
Liquidity reserve deposit	Level 2	7,806,231	7,806,231	7,119,972	7,119,972
Atlantic Central shares	Level 2	1,319,670	1,319,670	1,217,870	1,217,870
Concentra shares	Level 2	500,000	500,000	500,000	500,000
League Data shares	Level 2	27,060	27,060	27,060	27,060
League Savings & Mortgage shares	Level 2	26,865	26,865	26,865	26,865
Co-operative membership	Level 3	25,000	-	25,000	-
CU PEI Investment Corp.	Level 3	969	969	988	988
Term deposits	Level 2	3,000,000	3,000,000	7,000,000	7,000,000
		112,591,445	112,566,445	110,114,437	110,089,437
Financial liabilities					
Member deposits	Level 2	110,858,931	110,858,931	103,053,063	103,053,063

The fair value for items that are short-term in nature are equal to book value. These include cash and cash equivalents, accounts receivable, accrued liabilities and other liabilities.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

6 Loans and mortgages

(a) Loans at amortized cost

	IFRS 9			IAS 39		
	Gross loans \$	Allowance for credit losses \$	2018 Net carrying amount \$	Gross loans \$	Allowance for credit losses \$	2017 Net carrying amount \$
Uninsured mortgages	27,946,402	17,681	27,928,721	24,634,435	48,603	24,585,832
Personal loans	4,069,434	9,248	4,060,186	3,727,333	27,198	3,700,135
Personal lines of credit and overdrafts	4,643,870	23,219	4,620,651	4,158,289	12,688	4,145,601
Dealer plan loans	3,393,321	15,869	3,377,452	3,001,595	-	3,001,595
Commercial loans	12,786,919	124,039	12,662,880	12,380,135	250,000	12,130,135
Commercial mortgages	25,483,264	102,737	25,380,527	22,737,839	181,178	22,556,661
Commercial lines of credit	10,604,876	109,561	10,495,315	8,889,403	-	8,889,403
Syndication loans	5,514,427	1,379	5,513,048	5,349,192	-	5,349,192
Home equity lines of credit	3,345,874	251	3,345,623	3,990,802	-	3,990,802
Mortgages	2,501,247	-	2,501,247	5,847,326	-	5,847,326
	100,289,634	403,984	99,885,650	94,716,349	519,667	94,196,682

Mortgages and loans

Mortgage loans are secured by realty mortgages with interest rates of 2.94% - 7.39% (2017 - 2.84% - 7.39%). Loans other than mortgages are priced at market rates unless circumstances warrant special considerations. The interest rates range from 0.25% - 18% (2017 - 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, 2018 was 3.95% (2017 - 3.20%).

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

(b) Impaired loans

	IFRS 9			IAS 39		
	2018			2017		
	Gross impaired loans \$	Allowance for credit losses \$	Net carrying amount \$	Gross impaired loans \$	Allowance for credit losses \$	Net carrying amount \$
Uninsured mortgages	260,081	15,605	244,476	345,607	48,603	297,004
Personal loans	4,658	1,118	3,540	46,073	27,198	18,875
Personal lines of credit and overdrafts	-	-	-	12,688	12,688	-
Dealer plan loans	16,880	4,051	12,829	-	-	-
Commercial loans	882,148	110,269	771,879	877,106	250,000	627,106
Commercial mortgages	1,222,007	80,668	1,141,339	1,161,015	181,178	979,837
Commercial lines of credit	282,759	28,276	254,483	-	-	-
	<u>2,668,533</u>	<u>239,987</u>	<u>2,428,546</u>	<u>2,442,489</u>	<u>519,667</u>	<u>1,922,822</u>

(c) Allowance for credit losses

	IFRS 9			
	Balance as at January 1, 2018 \$	Provision for credit losses \$	Net write-offs \$	Net \$
Uninsured mortgages	14,048	3,633	-	17,681
Personal loans	13,345	(4,097)	-	9,248
Personal lines of credit and overdrafts	20,791	27,605	(25,177)	23,219
Dealer plan loans	11,870	3,999	-	15,869
Commercial loans	121,802	2,237	-	124,039
Commercial mortgages	130,339	(27,602)	-	102,737
Commercial lines of credit	93,033	16,528	-	109,561
Syndication loans	1,337	42	-	1,379
Home equity lines of credit	297	(46)	-	251
	<u>406,862</u>	<u>22,299</u>	<u>(25,177)</u>	<u>403,984</u>

