2012 ANNUAL REPORT

YOUR MONEY
YOUR FINANCING
YOUR BUSINESS
YOUR FUTURE

CREDIT UNION
MALPEQUE BAY

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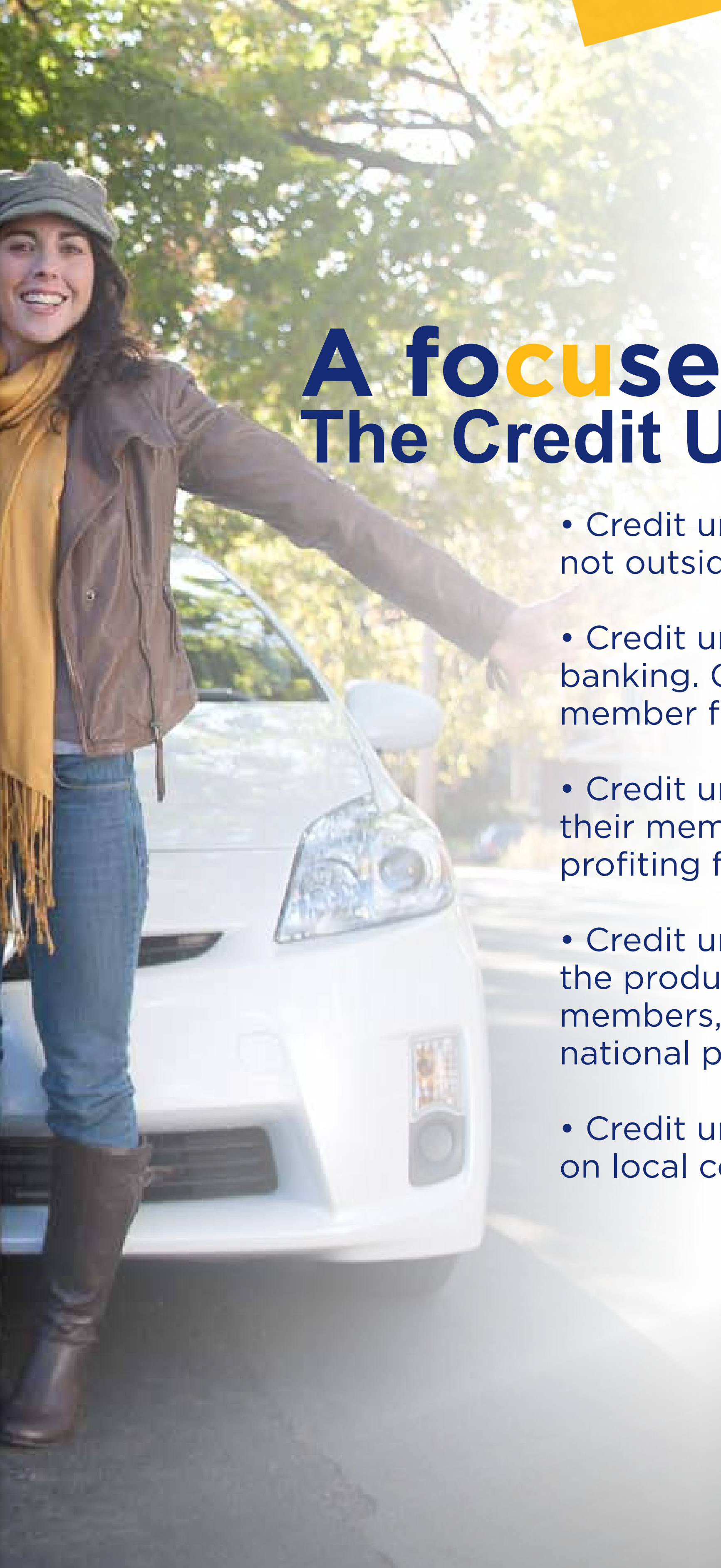

A focused approach:
The Credit Union Advantage

• Credit unions are owned by their members, not outside shareholders.

