

2019 FINANCIAL STATEMENTS

 CREDIT
UNIONS



MALPEQUE BAY CREDIT UNION

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Financial Statements

Management 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 24, 2020

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, 2019, 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, 2019, 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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



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

Statement of Financial Position


MALPEQUE BAY CREDIT UNION
December 31, 2018

	2019 \$	2018 \$
Assets		
Cash and cash equivalents (note 16)	10,893,119	11,047,970
Loans and mortgages (notes 6, 15 and 16)	108,975,927	99,885,650
Accounts receivable	67,039	40,321
Prepaid expenses and other	201,270	195,596
Property and equipment (note 7)	848,300	879,795
Investments (note 8)	12,842,498	12,680,795
Deferred income taxes (note 12)	292,000	286,000
	<u>134,120,153</u>	<u>125,016,127</u>
Liabilities		
Member deposits (notes 9 and 16)	119,323,492	110,858,931
Accrued interest payable	644,500	456,311
Other liabilities	1,403,573	1,656,681
Income taxes payable	78,718	65,359
	<u>121,450,283</u>	<u>113,037,282</u>
Members' Equity		
Undistributed income	<u>12,669,870</u>	<u>11,978,845</u>
	<u>134,120,153</u>	<u>125,016,127</u>

Approved by the Board of Directors



Director



Director

Statement of Changes in Member's Equity

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

	2019	2018
	\$	\$
Undistributed income - Beginning of year	11,978,845	11,343,663
Net earnings for the year	<u>691,025</u>	<u>635,182</u>
Undistributed income - End of year	<u>12,669,870</u>	<u>11,978,845</u>

Statement of Comprehensive Income

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

	2019 \$	2018 \$
Revenue		
Loan interest (note 16)	4,875,200	4,204,222
Investments (note 16)	422,985	395,157
Service fees	473,019	518,080
Commissions	575,246	581,774
Other income	30,662	31,685
	<hr/> 6,377,112	<hr/> 5,730,918
Expenses		
Staff (notes 13 and 15)	1,623,369	1,609,167
Premises	90,738	70,411
Insurance	172,322	171,222
Office	48,212	43,708
Service fees	779,273	743,526
General	724,325	605,572
Cost of capital	1,231,707	946,845
Amortization	40,348	43,256
	<hr/> 4,710,294	<hr/> 4,233,707
Operating earnings	<hr/> 1,666,818	<hr/> 1,497,211
Other expense		
Share dividends	111,167	115,301
Provision for loan losses (note 6)	110,366	10,038
Member rebates	528,424	576,172
	<hr/> 749,957	<hr/> 701,511
	<hr/> 916,861	<hr/> 795,700
Provision for (recovery of) income taxes		
Current (note 12)	231,836	153,118
Deferred income taxes (note 12)	(6,000)	7,400
	<hr/> 225,836	<hr/> 160,518
Net earnings for the year	<hr/> 691,025	<hr/> 635,182

Statement of Cash Flow

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

	2019 \$	2018 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the year	691,025	635,182
Items not affecting cash		
Amortization	40,348	43,256
Cumulative effect of adopting IFRS 9	-	(112,805)
Provision for loan losses	110,366	10,038
Deferred income taxes	(6,000)	7,400
	<hr/>	<hr/>
	835,739	583,071
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	(26,718)	83,232
Increase in loans and mortgages	(9,200,643)	(5,473,396)
Decrease (increase) in prepaid expenses and other	(5,674)	6,454
Decrease in income taxes receivable	-	2,051
Increase in member deposits	8,464,561	7,805,868
Increase (decrease) in accrued interest payable	188,189	(9,299)
Increase in income taxes payable	13,359	65,359
Increase (decrease) in other liabilities	(253,108)	356,782
	<hr/>	<hr/>
	15,705	3,420,122
Investing activities		
Purchase of property and equipment	(8,853)	(198,288)
Decrease (increase) in investments	(161,703)	3,211,960
	<hr/>	<hr/>
	(170,556)	3,013,672
Increase (decrease) in cash and cash equivalents	(154,851)	6,433,794
Cash and cash equivalents - Beginning of year	11,047,970	4,614,176
	<hr/>	<hr/>
Cash and cash equivalents - End of year	10,893,119	11,047,970
	<hr/>	<hr/>
Supplementary disclosure		
Interest paid	817,050	929,544
Interest received	6,152,637	4,518,236
Dividends paid	115,301	141,901
Dividends received	37,359	103,007
Income taxes paid	218,477	87,759
Income taxes received	-	2,051

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 24, 2020.