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

As at December 31, 2018	IFRS 9			Total \$
	Stage 1 \$	Stage 2 \$	Stage 3 \$	
Uninsured mortgages	2,076	-	15,605	17,681
Personal loans	8,130	-	1,118	9,248
Personal lines of credit and overdrafts	23,219	-	-	23,219
Dealer plan loans	11,818	-	4,051	15,869
Commercial loans	13,770	-	110,269	124,039
Commercial mortgages	22,068	2,746	77,921	102,735
Commercial lines of credit	81,287	28,276	-	109,563
Syndication loans	1,379	-	-	1,379
Home equity lines of credit	251	-	-	251
	163,998	31,022	208,964	403,984
				IAS 39 2017 \$
Balance - Beginning of year				537,342
Decrease in allowance				95,000
Amounts written off during the year				(119,413)
Recoveries of loans previously written off				6,738
Balance - End of year				<u>519,667</u>
(d) Provision for loan losses			IFRS 9 2018 \$	2017 \$
Increase in allowance			22,299	95,000
Recoveries			(12,261)	-
			<u>10,038</u>	<u>95,000</u>

(e) Loans past due but not impaired

At December 31, 2018, all loans that were past due have been considered impaired by the Credit Union.

	31 - 90 days \$	91+ days \$	Total \$
December 31, 2017	103,144	142,888	246,032

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

7 Property and equipment

	Land \$	Buildings \$	Furniture, equipment and computers \$	Pavement \$	Total \$
Cost					
Balance - Beginning of year	87,066	1,428,137	1,216,697	23,607	2,755,507
Additions	168,191	23,604	6,493	-	198,288
Balance - End of year	255,257	1,451,741	1,223,190	23,607	2,953,795
Accumulated amortization					
Balance - Beginning of year	-	852,335	1,163,224	15,185	2,030,744
Current year amortization	-	29,704	12,937	615	43,256
Balance - End of year	-	882,039	1,176,161	15,800	2,074,000
Carrying value					
December 31, 2017	87,066	575,802	53,473	8,422	724,763
December 31, 2018	255,257	569,702	47,029	7,807	879,795

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

8 Investments

The Credit Union's investments are recognized in the Statement of Financial Position in accordance with the financial instrument designation categories. The recorded values are as follows:

	IFRS 9 2018 \$	IAS 39 2017 \$
<i>Measured at fair value through profit or loss</i>		
Liquidity reserve	7,806,231	7,119,972
Atlantic Central shares	1,319,670	-
Concentra shares	500,000	-
League Data shares	27,060	-
League Savings & Mortgage shares	26,865	-
Co-operative membership	25,000	-
CU PEI Investment Corp.	969	-
	<hr/>	<hr/>
Total fair value measured through profit or loss	9,705,795	7,119,972
<i>Measured at amortized cost</i>		
Term deposits	3,000,000	-
<i>Held to maturity investments</i>		
	-	7,000,000
<i>Available for sale investments</i>		
	-	1,797,783
	<hr/>	<hr/>
	12,705,795	15,917,755
Less: Provision for investment losses	(25,000)	(25,000)
	<hr/>	<hr/>
Total investments	12,680,795	15,892,755

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 17b). The deposit bears interest at a variable rate.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

Term deposits

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

	Amount \$	Rate of Return	Maturity
	1,000,000	1.66%	January 14, 2019
	1,000,000	1.91%	April 15, 2019
	<u>1,000,000</u>	1.93%	July 17, 2019
Total	<u>3,000,000</u>		

Continuity of allowance for investment losses

	2018 \$	2017 \$
Balance - December 31, 2017	25,000	-
Increase in allowance	-	<u>25,000</u>
Balance - December 31, 2018	<u>25,000</u>	<u>25,000</u>

9 Member deposits

	2018 \$	2017 \$
Ownership shares and share accounts (note 11)	17,100,173	18,863,698
Savings and Plan 24	34,856,200	29,338,423
Chequing accounts	25,186,359	22,530,245
Term deposits	15,307,401	13,689,464
RRSP and RRIF	<u>18,408,798</u>	<u>18,631,233</u>
	<u>110,858,931</u>	<u>103,053,063</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 2018 was 0.75% (2017 - 0.75%) 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% - 1.95% (2017 - 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, 1.25% - 1.47% (2017 - 0.00% - 0.75%).

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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% - 3.25% (2017 - 0.00% - 2.75%) 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% - 3.25% (2017 - 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.

10 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, 2018 was \$2,318 (2017 - \$7,076).