• Credit unions offer a different approach to banking. One that is focused on putting the member first.

• Credit unions believe in creating profits for their members and community, rather than profiting from them.

• Credit unions have the flexibility to meet the product and service needs of their members, rather than forcing standard national programs.

• Credit unions make policy decisions based on local community needs.

1 VOLUNTARY AND OPEN MEMBERSHIP

On January 12, 2012, your Credit Union joined the 49,329 other credit unions around the world to celebrate the Canadian launch of the International Year of Co-operatives.

Having 2012 chosen by the UN couldn't have been more suiting; every day in the news there is further evidence that values-based co-operative financial services are needed. Consumers are less trusting. Bad decisions have been made in the name of shareholder profit. In a co-operative institution like a credit union, there are no shareholders. Our members are our owners.

Credit unions are based on co-operative values including fairness, democracy, autonomy, co-operation, and concern for community. These are values Atlantic Canadians hold dear. At the credit union, we manage the money of our members with great care, because they are our owners. It's a direct relationship. There are no shareholders.

About IYC 2012

On December 18, 2009, the United Nations General Assembly, with the support of the Government of Canada, passed a resolution declaring 2012 the UN International Year of Co-operatives. The resolution, entitled "Co-operatives in Social Development", recognizes the diversity of the co-operative movement around the world and urges governments to take measures aimed at creating a supportive environment for the development of co-operatives.

The International Year gave both the co-operative sector and governments an opportunity to:

- Raise public awareness of co-operatives and the economic and social contribution of the co-operative business model.
- Support the growth and sustainability of co-operatives
- Create legacy initiatives that will live beyond December 31, 2012.

The International Year was an incredible opportunity for co-operatives everywhere; in Canada, and around the world.

2012 International Year of Co-operatives

CO-OPERATIVE ENTERPRISES BUILD A BETTER WORLD

Largest network of financial institutions in Canada

Malpeque Bay Credit Union is part of a larger network of financial institutions that make up the Credit Union System. In Canada, the Credit Union System includes 359 Canadian Credit Unions, Concentra Financial Services Association, the Co-operators Group Limited, the CUMIS Group, Credit Union Insurance Services, Credential Financial, Credential Securities Inc., CUETS Financial, League Savings and Mortgage, and the Credit Union Deposit Insurance Corporation.

2 DEMOCRATIC MEMBER CONTR

First
in Customer Service

For the eighth year in a row, an independent survey of Canadians ranked credit unions FIRST in overall quality of customer service among all financial institutions.*

We ranked ahead of all other financial institutions in the following categories:
- Customer Service Excellence
- Values My Business
- Branch Service Excellence

Credit unions also tied for first in the following categories:
- Financial Planning & Advice
- Telephone Banking Excellence

* Ipsos 2012 Best Banking Awards are based on quarterly Customer Service Index (CSI) survey results. Sample size for the total 2012 CSI program year ended August 2012 was 43,202 completed surveys yielding 63,750 financial institution ratings.

Board of Directors

Matthew Sharpe Rowan Caseley Barbara Mayhew Kent Croken

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MEMBER

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 community we serve."

Bernard Jay, Jean Ronahan, Paul Brown, Naomi Howard, Leonard Russell

Malpeque Bay Cred

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AND INDEPEND

dit Union Staff

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President's Report

It is my pleasure to report on behalf of the Board of Directors of Malpeque Bay Credit Union. This past year has been a busy one for the Board. The following are some of the highlights from the past year.