(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 16 Leases, which replaces IAS 17 Leases and related interpretations, as issued by the IASB with a date of transition of January 1, 2019, which resulted in a change in accounting policy. The Credit Union did not early adopt any of IFRS 16 in previous periods.

As permitted by the transitional provisions of IFRS 16, the Credit Union elected not to restate comparative figures. The Credit Union determined that there is no material impact to the Credit Union's financial statements upon adoption.

The adoption of IFRS 16 has resulted in changes in our accounting policies for recognition, classification and measurement of leases.

(b) Financial instruments

i) *Classification and measurement of financial assets*

The Credit Union 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:

- 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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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:

Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent 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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL 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 FVOCI. Movements in the carrying amount are taken through other comprehensive income (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 the statement of comprehensive income (SCI). 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 SCI, 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 SCI.

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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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 SCI 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 SCI.

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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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.

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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

v) *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.
- 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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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 determine and there is no reasonable expectation of further recover, write-off may be earlier.

(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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

(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.

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, 2019.

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) Leased assets

For any new contracts entered into on or after January 1, 2019, the Credit Union considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Credit Union assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Credit Union;
- the Credit Union has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Credit Union has the right to direct the use of the identified asset throughout the period of use. The Credit Union assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

At lease commencement date, the Credit Union recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Credit Union, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Credit Union has elected to account for short-term leases and leases of low-value assets using the practical expedients option. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included in other liabilities.

Policy applicable before January 1, 2019

Under IAS 17, the Credit Union classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were initially recorded at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Credit Union's statement of financial position. Payments made under operating lease were recognized in comprehensive income on a straight-line basis over the term of the lease.

(g) Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

(h) Employee benefits

Short-term obligations

Liabilities for wage and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in the Statement of Comprehensive Income in respect of the employees service up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are included in other liabilities in the statement of financial position.

(i) 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.

(j) 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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

i) Current income tax

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

ii) Deferred income tax

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

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

(k) 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.

(l) 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.

(m) Standards issued but not yet effective

Certain new accounting standards and interpretations have been issued but are not effective for the fiscal year ended December 31, 2019 and have not been early adopted by the Credit Union. These standards are not expected to have a material effect on the Credit Union in the current or future reporting periods.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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 amortization 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.

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 fair 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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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 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.

5 Financial instruments

Fair values versus carrying amounts

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

		2019		2018	
	Fair level hierarchy	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Financial assets					
Loans and mortgages	Level 2	108,975,927	108,975,927	99,885,650	99,885,650
Liquidity reserve deposit	Level 2	7,976,228	7,976,228	7,806,231	7,806,231
Atlantic Central shares	Level 2	1,309,630	1,309,630	1,319,670	1,319,670
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	28,611	28,611	26,865	26,865
Co-operative membership	Level 3	-	-	25,000	-
CU PEI Investment Corp.	Level 3	969	969	969	969
Term deposits	Level 2	3,000,000	3,000,000	3,000,000	3,000,000
		121,818,425	121,818,425	112,591,445	112,566,445
Financial liabilities					
Member deposits	Level 2	119,323,492	119,323,492	110,858,931	110,858,931

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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.

6 Loans and mortgages

(a) Loans at amortized cost

	Gross loans \$	Allowance for credit losses \$	2019 Net carrying amount \$	Gross loans \$	Allowance for credit losses \$	2018 Net carrying amount \$
Uninsured mortgages	31,959,932	13,133	31,946,799	27,946,402	17,681	27,928,721
Personal loans	4,017,812	18,739	3,999,073	4,069,434	9,248	4,060,186
Personal lines of credit and overdrafts	4,794,628	31,558	4,763,070	4,643,870	23,219	4,620,651
Dealer plan loans	3,128,029	10,948	3,117,081	3,393,321	15,869	3,377,452
Commercial loans	13,089,891	16,261	13,073,630	12,786,919	124,039	12,662,880
Commercial mortgages	29,486,674	177,798	29,308,876	25,483,264	102,737	25,380,527
Commercial lines of credit	10,278,225	238,787	10,039,438	10,604,876	109,561	10,495,315
Syndication loans	7,972,801	1,993	7,970,808	5,514,427	1,379	5,513,048
Home equity lines of credit	4,038,699	303	4,038,396	3,345,874	251	3,345,623
Mortgages	718,756	-	718,756	2,501,247	-	2,501,247
	<u>109,485,447</u>	<u>509,520</u>	<u>108,975,927</u>	<u>100,289,634</u>	<u>403,984</u>	<u>99,885,650</u>