Included in the loans and mortgages balance is a provision of \$300 (2017 - \$300) relating to the student loan guarantees.

11 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.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

12 Income taxes

(a) Tax rate reconciliation

	2018 \$	2017 \$
Income before income taxes	795,700	397,662
Taxes at statutory rates - 31.00% (2017 - 31.00%)	246,667	123,275
Impact of the 17% (2017 - 16%) small business deduction	(63,421)	(63,626)
Temporary differences	(7,400)	38,650
Permanent differences and other	464	(10,213)
Impact of non-taxable dividend of \$1,107 (2017 - \$1,056)	(23,192)	(327)
	<u>153,118</u>	<u>87,759</u>

(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% (2017 - 31.00%) as follows:

	2018 \$	2017 \$
Balance, December 31, 2017	293,400	254,750
Comprehensive income recovery (expense)	(7,400)	38,650
Balance, December 31, 2018	<u>286,000</u>	<u>293,400</u>

Deferred income tax assets are attributable to the following items:

	2018 \$	2017 \$
Deferred income tax assets		
Property and equipment	37,873	38,327
Allowance for impaired loans and accounting reserves	248,127	255,073
	<u>286,000</u>	<u>293,400</u>

13 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 \$70,257 (2017 - \$69,292) in contributions to the plan. This expense is included with staff expenses on the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

14 Line of credit availability

In 2018, the Credit Union had an approved line of credit with Atlantic Central of \$2,200,000. As of December 31, 2018, the line of credit was not being utilized.

15 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

	2018	2017
	\$	\$
Salaries and short-term employee benefits	428,813	410,474
Retirement benefit obligations	-	-

(b) Directors' remuneration

	2018	2017
	\$	\$
Honorariums	11,150	14,200
Payment for expenses while on credit union business	12,154	16,563

(c) Loans to directors and key management personnel

	2018	2017
	\$	\$
Loans outstanding at beginning of period	1,015,414	674,237
Loans issued during the period	703,250	543,800
Loan repayments during the period	(298,750)	(152,962)
Net increase (decrease) in lines of credit	45,686	(49,661)
Loans outstanding at end of period	<u>1,465,600</u>	<u>1,015,414</u>
Interest income earned	44,944	20,583

No provisions have been recognized in respect of loans to key management (2017 - nil). The loans to directors and key management personnel and close family members during the year of \$703,250 (2017 - \$543,800) are repayable over 1 - 12 years and have interest rates ranging from 1.95% - 7.95% (2017 - 1.25% to 5.25%).

16 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 \$3,437,286 (2017 - \$1,486,468) of cash deposits held for CU PEI Investment Corp. The loans and mortgages balance includes \$2,724,487 (2017 - \$2,649,487) 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 \$26,176 (2017 - \$24,504) of interest income and \$73,706 (2017 - nil) of dividend income received from CU PEI Investment Corp.

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

17 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.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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

	2018	2017
	\$	\$
Cash and cash equivalents	11,047,970	4,614,176
Accounts receivable	40,321	123,553
Loans and mortgages	99,885,650	94,196,682
Investments	12,680,795	15,892,755
	<u>123,654,736</u>	<u>114,827,166</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.

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:

	2018	2017
	\$	\$
Cash and cash equivalents	<u>11,047,970</u>	<u>4,614,176</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, 2018.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	2018 Total \$
Member deposits	77,429,559	16,329,199	-	93,758,758
Share account	17,100,173	-	-	17,100,173
Accrued interest payable	456,311	-	-	456,311
Other liabilities	1,656,681	-	-	1,656,681
Income taxes payable	65,359	-	-	65,359
	<u>96,708,083</u>	<u>16,329,199</u>	<u>-</u>	<u>113,037,282</u>

	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
	<u>88,786,672</u>	<u>16,031,900</u>	<u>-</u>	<u>104,818,572</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.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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 2018 \$	Net interest income change 2017 \$
Before tax impact of		
1% increase in interest rates	305,800	277,700
1% decrease in interest rates	(310,300)	(150,200)

(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, 2018, the equity level for regulatory purposes is as follows:

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

	2018	2017
	\$	\$
Ownership shares (note 11)	27,285	26,965
Members' equity	11,978,845	11,230,858
	<hr/>	<hr/>
Total regulatory equity	12,006,130	11,257,823
	<hr/>	<hr/>
Total assets	125,016,127	116,049,430
	<hr/>	<hr/>
Equity level	9.68%	9.70%
	<hr/>	<hr/>
	#	2018
		\$
Opening, January 1, 2018	5,393	26,965
Net change	64	320
	<hr/>	<hr/>
Closing, December 31, 2018	5,457	27,285
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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.