Bernard Jay
President

Atlantic Central/CUCPEI Wind-up

Effective December 31, 2010 the four Atlantic Credit Union Centrals came together to form the Atlantic Central. This resulted in the wind up of Credit Union Central of PEI (CUCPEI). We had a nine percent ownership stake in CUCPEI and when the retained earnings were paid out this year we received a dividend of $376,257. This was an extraordinary income item and the Board of Directors made the decision to share that with our members. The method of distribution was through an increased dividend payout on share accounts. The Board declared a dividend of 2.5%. The total dividend paid amounted to $268,201. To put this in better perspective, the 2.5% paid on members' share accounts is a better interest rate than what we pay on a 5-year term deposit. We also increased our contribution to our community involvement fund to $77,500 this year.

Retained Earnings vs Member Rebates

The Board has set an ambitious target to increase our retained earnings to 10% by the year 2015 and to this end we retained $689,149 this year to keep us on that track. We currently sit at 9.55% of assets or $8,225,006. Many discussions have been held over the past few years regarding the desire to boost our retained earnings as opposed to paying out special rebates to members. Statutory requirements state that we should have a minimum of 5% equity, however we have made a conscious decision and feel that we are being prudent in working toward a 10% equity target. Increased equity translates into a more stable credit union and enhances our ability to generate more income. Once we reach our 10% target we will not have to retain as much net income and will be able to begin paying out excess income to members in the form of special rebates.

Governance

The Board approved a new investment policy this year that addresses the variety and soundness of the investments in which our credit union can become involved. We also approved a comprehensive performance management program for the staff that will enhance the level of engagement of our employees.

Throughout the year Malpeque Bay Credit Union was represented by the directors at various regional and national meetings and conferences.

Eight of our nine directors have graduated from the CU Director Achievement Program, a comprehensive training program dealing with all aspects of corporate governance.

We received reports, during the year, from different regulatory bodies that provide oversight on our operations. We were very pleased that all reports point to the fact that we have a very strong, stable and well run and managed organization.

Community Investment Program

Malpeque Bay Credit Union has a very robust community investment program. As you can see in the community investment report we are very involved in our communities not only from a monetary standpoint but as well from a human capital investment. Our directors and staff volunteer countless hours to our community organizations along with making annual monetary investments in excess of $100,000. This is what makes a credit union unique from other financial institutions ... our sense of community. Credit Unions are for the most part rural based and we feel it is very important to help ensure that rural PEI continues to thrive and be vibrant. And we do it on behalf of our member/owners, the ones who live and work in our communities.

Closing

I would personally like to extend sincere appreciation to my fellow directors for their dedication and professionalism. We have a very strong and diverse Board. Also, our Manager and staff work tirelessly to provide the excellent service that our members receive on a day to day basis and very special thank you goes to them.

Bernard Jay
President

Canadian System

There are currently **359 credit unions** in Canada. Collectively, they have: **1,748** locations Almost **5.25 million** members **$145.7 billion** in assets $128.9 billion in deposits **$120.7 billion** in loans 26,997 employees

Regional System

$4 Billion in system assets **58** credit unions (as of April 30, 2012) 170 points of service **330,887** members 1,587 Full Time and Part Time employees

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Marc LeClair
General Manager

Manager's Report

Financial

The fiscal year for Malpeque Bay Credit Union ending September 30, 2012 was very successful from a financial perspective. Net income was $689 thousand up from $466 thousand last year. The increase can be attributed mainly to a dividend we received from the wind up of Credit Union Central of PEI (CUCPEI) into Atlantic Central. This dividend represented our ownership in CUCPEI and amounted to $376,257 and is listed separately in our Statement of Earnings. Total assets increased 9.9% from $78.2 million to $86.1 million. In addition to our asset base we now have over $10 million in referred mortgages and deposits at League Savings and Mortgage and Concentra Financial. We also have over $19 million in assets under administration through our wealth management partner Credential Financial along with approximately $2 million in written insurance premiums. Equity increased from $7.5 million (9.63% of assets) to $8.2 million (9.55% of assets) this year. This is well in excess of the 5% statutory requirement and right on target with the 10% goal the Board of Directors have set for the year 2015.