Mortgages and loans

Mortgage loans are secured by realty mortgages with interest rates of 2.94% - 5.95% (2018 - 2.94% - 7.39%). Loans other than mortgages are priced at market rates unless circumstances warrant special considerations. The interest rates range from 0.00% - 21% (2018 - 0.25% - 18%). The loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities. Interest rates range from 0.00% - 24% for lines of credit and overdrafts.

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, 2019 was 3.95% (2018 - 3.95%).

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

(b) Impaired loans

	2019			2018		
	Gross impaired loans	Allowance for credit losses	Net carrying amount	Gross impaired loans	Allowance for credit losses	Net carrying amount
	\$	\$	\$	\$	\$	\$
Uninsured mortgages	625,003	10,783	614,220	260,081	15,605	244,476
Personal loans	264,372	11,232	253,140	4,658	1,118	3,540
Personal lines of credit and overdrafts	41,644	7,793	33,851	-	-	-
Dealer plan loans	-	-	-	16,880	4,051	12,829
Commercial loans	-	-	-	882,148	110,269	771,879
Commercial mortgages	1,193,873	153,058	1,040,815	1,222,007	80,668	1,141,339
Commercial lines of credit	1,315,841	168,208	1,147,633	282,759	28,276	254,483
	<u>3,440,733</u>	<u>351,074</u>	<u>3,089,659</u>	<u>2,668,533</u>	<u>239,987</u>	<u>2,428,546</u>

(c) Allowance for credit losses

	2019			
	Balance as at January 1, 2019	Provision for credit losses	Net write-offs	Net
	\$	\$	\$	\$
Uninsured mortgages	17,681	(4,548)	-	13,133
Personal loans	9,248	35,861	(26,370)	18,739
Personal lines of credit and overdrafts	23,219	13,037	(4,698)	31,558
Dealer plan loans	15,869	(924)	(3,997)	10,948
Commercial loans	124,039	(107,778)	-	16,261
Commercial mortgages	102,737	75,061	-	177,798
Commercial lines of credit	109,561	129,226	-	238,787
Syndication loans	1,379	614	-	1,993
Home equity lines of credit	251	52	-	303
	<u>403,984</u>	<u>140,601</u>	<u>(35,065)</u>	<u>509,520</u>

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

As at December 31, 2019	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Uninsured mortgages	2,350	3,817	6,966	13,133
Personal loans	7,507	10,443	789	18,739
Personal lines of credit and overdrafts	23,765	7,380	413	31,558
Dealer plan loans	10,948	-	-	10,948
Commercial loans	16,261	-	-	16,261
Commercial mortgages	24,740	2,891	150,167	177,798
Commercial lines of credit	70,579	58,336	109,872	238,787
Syndication loans	1,993	-	-	1,993
Home equity lines of credit	303	-	-	303
	<u>158,446</u>	<u>82,867</u>	<u>268,207</u>	<u>509,520</u>
As at December 31, 2018	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
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
	<u>163,998</u>	<u>31,022</u>	<u>208,964</u>	<u>403,984</u>

(d) Provision for loan losses

	2019 \$	2018 \$
Increase (decrease) in allowance	105,536	(2,878)
Loans directly written off	35,065	25,177
Recoveries of loans previously written off	(30,235)	(12,261)
	<u>110,366</u>	<u>10,038</u>

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

(e) Loans past due but not impaired

	31 - 90 days \$	91+ days \$	Total \$
December 31, 2019	174,245	-	174,245

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

7 Property and equipment

	Land \$	Buildings \$	Furniture, equipment and computers \$	Pavement \$	Total \$
Cost					
Balance - Beginning of year	255,257	1,451,741	1,223,190	23,607	2,953,795
Additions	-	-	8,853	-	8,853
Balance - End of year	255,257	1,451,741	1,232,043	23,607	2,962,648
Accumulated amortization					
Balance - Beginning of year	-	882,039	1,176,161	15,800	2,074,000
Current year amortization	-	28,775	10,948	625	40,348
Balance - End of year	-	910,814	1,187,109	16,425	2,114,348
Carrying value					
December 31, 2018	255,257	569,702	47,029	7,807	879,795
December 31, 2019	255,257	540,927	44,934	7,182	848,300

