

2020



MALPEQUE BAY CREDIT UNION
ANNUAL REPORT

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2020 highlights

\$154M
assets

▲ 15.5%

\$139M
deposits

▲ 16.9%

5K
members

\$114M
loans

▲ 4.7%

16.0%

growth in avg. member savings

\$394K
paid to members

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.

Our Values

Simplistic

Holistic

Inclusive

Honest

Passionate

Spiritual

Evolutionary

Board of Directors



Peter Pidgeon
President



Jack Spencer
Vice President



Alisha MacKay
Secretary



Helen Warren



Don MacLean



Eric Brookins



**Michele
Montgomery**



David Sudsbury



Nicole Wilson

Peter Pidgeon
President



President's Report

2020 was an extremely busy year for the Board of Directors and our Executive team. After much soul searching over the past few years regarding the future of Malpeque Bay Credit Union we decided to enter into talks with three other like minded credit unions to explore the idea of a merger. All our focus was centered around what would be best for our members and our staff. Along with a heavy agenda centered around the merger we also had to deal with the Pandemic and ensuring that we continued to be there for our members in a challenging environment. Add increasing regulatory demands to what was already on our plate and the result was a very hectic year.

Despite the challenges we faced last year Malpeque Bay Credit Union continued to thrive. We had such a successful year in terms of growth we had to set aside nearly \$1 million in retained earnings in order to maintain our equity ratio at a healthy level. It is for this reason that our patronage rebate program saw a decline from 2019. The Board did accept a small decline in our equity ratio in order to maintain our member rebates. These were calculated this year at 5% of interest earned, plus 5% of interest paid, plus 5% of service charges paid along with a dividend on share accounts of .50%. In total patronage rebates and dividends amount to \$394 thousand down from \$640 thousand last year.

In a Pandemic year one part of the economy that suffers is community based associations that rely partly on money from the community in order to survive. We felt it was our duty to continue to help our community organizations and invested more than \$95 thousand in various forms of direct and indirect funding to help keep them healthy and able to continue with their missions. More specific information can be found in our Community Investment Report.

It is fair to say that the Board devoted the majority of its energy to the Merger talks that lasted all year and resulted in a resolution being put before the membership recommending that we, along with 3 other PEI credit unions, form one new credit union. It is important to note that Malpeque Bay Credit Union is an equal partner in the transaction and will have equal Board representation. As I said earlier, we are doing this primarily for our members. In order to keep current with the trends in the financial services industry the Board decided that scale is key to ensuring that we can continue to offer the products, services and advice that our members deserve. The combination will allow our credit union to be here in Kensington for a long time to come and continue to be a vital part of the community. All four credit unions are currently in a strong financial position and together we will be able to take advantage of economies of scale to allow us to reinvest in our products and services and our employees. Our members will also be able to say that they are members of the largest credit union in Atlantic Canada. One of the main principals of the Merger is to utilize a decentralized model thereby allowing all the partners to maintain control over decision making that effects each one's community.

In closing, I have to commend our Management and Staff for a job well done in the most challenging of circumstances last year. They were able to maintain a healthy and safe environment and at the same time cater to all the needs of our members. I also have recognize our Directors who have put in quite a long year in making critical decisions that will affect our credit union for years to come.

Peter Pidgeon
President



Marc LeClair
General Manager

Manager's Report

Last year was certainly one that will go down in the history books of Malpeque Bay Credit Union. As we were beginning our discussions with three other credit unions on a monumental merger, the pandemic hit us and turned things upside down.

Throughout the year, the leadership of the Board, along with our employees' resiliency and willingness to adapt, allowed us to continue serving all our members needs and continue to support our community. In the early days of the Pandemic, as situations changed, sometimes on a moments notice, it was amazing to see how nimble our Board, our staff and indeed our members could be. No one complained; we all just dealt with it.

We also worked very closely as a Provincial Credit Union System, meeting as many as two or three times a week, to support each other in responding to everything that was coming at us. As well, we received a lot of support from the Atlantic Credit Union System, particularly with regard to our participation in the Federal support programs that were being rolled out.

To say the least it was a very trying time for everyone, including our members. However, it is said that necessity is the mother of invention. We certainly invented new ways of doing business and many of those practices are still in place, and, will be going forward. In addition, many members discovered how easy and convenient electronic banking is and that has made their lives easier.

Even through the disruptions that the Pandemic created we managed to have a very successful year. Our assets increased by \$20.8 million or 15.5%. The sudden drop in interest rates by the Bank of Canada, in response to the tremendous economic impact of the Pandemic, had a marked negative effect on our interest margins almost overnight. Despite this, we were able to increase our operating earnings, prior to taxes and other provisions,

by 7%. We were also able to increase our equity by close to \$1 million. While most of the national banks were increasing their loan loss provisions substantially, we saw no need to do this based on our community demographic. In fact our loan delinquency is currently at an all time low.

Despite the challenges we faced last year we were able to increase our suite of products that will help make banking with us more convenient. We added International Transfers which enables the transfer of funds from members' accounts to international destinations. This is less expensive and more convenient than the previous method of wire transfers. We also added a product called ClickSwitch which enables members to set up or change pre-authorized payments from the comfort of their home. And finally, we are currently testing online account opening and lending products. We hope to be able to roll these out by year end. Once in place members will be able to open accounts and borrow money from the comfort of their home or office. We are moving in this direction because we recognize that convenience in peoples' lives is paramount, especially when it comes to banking.