Ownership

We currently have 5132 individual share accounts that translate into approximately 3500 unique member/owners (some individuals have more than one share account). That is 30 – 40 percent of the population in our service area.

Customer Service

For the eighth year in a row, an independent survey of Canadians ranked credit unions first in overall quality of customer service among financial institutions. Credit Unions also ranked ahead of all other financial institutions in the categories of "Customer Service Excellence", "Values My Business" and "Branch Service Excellence". Our own customer service survey (completed August 2011) certainly validates the national results. We had an excellent score of 93 which is highest since we began doing surveys in 2000. Service excellence is our goal and continually exceeding our members' expectations is how we strive to reach that goal.

Products and Services

Malpeque Bay Credit Union has a full suite of products and services to offer our members. We are always looking for ways to improve pricing, convenience and features and benefits of our product and service offering. To this end, we have partnered with a new foreign currency provider this past year which will result in a much better deal for members when exchanging foreign currency. We are also currently going through a review of all our products this year and this will result in drastic changes to our suite of products and services. Our goal is to develop more relevant products and at the same time reduce costs to our members.

Youth and the Future of our Credit Union

The youth are obviously the future of our credit union. We are, however, becoming more and more irrelevant to today's youth by offering the same things, in the same way that we have in the past. In other words our young people have moved ahead and we have not. It is for this reason that we are in the process of developing products and services and programs designed with the needs of our youth in mind. Our membership numbers are slowly decreasing and this is directly related to the fact that our youth demographic is starting to fall short of the National and Provincial averages. We have done research into what our young people want in a financial institution and we feel quite confident that we will be able to provide it to them within the next short while.

Closing

It is with great pride and humility that I look upon our organization. From the great vision and leadership of the Board of Directors to our wonderful dedicated and knowledgeable staff to all the things we do in our community to make it a better place for our members to live, Malpeque Bay Credit Union is truly a very important part of the fabric of the Kensington Area community.

2012 HIGHLIGHTS

Net Income of **$689,000**

$86.1 Million Total Assets (increase of 9.9% from 2011)

$8.2 Million in **Equity** (9.55% of assets)

$64.3 Million in **Loans and Mortgages**

$76.5 Million in **Member Deposits**

Approximately **3,500 unique members**

$10 million in **referred mortgages and deposits** with our Partner Organizations

$19 million in **assets under administration** through Credential Financial

Investing in our Community

Malpeque Bay Credit Union cares about our communities and we are committed to supporting the organizations, people and associations that make Kensington and Area special.

Malpeque Bay Credit Union is a strong supporter of community events, educational programs, sporting events and health care issues. This past fiscal year over **$65,000.00** in donations was distributed throughout our Island community and our staff has donated over **1200 volunteer hours** to various committees, organizations and local causes.

Our youth are very important to us and this past year donations were made to Junior Achievement; Camp Abegweit; French River 4H Club; Special Olympics; Kensington Police Bike Rodeo, Town of Kensington Fishing Derby; Children's Wish Foundation; and Make-A-Wish Foundation. Also, a donation was made to the Kensington Police Department who conducted a Drug Safety program for our young people in the Kensington area.

Equally important, are our older members, and donations were made to Meals on Wheels, Community School and the Summerside Y Service Club, sponsor of the Jiggs Dinner… 12 lucky senior members benefited from these hot cooked meals.

Over $7,500.00 was awarded to Grade 12 graduating students in the form of scholarships and bursaries. Two scholarships and one bursary were awarded to students at Kensington Intermediate High School and one scholarship and bursary were awarded to Grade 12 graduating students of Kinkora High School. As well, funding was provided to 9 students who attended the Terry Fox Youth center in Ottawa.
In conjunction with P.E.I. Credit Unions, Malpeque Bay Credit Union's ongoing commitment to post secondary education continues with an annual donation to Holland College.