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:

	2019	2018
	\$	\$
<i>Measured at fair value through profit or loss</i>		
Liquidity reserve	7,976,228	7,806,231
Atlantic Central shares	1,309,630	1,319,670
Concentra shares	500,000	500,000
League Data shares	27,060	27,060
League Savings & Mortgage shares	28,611	26,865
Co-operative membership	-	25,000
CU PEI Investment Corp.	969	969
	<hr/>	<hr/>
Total fair value measured through profit or loss	9,842,498	9,705,795
<i>Measured at amortized cost</i>		
Term deposits	3,000,000	3,000,000
	<hr/>	<hr/>
	12,842,498	12,705,795
Less: Provision for investment losses	-	(25,000)
	<hr/>	<hr/>
Total investments	12,842,498	12,680,795
	<hr/>	<hr/>

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.

Term deposits

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

	Amount	Rate of	Maturity
	\$	Return	
	1,000,000	1.77%	January 13, 2020
	2,000,000	2.50%	January 29, 2020
	<hr/>		
Total	3,000,000		
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Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

Continuity of allowance for investment losses

	2019 \$	2018 \$
Balance - December 31, 2018	25,000	25,000
Write off	(25,000)	-
	<hr/>	<hr/>
Balance - December 31, 2019	-	25,000
	<hr/>	<hr/>

9 Member deposits

	2019 \$	2018 \$
Ownership shares and share accounts (note 11)	15,929,009	17,100,173
Savings and Plan 24	35,005,819	34,856,200
Chequing accounts	27,413,707	25,186,359
Term deposits	21,925,298	15,307,401
RRSP and RRIF	19,049,659	18,408,798
	<hr/>	<hr/>
	119,323,492	110,858,931
	<hr/>	<hr/>

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 2019 was 0.75% (2018 - 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% - 2.05% (2018 - 0.00% - 1.95%).

Chequing accounts are held on a call basis and pay the account holders interest at the Credit Union's stated rates, 0.00% -1.59% (2018 - 1.25% - 1.47%).

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% (2018 - 0.00% - 3.25%) and extend for a term of up to 5 years.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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 0.00% - 3.25% (2018 - 0.10% - 3.25%).

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

10 Contingent liability

	2019	2018
	\$	\$
(a) Outstanding guarantees on behalf of members	451,100	-
(b) In 2009, all student loans issued by the company were transferred to Consolidated Credit Union Ltd. However, the Credit Union remains as guarantor on these loans. The loan balance as at December 31, 2019 was nil (2018 - \$2,318).		

Included in the loans and mortgages balance is a provision of nil (2018 - \$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

	2019	2018
	\$	\$
Income before income taxes	916,861	795,700
Taxes at statutory rates - 31.00% (2018 - 31.00%)	284,227	246,667
Impact of the 18.5% (2018 - 17%) small business deduction	(51,734)	(63,421)
Temporary differences	6,000	(7,400)
Permanent differences and other	1,014	464
Impact of non-taxable dividend of \$24,746 (2018 - \$74,813)	(7,671)	(23,192)
	<u>231,836</u>	<u>153,118</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% (2018 - 31.00%) as follows:

	2019	2018
	\$	\$
Balance, December 31, 2018	286,000	293,400
Comprehensive income recovery (expense)	6,000	(7,400)
Balance, December 31, 2019	<u>292,000</u>	<u>286,000</u>

Deferred income tax assets are attributable to the following items:

	2019	2018
	\$	\$
Deferred income tax assets		
Property and equipment	36,652	37,873
Allowance for impaired loans and accounting reserves	255,348	248,127
	<u>292,000</u>	<u>286,000</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 \$71,988 (2018 - \$70,257) 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 2019, the Credit Union had an approved line of credit with Atlantic Central of \$3,125,000. As of December 31, 2019, 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

	2019	2018
	\$	\$
Salaries and short-term employee benefits	439,274	428,813

(b) Directors' remuneration

	2019	2018
	\$	\$
Honorariums	11,050	11,150
Payment for expenses while on credit union business	13,245	12,154