In closing I want to thank the Board, staff and especially our members for being patient and kind throughout all the challenges we faced this past year. Going forward, we hope to be part of a new credit union that will be able to provide many more benefits for members and ensure that we will be an integral part of the Kensington Area community for a long time into the future.

Marc LeClair
General Manager

Big Brothers Big Sisters Bowl for Kids' Sake



PCH Foundation Lights for Life

We are pleased to be able to join with the other western PEI Credit Unions to present the PCH Foundation Lights for Life each year. Malpeque Bay Credit Union is proud to be part of such an important event, as over \$275,000 was raised for the PCH Foundation. We have committed to this event for four more years, and we are looking forward to what the future has in store.

Thank you

to all our staff and to all the front line workers.

It's been said that since the arrival of COVID-19 on Prince Edward Island a day feels like a week, and a week feels like a year. Looking back, those first few days of the pandemic now feel like a world away – and throughout the past year, we've been working hard to rise to the challenge. As a result, we have had to change the way we service our members, but one thing has remained the same – that we're here to help. We know that these changes may have caused some challenges for our members, but we want to thank each and every one of you, who have been supportive in our decisions, and understanding of these changes.

Additionally, COVID-19 has really shone a spotlight on the importance of our front-line staff and essential workers. For the front-line staff across all credit unions, the pandemic brought on a lot of changes to policies and procedures, as well as day-to-day operations. A sincere thank you is extended to everyone at the credit unions for continuing to operate, and pivot whenever needed. We couldn't have done it without you!

Helping our members during COVID-19

In times of crisis, it's important to come together as a community to support one another. During the COVID-19 pandemic, we provided the support our members needed through a number of targeted relief and support programs.

No two situations were the same, especially during the early days of the pandemic. We worked with our members to build relief packages specifically for them to get through any hardships they were faced with.

Saved members money when it counted most.

We waived key service fees for all members during the height of the pandemic so that they could send money more frequently to loved ones or in support of their favorite local businesses without paying any extra fees. We also introduced low rate financing options for those who needed access to funds quickly.

Kept our members safe at home with new enhanced ways to bank remotely.

We knew not everyone was comfortable going online for their banking, so we increased our services available over the phone so that members could perform most of their banking from the comfort and safety of their own home.

Helped our members manage their finances during the hard times.

We responded quickly to our members' when they needed access to funds with a number of support options. From loan and mortgage payment deferrals to special emergency loan programs for both personal and business members who didn't qualify for any of the government programs, we offered our members the tools to help with their finances.

Community Involvement Report

With the challenges faced by many in 2020 due to Covid-19, it was more important than ever that Malpeque Bay Credit Union be able to do our part to support our community, and our members. In many cases, our support looked different with many events being cancelled with Public Health guidelines however, the staff was happy to adapt to support those around us. During the beginning of the pandemic, Malpeque Bay Credit Union was proud to purchase baked goods from local bakeries to deliver to other essential businesses as well as long term and community care homes in our area.

In 2020 Malpeque Bay Credit Union donated over \$56,000 to invest directly in our community through education, social causes, and various service clubs. This donation is accompanied by over 1000 staff volunteer hours.

The Malpeque Bay Credit Union weekly 50/50 draw also generated over \$17,000 in funding for the Credit Union Centre FitPlex.

In 2020, Malpeque Bay Credit Union supported through donations the following community organizations: Red Oak Shrine Club, Kensington Food Bank, Kensington Area Snowmobile Association, Huntington Society PEI, O'leary Community Sports Center, PEI Humane Society, Summerside Y Service Club, Indian River Festival, Meals on Wheels, Kensington United Church and Kensington and Area Chamber of Commerce to name a few.

Supporting the youth in our community continues to be of utmost importance at Malpeque Bay Credit Union. Education, in particular, is an important factor in the

development of our youth in the community. For that reason, Malpeque Bay Credit Union made donations to KISH Breakfast Program, QEES Breakfast Program, and KISH Grad Class of 2020. We also had the Queen Elizabeth Elementary School kindergarten classes visit the branch and gifted them each a piggy bank to get them started on their financial journey. Furthermore, to keep our youth safe in schools during the difficult times of 2020, Malpeque Bay Credit Union donated disposable masks to both schools in our community.

Malpeque Bay Credit Union's commitment to the youth in the community was also represented by the scholarships awarded to five graduating high school students from Kensington Intermediate Senior High School and Kinkora Regional High School. Each of the scholarship recipients received \$1,500 towards their education and future goals. An important factor in the selection of recipients is their level of involvement in the community.

In 2020, donations were also made to the following youth focused organizations and events: Kensington Nor'easters Basketball, Kensington and Area Minor Hockey, Rustico Ringette Association, the Shane Cormier Memorial Hockey Tournament, Kensington Scout Groups, Kensington and Area Figure Skating Club, the Aiden Harrington Memorial Basketball Tournament, Camp Abbey, and Big Brothers Big Sisters.