	2018				
	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
	\$	\$	\$	\$	\$
Assets					
Cash and cash equivalents	10,396,682	-	-	651,288	11,047,970
Effective interest rate	1.46%				
Investments	11,910,826	769,969	-	-	12,680,795
Effective interest rate	1.92%	2.99%			
Loans and mortgages	62,076,430	37,230,935	610,027	(31,742)	99,885,650
Effective interest rate	4.71%	4.34%	4.73%		
Accounts receivable	-	-	-	40,321	40,321
Prepaid expenses and other	-	-	-	195,596	195,596
Property and equipment	-	-	-	879,795	879,795
Deferred income taxes	-	-	-	286,000	286,000
Total assets	84,383,938	38,000,904	610,027	2,021,258	125,016,127
Liabilities and surplus					
Member deposits	77,429,559	16,329,199	-	-	93,758,758
Effective interest rate	0.90%	2.12%			
Share deposits	17,100,173	-	-	-	17,100,173
Effective interest rate	0.75%				
Accrued interest payable	-	-	-	456,311	456,311
Other liabilities	-	-	-	1,656,681	1,656,681
Income taxes payable	-	-	-	65,359	65,359
Undistributed earnings	-	-	-	11,978,845	11,978,845
Total liabilities and surplus	94,529,732	16,329,199	-	14,157,196	125,016,127
Interest rate sensitivity gap	(10,145,794)	21,671,705	610,027	(12,135,938)	-

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

	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)	-

As at December 31, 2018, the Credit Union's net interest spread was 2.99% (2017 - 2.79%). 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, 2018 amounting to \$6,282,814 (2017 - 3,272,149).

20 Transition to IFRS 9

Set out below is the impact of the adoption of IFRS 9 on the Credit Union. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 3.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

	IAS 39		IFRS 9	
	Measurement category	Carrying amount \$	Measurement category	Carrying amount \$
Financial assets				
Cash and cash equivalents	Amortized cost (loans and receivables)	4,614,176	Amortized cost	4,614,176
Accounts receivable	Amortized cost (loans and receivables)	123,553	Amortized cost	123,553
Loans and mortgages	Amortized cost (loans and receivables)	94,196,682	Amortized cost	94,196,682
Investments	FVTPL (held for trading)	7,119,972	FVTPL	8,892,755
	Amortized cost (held to maturity)	7,000,000	Amortized cost	7,000,000
	Amortized cost (available for sale)	1,772,783	Amortized cost	-

There were no changes to the classification and measurement of financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9:

The following table reconciles the carrying amounts of financial assets from their previous measurement category in accordance with IAS 39 to their new management categories upon transition to IFRS 9 on January 1, 2018:

	IAS 39 carrying amount December 31, 2017 \$	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018 \$
<i>Amortized cost</i>				
Cash and cash equivalents				
Opening balance under IAS 39 and closing balance under IFRS 9	4,614,176	-	-	4,614,176
Accounts receivable				
Opening balance under IAS 39 and closing balance under IFRS 9	123,553	-	-	123,553
Loans and mortgages				
Opening balance under IAS 39	94,196,682			
Remeasurement: ECL allowance	-	-	112,805	
Closing balance under IFRS 9				94,309,487
Investments				
Opening balance under IAS 39 and closing balance under IFRS 9	7,000,000	-	-	7,000,000
Total financial assets measured at amortized cost				
	105,934,411	-	112,805	106,047,216
<i>Fair value through profit or loss (FVTPL)</i>				
Investments				
Opening balance under IAS 39	7,119,972			
Add: from available for sale (IAS 39)		1,772,783		
Closing balance under IFRS 9	7,119,972	1,772,783	-	8,892,755

NOTES TO THE FINANCIAL STATEMENTS

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

Available for sale

Investments

Opening balance under IAS 39	1,772,783			
Less: to FVTPL (IFRS 9)		(1,772,783)		
<hr/>				
Closing balance under IFRS 9	1,772,783	(1,772,783)	-	-

Notes:

- Total remeasurement of \$112,805 was recognized in opening undistributed income at January 1, 2018.
- The Credit Union holds investments in certain shares that are not traded in an open market so originally it has been determined that their fair value could not be reliably measured. Therefore, under IAS 39 these investments were measured at amortized cost. Under IFRS 9, these investments are now measured at FVTPL.



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