(c) Loans to directors and key management personnel

	2019	2018
	\$	\$
Loans outstanding at beginning of period	1,523,851	1,015,414
Loans issued during the period	97,454	703,250
Loan repayments during the period	(449,682)	(298,750)
Net increase in lines of credit	99,214	103,937
Loans outstanding at end of period	<u>1,270,837</u>	<u>1,523,851</u>
Interest income earned	53,658	44,944

No provisions for credit losses have been recognized in respect of loans to key management (2018 - nil). The loans to directors and key management personnel and close family members during the year of \$97,454 (2018 - \$703,250) are repayable over 1 - 12 years and have interest rates ranging from 1.95% - 7.95% (2018 - 1.95% to 7.95%).

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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 \$3,063,447 (2018 - \$3,437,286) of cash deposits held for CU PEI Investment Corp. The loans and mortgages balance includes \$2,249,487 (2018 - \$2,724,487) 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 \$26,627 (2018 - \$26,176) of interest income and nil (2018 - \$73,706) 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:

	2019	2018
	\$	\$
Cash and cash equivalents	10,893,119	11,047,970
Accounts receivable	67,039	40,321
Loans and mortgages	108,975,927	99,885,650
Investments	12,842,498	12,680,795
	<u>132,778,583</u>	<u>123,654,736</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:

	2019	2018
	\$	\$
Cash and cash equivalents	<u>10,893,119</u>	<u>11,047,970</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, 2019.

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 \$	2019 Total \$
Member deposits	80,443,238	22,951,245	-	103,394,483
Share account	15,929,009	-	-	15,929,009
Accrued interest payable	644,500	-	-	644,500
Other liabilities	1,403,573	-	-	1,403,573
Income taxes payable	78,718	-	-	78,718
	98,499,038	22,951,245	-	121,450,283

	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
	96,708,083	16,329,199	-	113,037,282

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 2019 \$	Net interest income change 2018 \$
Before tax impact of		
1% increase in interest rates	276,400	305,800
1% decrease in interest rates	(287,400)	(310,300)

(e) Operational risk

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

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

(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, 2019, the equity level for regulatory purposes is as follows:

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

	2019	2018
	\$	\$
Ownership shares (note 11)	27,170	27,285
Members' equity	12,669,870	11,978,845
	<hr/>	<hr/>
Total regulatory equity	12,697,040	12,006,130
	<hr/>	<hr/>
Total assets	134,120,153	125,016,127
	<hr/>	<hr/>
Equity level	9.46%	9.60%
	<hr/>	<hr/>
	2019	2019
	#	\$
Opening, January 1, 2019	5,457	27,285
Net change	(23)	(115)
	<hr/>	<hr/>
Closing, December 31, 2019	5,434	27,170
	<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.

	2019				
	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
Cash and cash equivalents	10,050,499	-	-	842,620	10,893,119
Effective interest rate	1.20%				
Investments	12,097,529	744,969	-	-	12,842,498
Effective interest rate	1.91%	3.09%			
Loans and mortgages	58,225,450	50,625,056	222,155	(96,734)	108,975,927
Effective interest rate	4.93%	4.45%	5.35%		
Accounts receivable	-	-	-	67,039	67,039
Prepaid expenses and other	-	-	-	201,270	201,270
Property and equipment	-	-	-	848,300	848,300
Deferred income taxes	-	-	-	292,000	292,000
Total assets	80,373,478	51,370,025	222,155	2,154,495	134,120,153
Liabilities and surplus					
Member deposits	80,443,238	22,951,245	-	-	103,394,483
Effective interest rate	0.96%	2.24%			
Share deposits	15,929,009	-	-	-	15,929,009
Effective interest rate	0.75%				
Accrued interest payable	-	-	-	644,500	644,500
Other liabilities	-	-	-	1,403,573	1,403,573
Income taxes payable	-	-	-	78,718	78,718
Undistributed earnings	-	-	-	12,669,870	12,669,870
Total liabilities and surplus	96,372,247	22,951,245	-	14,796,661	134,120,153
Interest rate sensitivity gap	(15,998,769)	28,418,780	222,155	(12,642,166)	-

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2018

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)	-

As at December 31, 2019, the Credit Union's net interest spread was 3.08% (2018 - 2.99%). 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, 2019 amounting to \$1,939,901 (2018 - \$6,282,814).



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