\$7,500 in scholarships

In 2020 Malpeque Bay Credit Union supported the following organizations

Red Oak Shrine Club
Kensington Food Bank
Kensington Area Snowmobile Association
Huntington Society PEI
O'leary Community Sports Center
PEI Humane Society
Summerside Y Service Club
Indian River Festival
Meals on Wheels
Kensington United Church
Kensington and Area Chamber of Commerce

Kensington Nor'easters Basketball
Kensington and Area Minor Hockey
Rustico Ringette Association
Shane Cormier Memorial Hockey Tournament
Kensington Scout Groups
Kensington and Area Figure Skating Club,
Aiden Harrington Memorial Basketball Tournament
Camp Abbey
Big Brothers Big Sisters

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Students

We are pleased to announce 5 Malpeque Bay Credit Union Scholarship Recipients for 2020. 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.



**Emiliee
Reeves**



**Lauren
Ferguson**



**Maddy
Rogers**



**Maggie
Johnston**

Not Pictured

Jordan
Dunphy Condon

Tablets for Seniors



When the first wave of COVID-19 hit our province, we partnered with the Community Foundation of Prince Edward Island to provide tablets to almost 40 long-term and community care facilities across the Island.

We worked together to flatten the curve and stop the spread of COVID-19 while keeping our community physically distanced, while staying socially connected. With the tablets donated by the credit unions, residents didn't have to feel alone; with the touch of a button they were able to video chat with family and friends, browse the web, play games, or even set up online banking.

COVID-19 brought a lot of financial uncertainty for many Islanders, and for some, it was tough to know how to navigate their finances during COVID-19. To answer our most commonly asked questions, we gathered credit union experts who were able to share guidance and resources to support members during the pandemic.

In total, we hosted three Financial Live Q&A sessions, covering topics such as: Credit Union COVID-19 relief measures, government programming, investing, and how to adapt and pivot your business during a global pandemic.

Working Together: Financial Live Q&A

Loyal 2 Local Challenge



In June, we challenged our employees to support their favorite local business by participating in the Loyal 2 Local movement – a challenge to support our local organizations during an incredibly challenging year.

The economic impact of this initiative was significant, and it created a real and meaningful difference to the businesses that help make our communities great places to live and work.

Helping our members during COVID-19

Tree of Hope



Malpeque Bay Credit Union, in partnership with the Kensington Lions Club, continued the annual Tree of Hope to provide a better Christmas for 116 children and their families in our community. Through the continued generosity of our members, the general public, organizations, and businesses, the Tree of Hope continues to prosper and spread cheer throughout the community and surrounding areas.



Masks for our Schools

To keep our youth safe in schools during the difficult times of 2020, Malpeque Bay Credit Union donated disposable masks to both schools in our community.

Kensington Credit Union Sponsorship Centre

Malpeque Bay Credit Union is pleased to be a naming sponsor for the Kensington Credit Union Centre and the Kensington FitPlex. This Centre plays a large role in our community, and we are proud to support such a cause.



\$4K

Get Active Program

in gym rebates paid to members.

We believe that an active lifestyle leads to a better, happier, and healthier life. This is why we make it our mission to support Islanders in living a more physically active lifestyle.

In the fall, we offered our Get Active Gym Rebate Program to our members for the fourth year in a row. The Get Active Program rewards members who are active at any gym during the year with a \$50 rebate on their gym membership fees.

In 2020, we were able to put \$50 back in the wallets of 84 of our members from across PEI. It really does pay to be active with the credit unions.



In December, we continued our annual #FilltheYuMob toy drive for the seventh consecutive year with our friends at Toys'R'Us.

While Fill the YuMob looked a little different this year due to COVID-19 restrictions, we were still able to donate over a thousand dollars' worth of toys to Santa's Angels, a volunteer group that delivers the toys on Christmas Day to over 300 families all across PEI.

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!

7th Annual Fill the YuMob

Your Two Cents: Season 2

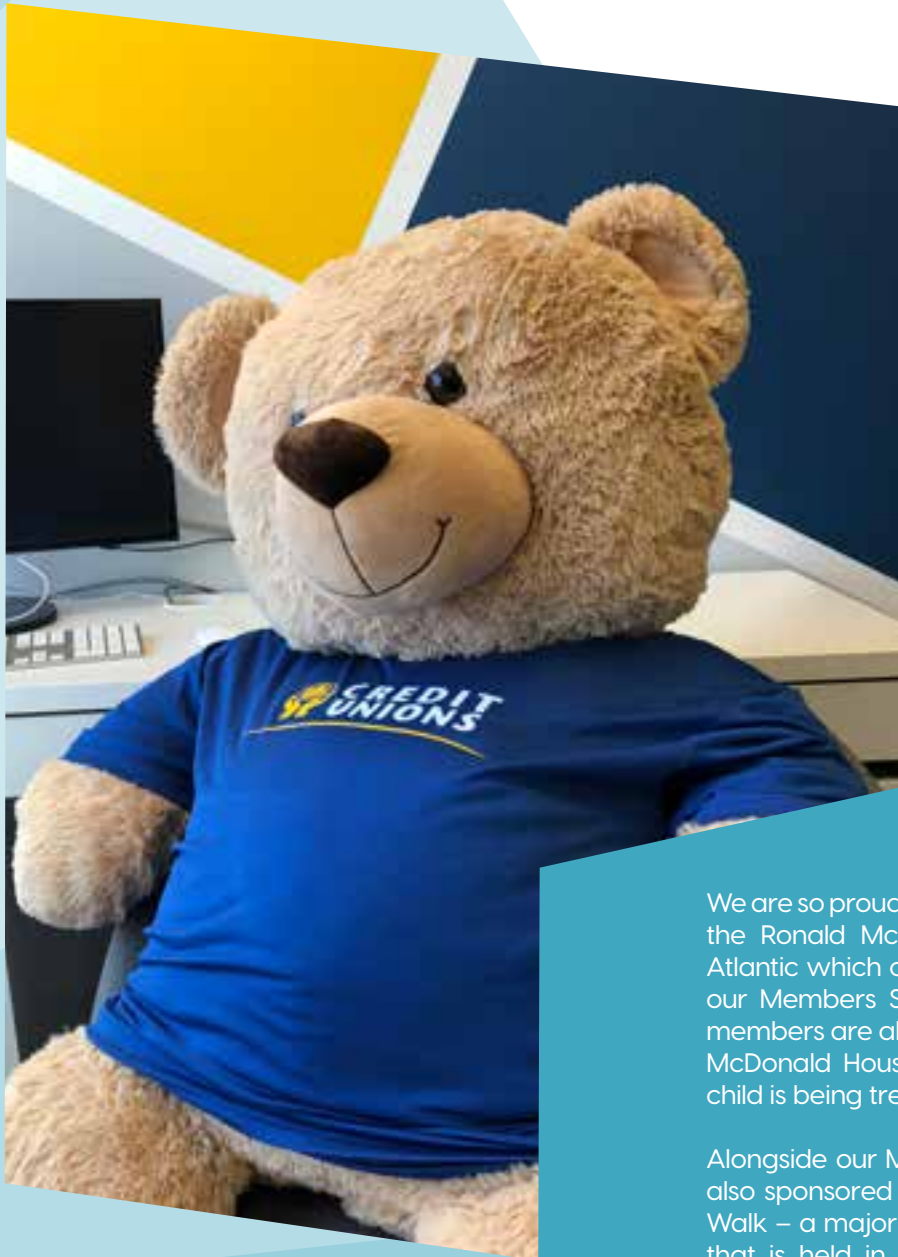
In 2020 we sponsored our second season of Your Two Cents: a web-based series that aims to inform the next generation how to do more with their money through short and engaging videos.

From topics ranging from home renos on a budget, how to have an affordable staycation, to launching your own small business, Your Two Cents' season two spoke directly to our values of providing honest, straight forward financial advice to our members.

Your Two Cents Season 2 launched on social media in the Spring of 2020, and each episode shed light on how financial advice can be entertaining – and even fun.



Ronald McDonald House Charities Atlantic



We are so proud of our on-going partnership with the Ronald McDonald House Charities (RMHC) Atlantic which continued throughout 2020. With our Members Stay Free program, credit union members are able to stay the night at the Ronald McDonald House in Halifax for free while their child is being treated at the IWK Hospital.

Alongside our Members Stay Free program, we also sponsored the annual Ronald McDonald PJ Walk – a major fundraiser for the RMHC Atlantic that is held in five cities across the Maritimes. While COVID may have changed the format this year, the PJ Walk raised over \$164,000, which will directly support the Ronald McDonald House Charities Atlantic and their initiatives.

Investing in You Womens Conference



In 2020, we hosted our first-ever Investing in You Women's Conference: a free event that inspired guests to do more with their money through interactive panel discussions on women's financial wellness, budgeting, work-life balance, fitness, and nutrition.

Two Investing in You events – one in the west and the other in the east, were held to ensure those who wanted to attend were able to do so close to home. Over the two events, close to 300 Island women attended, and were able to gain knowledge and resources to support their financial, physical, and emotional wellness.

**Investing
in You**

WOMEN'S CONFERENCE



8 Episodes



In August, we put spending habit myths to the test and hosted a socially-distanced two-day competition for 30 youth Spenders. They were there for the chance to walk away with \$2,500. We wanted to test how youth really spend their money in real life situations similar to those they would encounter everyday.

We held eight different challenges where we covertly monitored and tested exactly how our Spenders choose to spend their money in different situations. To avoid any biases, we kept our spenders focused on the activities and the prize money. Through our experiments, we were able to gain insights into commonly asked questions such as: do women really spend more than men?

To see how our Spenders did, check out our 30 Spenders mini-series on our social media channels @PEICreditUnions.



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

February 22, 2021

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, 2020, 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, 2020, 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.

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 Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

ArsenaultBestCameronEllis

Chartered Professional Accountants

Statement of Financial Position


MALPEQUE BAY CREDIT UNION

December 31, 2020

	2020 \$	2019 \$
Assets		
Cash and cash equivalents (note 16)	8,934,959	10,893,119
Loans and mortgages (notes 6, 15 and 16)	114,124,579	108,975,927
Accounts receivable	239,426	67,039
Prepaid expenses and other	182,824	201,270
Property and equipment (note 7)	878,937	848,300
Investments (note 8)	30,333,309	12,842,498
Deferred income taxes (note 12)	280,000	292,000
	<u>154,974,034</u>	<u>134,120,153</u>
Liabilities		
Member deposits (notes 9 and 16)	139,463,613	119,323,492
Accrued interest payable	653,935	644,500
Other liabilities	1,137,138	1,403,573
Income taxes payable	84,206	78,718
	<u>141,338,892</u>	<u>121,450,283</u>
Members' Equity		
Undistributed income	<u>13,635,142</u>	<u>12,669,870</u>
	<u>154,974,034</u>	<u>134,120,153</u>

Approved by the Board of Directors

 Director

 Director

Statement of Changes in Member's Equity

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

	2020 \$	2019 \$
Undistributed income - Beginning of year	12,669,870	11,978,845
Net earnings for the year	<u>965,272</u>	<u>691,025</u>
Undistributed income - End of year	<u>13,635,142</u>	<u>12,669,870</u>

Statement of Comprehensive Income

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

	2020 \$	2019 \$
Revenue		
Loan interest (note 16)	4,766,251	4,875,200
Investments (note 16)	463,054	422,985
Service fees	407,495	473,019
Commissions	445,122	575,246
Other income	64,055	30,662
	<u>6,145,977</u>	<u>6,377,112</u>
Expenses		
Staff (notes 13 and 15)	1,687,958	1,623,369
Premises	83,500	90,738
Insurance	198,966	172,322
Office	36,608	48,212
Service fees	724,861	779,273
General	374,350	724,325
Cost of capital	1,203,764	1,231,707
Amortization	46,344	40,348
	<u>4,356,351</u>	<u>4,710,294</u>
Operating earnings	<u>1,789,626</u>	<u>1,666,818</u>
Other expense		
Share dividends	80,016	111,167
Provision for loan losses (note 6)	114,946	110,366
Member rebates	313,969	528,424
	<u>508,931</u>	<u>749,957</u>
	<u>1,280,695</u>	<u>916,861</u>
Provision for (recovery of) income taxes		
Current (note 12)	303,423	231,836
Deferred income taxes (note 12)	12,000	(6,000)
	<u>315,423</u>	<u>225,836</u>
Net earnings for the year	<u>965,272</u>	<u>691,025</u>

Statement of Cash Flow

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the year	965,272	691,025
Items not affecting cash		
Amortization	46,344	40,348
Provision for loan losses	114,946	110,366
Deferred income taxes	12,000	(6,000)
	<u>1,138,562</u>	<u>835,739</u>
Net change in non-cash working capital items		
Increase in loans and mortgages	(5,263,598)	(9,200,643)
Increase in accounts receivable	(172,387)	(26,718)
Decrease (increase) in prepaid expenses and other	18,446	(5,674)
Increase in member deposits	20,140,121	8,464,561
Increase in accrued interest payable	9,435	188,189
Decrease in other liabilities	(266,435)	(253,108)
Increase in income taxes payable	5,488	13,359
	<u>15,609,632</u>	<u>15,705</u>
Investing activities		
Purchase of property and equipment	(76,981)	(8,853)
Increase in investments	(17,490,811)	(161,703)
	<u>(17,567,792)</u>	<u>(170,556)</u>
Decrease in cash and cash equivalents	<u>(1,958,160)</u>	<u>(154,851)</u>
Cash and cash equivalents - Beginning of year	<u>10,893,119</u>	<u>11,047,970</u>
Cash and cash equivalents - End of year	<u>8,934,959</u>	<u>10,893,119</u>
Supplementary disclosure		
Interest paid	1,163,178	1,039,385
Interest received	5,051,312	5,192,987
Dividends paid	111,167	115,301
Dividends received	175,397	60,359
Income taxes paid	297,935	218,477

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

1 General information

Malpeque Bay Credit Union, Limited (the "Credit Union") is incorporated under the Prince Edward Island Credit Unions Act. Its principal business activities include financial and banking services for credit union members.

The Credit Union's head office is located in Kensington, Prince Edward Island.

2 Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These financial statements have been approved for issue by the Board of Directors on February 22, 2021.

(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, 2020

3 Summary of significant accounting policies

(a) 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; or
- Fair value through profit or loss (FVTPL).

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.

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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

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.

Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortized cost 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. Interest income from these financial assets is included in "Investment revenue" using the effective interest method.

Equity instruments

The Credit Union subsequently measures all equity investments at FVTPL. 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 statement of comprehensive income (SCI).

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

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 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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

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 SCI.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

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 SCI.

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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

- 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.

(b) 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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

(d) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost can be measured reliably. Repairs and maintenance costs are charged to expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated using the declining balance method at the following annual rates:

Buildings	5%, 10%
Furniture, equipment and computers	20%, 45%, 55%
Pavement	8%

Depreciation of some computer equipment is calculated using the straight-line method over 5 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were identified as impaired as at December 31, 2020.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds to the net book value of the asset and are presented as a gain or loss on disposal in the statement of comprehensive income.

(e) 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

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

- 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.

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.

(f) 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 and value-in-use. 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, 2020

(g) Employee benefits

The Credit Union records annually the estimated liabilities for retirement benefit obligations which are payable to its employees in subsequent years under the Credit Union's policy.

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 SCI 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.

These liabilities are included in other liabilities in the statement of financial position.

(h) 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.

(i) 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, 2020

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.

(j) 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.

(k) 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.

(l) 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, 2020 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, 2020

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, 2020

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.

(e) COVID-19

Since January 31, 2020, the outbreak of COVID-19 (coronavirus), has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally resulting in an economic slowdown, and global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the outcome of government and central bank interventions.

In management's estimation, these events have not had a material impact on the carrying value of assets and liabilities reported in these financial statements as at December 31, 2020. The duration and impact of the COVID-19 pandemic remains unclear at this time. Therefore, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Credit Union for future periods.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

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:

		2020		2019	
	Fair level hierarchy	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Financial assets					
Loans and mortgages	Level 2	114,124,579	114,124,579	108,975,927	108,975,927
Liquidity reserve deposit	Level 2	9,328,208	9,328,208	7,976,228	7,976,228
Atlantic Central shares	Level 2	1,446,970	1,446,970	1,309,630	1,309,630
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	30,074	30,074	28,611	28,611
CU Financial Management Limited	Level 3	28	28	-	-
CU PEI Investment Corp.	Level 3	969	969	969	969
Term deposits	Level 2	19,000,000	19,000,000	3,000,000	3,000,000
		<u>144,457,888</u>	<u>144,457,888</u>	<u>121,818,425</u>	<u>121,818,425</u>
Financial liabilities					
Member deposits	Level 2	<u>139,463,613</u>	<u>139,463,613</u>	<u>119,323,492</u>	<u>119,323,492</u>

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, 2020

6 Loans and mortgages

(a) Loans at amortized cost

	2020			2019		
	Gross loans \$	Allowance for credit losses \$	Net carrying amount \$	Gross loans \$	Allowance for credit losses \$	Net carrying amount \$
Uninsured mortgages	37,046,187	28,394	37,017,793	31,959,932	13,133	31,946,799
Personal loans	4,455,242	18,671	4,436,571	4,017,812	18,739	3,999,073
Personal lines of credit and overdrafts	4,177,376	33,442	4,143,934	4,794,628	31,558	4,763,070
Dealer plan loans	2,046,750	12,280	2,034,470	3,128,029	10,948	3,117,081
Commercial loans	13,072,866	24,535	13,048,331	13,089,891	16,261	13,073,630
Commercial mortgages	33,758,514	217,454	33,541,060	29,486,674	177,798	29,308,876
Commercial lines of credit	6,489,766	262,738	6,227,028	10,278,225	238,787	10,039,438
Syndication loans	8,388,262	25,165	8,363,097	7,972,801	1,993	7,970,808
Home equity lines of credit	4,670,897	14,014	4,656,883	4,038,699	303	4,038,396
Mortgages	655,412	-	655,412	718,756	-	718,756
	114,761,272	636,693	114,124,579	109,485,447	509,520	108,975,927

Mortgages and loans

Mortgage loans are secured by realty mortgages with interest rates of 2.70% - 6.25% (2019 - 2.94% - 5.95%). Loans other than mortgages are priced at market rates unless circumstances warrant special considerations. The interest rates range from 0.45% - 19.50% (2019 - 0.00% - 21%). 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% (2019 - 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, 2020 was 2.45% (2019 - 3.95%).

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

(b) Impaired loans

	2020			2019		
	Gross impaired loans \$	Allowance for credit losses \$	Net carrying amount \$	Gross impaired loans \$	Allowance for credit losses \$	Net carrying amount \$
Uninsured mortgages	574,606	25,659	548,947	625,003	10,783	614,220
Personal loans	212,576	5,943	206,633	264,372	11,232	253,140
Personal lines of credit and overdrafts	5,317	4,238	1,079	41,644	7,793	33,851
Commercial loans	364,880	5,473	359,407	-	-	-
Commercial mortgages	1,246,428	193,070	1,053,358	1,193,873	153,058	1,040,815
Commercial lines of credit	1,122,938	199,504	923,434	1,315,841	168,208	1,147,633
	3,526,745	433,887	3,092,858	3,440,733	351,074	3,089,659

(c) Allowance for credit losses

	2020			
	Balance as at January 1, 2020 \$	Provision for credit losses \$	Net write-offs \$	Net \$
Uninsured mortgages	13,133	15,261	-	28,394
Personal loans	18,739	(68)	-	18,671
Personal lines of credit and overdrafts	31,558	11,707	(9,823)	33,442
Dealer plan loans	10,948	1,332	-	12,280
Commercial loans	16,261	8,274	-	24,535
Commercial mortgages	177,798	39,656	-	217,454
Commercial lines of credit	238,787	23,951	-	262,738
Syndication loans	1,993	23,172	-	25,165
Home equity lines of credit	303	13,711	-	14,014
	509,520	136,996	(9,823)	636,693

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

As at December 31, 2020	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Uninsured mortgages	2,735	1,094	24,565	28,394
Personal loans	12,728	4,208	1,735	18,671
Personal lines of credit and overdrafts	29,204	-	4,238	33,442
Dealer plan loans	12,280	-	-	12,280
Commercial loans	19,062	5,473	-	24,535
Commercial mortgages	24,384	4,501	188,569	217,454
Commercial lines of credit	63,234	34,548	164,956	262,738
Syndication loans	25,165	-	-	25,165
Home equity lines of credit	14,014	-	-	14,014
	202,806	49,824	384,063	636,693

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
	158,446	82,867	268,207	509,520

(d) Provision for loan losses

	2020 \$	2019 \$
Increase in allowance	127,173	105,536
Loans directly written off	9,823	35,065
Recoveries of loans previously written off	(22,050)	(30,235)
	114,946	110,366

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

(e) Loans past due but not impaired

	31 - 90 days \$	91+ days \$	Total \$
December 31, 2020	112,145	-	112,145
December 31, 2019	174,245	-	174,245

7 Property and equipment

	Land \$	Buildings \$	Furniture, equipment and computers \$	Pavement \$	Total \$
Cost					
Balance - Beginning of year	255,257	1,451,741	1,232,043	23,607	2,962,648
Additions	-	5,417	71,564	-	76,981
Balance - End of year	255,257	1,457,158	1,303,607	23,607	3,039,629
Accumulated amortization					
Balance - Beginning of year	-	910,814	1,187,109	16,425	2,114,348
Current year amortization	-	27,444	18,325	575	46,344
Balance - End of year	-	938,258	1,205,434	17,000	2,160,692
Carrying value					
December 31, 2019	255,257	540,927	44,934	7,182	848,300
December 31, 2020	255,257	518,900	98,173	6,607	878,937

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

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:

	2020 \$	2019 \$
<i>Measured at fair value through profit or loss</i>		
Liquidity reserve	9,328,208	7,976,228
Atlantic Central shares	1,446,970	1,309,630
Concentra shares	500,000	500,000
League Data shares	27,060	27,060
League Savings & Mortgage shares	30,074	28,611
CU Financial Management Limited	28	-
CU PEI Investment Corp.	969	969
CU Financial Management Limited shares	-	-
Total fair value measured through profit or loss	11,333,309	9,842,498
<i>Measured at amortized cost</i>		
Term deposits	19,000,000	3,000,000
Total investments	30,333,309	12,842,498

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 that averaged 1.26% in 2020 (2019 - 1.70%).

Term deposits

Term deposits are invested with Atlantic Central, Concentra, 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 Return	Maturity
15,500,000	0.37-1.20%	January-November 2021
2,500,000	1.23-1.36%	January 2021-September 2022
1,000,000	2.10%	January 28, 2021
Total		
19,000,000		

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

9 Member deposits

	2020 \$	2019 \$
Ownership shares and share accounts (note 11)	19,242,765	15,929,009
Savings and Plan 24	37,510,099	35,005,819
Chequing accounts	35,436,263	27,413,707
Term deposits	27,854,517	21,925,298
RRSP and RRIF	19,419,969	19,049,659
	<u>139,463,613</u>	<u>119,323,492</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 2020 was 0.50% (2019 - 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% - 1.25% (2019 - 0.00% - 2.05%).

Chequing accounts are held on a call basis and pay the account holders interest at the Credit Union's stated rates, 0.00% - 0.15% (2019 - 0.00% - 1.59%).

Term deposits are for periods of one to five years and 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 0.45% - 3.25% (2019 - 0.00% - 3.25%) 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 0.00% - 3.25% (2019 - 0.00% - 3.25%).

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

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

10 Contingent liability

	2020 \$	2019 \$
Outstanding guarantees on behalf of members	627,333	451,100

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.

12 Income taxes

(e) Tax rate reconciliation

	2020 \$	2019 \$
Income before income taxes	1,280,695	916,861
Taxes at statutory rates - 31.00% (2019 - 31.00%)	397,015	284,227
Impact of the 19% (2019 - 18.5%) small business deduction	(36,438)	(51,734)
Temporary differences	(12,000)	6,000
Permanent differences and other	725	1,014
Impact of non-taxable dividends of \$148,000 (2019 - \$24,746)	(45,879)	(7,671)
	303,423	231,836

(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% (2019 - 31.00%) as follows:

	2020 \$	2019 \$
Balance, December 31, 2019	292,000	286,000
Comprehensive income recovery (expense)	(12,000)	6,000
Balance, December 31, 2020	280,000	292,000

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

Deferred income tax assets are attributable to the following items:

	2020 \$	2019 \$
Deferred income tax assets		
Property and equipment	28,315	36,652
Allowance for impaired loans and accounting reserves	251,685	255,348
	<u>280,000</u>	<u>292,000</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 \$72,425 (2019 - \$71,988) in contributions to the plan. This expense is included with staff expenses on the Statement of Comprehensive Income.

14 Line of credit availability

In 2020, the Credit Union had an approved line of credit with Atlantic Central of \$3,347,000 with an interest rate of 1.95%. As of December 31, 2020, the line of credit was not being utilized.

15 Composition of key management

Key management includes the Board of Directors, manager, assistant manager, and member service manager. Compensation awarded to key management included:

(a) Key management, excluding directors

	2020 \$	2019 \$
Salaries and short-term employee benefits	459,781	439,274

(b) Directors' remuneration

	2020 \$	2019 \$
Honorariums	13,250	11,150
Payment for expenses while on credit union business	3,490	13,245

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

(c) Loans to directors and key management personnel

	2020 \$	2019 \$
Loans outstanding at beginning of period	1,270,837	1,523,851
Loans issued during the period	684,475	97,454
Loan repayments during the period	(402,480)	(449,682)
Net increase in lines of credit	246,409	99,214
Loans outstanding at end of period	1,799,241	1,270,837
Interest income earned	40,279	53,658

No provisions for credit losses have been recognized in respect of loans to key management (2019 - nil). The loans to directors and key management personnel and close family members during the year of \$684,475 (2019 - \$97,454) are repayable over 1 - 12 years and have interest rates ranging from 0.45% - 6.45% (2019 - 1.95% to 7.95%).

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 \$1,189,378 (2019 - \$3,063,447) of cash deposits held for CU PEI Investment Corp. The loans and mortgages balance includes \$1,524,487 (2019 - \$2,249,487) and accounts receivable balance include \$12,973 (2019 - \$15,847) from 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 \$23,245 (2019 - \$26,627) of interest income and \$125,000 (2019 - nil) 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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

(a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Credit Union's commercial and consumer loans and advances, and loan commitments arising from such lending activities.

Credit risk is the single largest risk for the Credit Union's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is done by management who report to the Board.

The Credit Union's maximum exposure to credit risk at the reporting date in relation to each class of recognized financial asset is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities or parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements the credit union holds as security for loans include (i) insurance and mortgages over residential lots and properties, (ii) recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and (iii) recourse to liquid assets, guarantees and securities. The value of collateral held against individual exposures is generally only assessed at the time of borrowing and when a specific review of that exposure is undertaken in accordance with policy.

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

	2020 \$	2019 \$
Cash and cash equivalents	8,934,959	10,893,119
Accounts receivable	239,426	67,039
Loans and mortgages	114,124,579	108,975,927
Investments	30,333,309	12,842,498
	<u>153,632,273</u>	<u>132,778,583</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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

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:

	2020 \$	2019 \$
Cash and cash equivalents	8,934,959	10,893,119

Credit Union bylaws require Malpeque Bay Credit Union, Limited to maintain sufficient liquid assets and a line of credit to meet its normal cash flow requirements. Consistent with other Prince Edward Island Credit Unions, Malpeque Bay Credit Union, Limited is required by the Credit Union Deposit Insurance Corporation to maintain a minimum liquid asset level of 10% of total assets to ensure ongoing cash flow requirements are met. The Credit Union was in compliance with this requirement at December 31, 2020.

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

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	2020 Total \$
Member deposits	105,129,878	15,090,970	-	120,220,848
Share account	19,242,765	-	-	19,242,765
Accrued interest payable	653,935	-	-	653,935
Other liabilities	1,137,138	-	-	1,137,138
Income taxes payable	84,206	-	-	84,206
	126,247,922	15,090,970	-	141,338,892

	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

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

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

(c) Market risk

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Credit Union as part of its normal trading activities. As the Credit Union does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk. The objective of market rate risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For the Credit Union, mismatches in the balances of assets, liabilities and off-balance sheet financial instruments that mature and reprice in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the Credit Union manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the credit union to enhance profitability.

The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming no further hedging is undertaken. These measures are based on assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's management initiatives.

	Net interest income change 2020 \$	Net interest income change 2019 \$
Before tax impact of		
1% increase in interest rates	265,300	276,400
1% decrease in interest rates	4,900	(287,400)

(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.

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

(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.

Consistent with other Prince Edward Island Credit Unions, Malpeque Bay Credit Union, Limited is required by the Credit Union Deposit Insurance Corporation to maintain an equity level of 5% of the Credit Union's 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, 2020, the equity level for regulatory purposes is as follows:

	2020 \$	2019 \$
Ownership shares (note 11)	26,545	27,170
Members' equity	13,635,142	12,669,870
Total regulatory equity	13,661,687	12,697,040
Total assets	154,974,034	134,120,153
Equity level	8.82%	9.46%
	2020 #	2020 \$
Opening, January 1, 2020	5,434	27,170
Net change	(125)	(625)
Closing, December 31, 2020	5,309	26,545

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

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.

	2020				
	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
Cash and cash equivalents	8,741,762	-	-	193,197	8,934,959
Effective interest rate	0.07%				
Investments	29,774,205	559,104	-	-	30,333,309
Effective interest rate	1.01%	1.98%			
Loans and mortgages	54,338,686	58,519,060	1,475,269	(208,436)	114,124,579
Effective interest rate	4.12%	4.32%	3.70%		
Accounts receivable	-	-	-	239,426	239,426
Prepaid expenses and other	-	-	-	182,824	182,824
Property and equipment	-	-	-	878,937	878,937
Deferred income taxes	-	-	-	280,000	280,000
Total assets	92,854,653	59,078,164	1,475,269	1,565,948	154,974,034
Liabilities and surplus					
Member deposits	71,250,360	15,090,970	-	33,879,518	120,220,848
Effective interest rate	0.78%	2.21%			
Share deposits	19,242,765	-	-	-	19,242,765
Effective interest rate	0.50%				
Accrued interest payable	-	-	-	653,935	653,935
Other liabilities	-	-	-	1,137,138	1,137,138
Income taxes payable	-	-	-	84,206	84,206
Undistributed earnings	-	-	-	13,635,142	13,635,142
Total liabilities and surplus	90,493,125	15,090,970	-	49,389,939	154,974,034
Interest rate sensitivity gap	2,361,528	43,987,194	1,475,269	(47,823,991)	-

Notes to the Financial Statements

MALPEQUE BAY CREDIT UNION
Year Ended December 31, 2020

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)	-

As at December 31, 2020, the Credit Union's net interest spread was 2.73% (2019 - 3.08%). 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, 2020 amounting to \$1,080,772 (2019 - \$1,939,901).





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