For sporting activities Malpeque Bay Credit Union has been involved in donating to various teams throughout the community; the Kensington Minor Hockey Association; Kensington Clark Insurance Granites Hockey Team; Kensington Vipers Jr. Hockey Club; Kensington Area Figure Skating Club; Kensington Nor'easters Mini Girls Basketball Team; Malpeque Bay Credit Union Softball Team; Men's and Ladies Curling Teams; and to the Kensington Spudettes Bowling Team. As well, 2 young bowlers representing PEI at the Canadian 5 Pin Youth Challenge in Winnipeg received funding to help defray travel expenses.

In Health Care, donations of over $3,000.00 were made to the Prince County Hospital Foundation through our Lights for Life Campaign; our ongoing commitment to the Canadian Cancer Society Relay For Life generated over $4,000.00 in donations from staff fundraising, and over $2,000.00 was donated by Malpeque Bay Credit Union for a total of over $6,000.00. This year Prince Edward Island Credit Unions began sponsoring Adopt-a-Room at Ronald MacDonald House in Halifax. While in Halifax, families are able to stay free of charge while their child receives medical treatment.

Annually, Malpeque Bay Credit Union is a proud sponsor of The Emerald Junction Summerfest Music Festival; The Harvest Festival Road Race, Miss Community Gardens Pageant; Kensington Winter Carnival Children's Day; and the annual St. Patrick's Day curling funspiel held at the Silver Fox Curling and Yacht Club. As well, annual donations are made to the Kensington Scout Group and the Indian River Festival. Malpeque Bay Credit Union is pleased to be the annual sponsor of the New Business of the Year Award handed out at the Kensington Chamber of Commerce Business Awards of Excellence Gala.

This past year Malpeque Bay Credit Union made a major contribution to the Scales Pond Restoration Project. This project will reestablish walking trails, fish and wildlife habitat and allow for wheelchair accessible fishing platforms.

Our staff continually volunteers not only at Credit Union activities but at events held throughout the Kensington and Area. We bowl in the Big Brothers Big Sisters Bowl for Kids Sake, golf in the Prince County

Hospital Foundation and Literacy Golf Tournaments, volunteer at Winter Carnival Children's Day as well as donating our time to help with various benefits and fundraisers. A major fundraiser for our staff this year was our Penny Campaign in support of Camp Triumph. The generous donations received from our members, community and our staff, will enable four children to attend Camp Triumph in the summer of 2013.

Malpeque Bay Credit Union is a strong supporter of community development and is interested in the well-being of our community. We are committed to supporting our members, community groups and organizations through donations and sponsorships to help improve the community we serve.

CONCERN FOR COMMUNITY 7

Investing in our Youth

Your Credit Union and Holland College share a strong passion for continued community development. Together, we are proud to feature the Credit Union Café, a central area in the Prince of Wales Campus for students to congregate, learn, socialize and, of course, eat.

Our commitment to our youth's future extends beyond donations and includes scholarships, special rates, services, advice, and products.

Malpeque Bay Credit Union is pleased to announce our 2012 scholarship and bursary recipients; all the best in your future endeavors!

Andrea Hickey	Emily Marcbank	Miranda Reeves	Brodie McKenna	Darien MacDonald
U.P.E.I.	U.P.E.I.	U.P.E.I.	U.N.B	Holland College
$1,500 Scholarship	$1,500 Bursary	$1,500 Scholarship	$1,500 Bursary	$1,500 Scholarship

ArsenaultBestCameronEllis
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October 29, 2012

Independent Auditor's Report

To the Members of
Malpeque Bay Credit Union, Limited

We have audited the accompanying financial statements of **Malpeque Bay Credit Union, Limited**, which comprise the statement of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010, and the statements of comprehensive income, changes in members' equity and cash flows for the years ended September 30, 2012 and September 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of **Malpeque Bay Credit Union, Limited** as at September 30, 2012, September 30, 2011 and October 1, 2010, and the results of its operations and its cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

ArsenaultBestCameronEllis

Chartered Accountants

Malpeque Bay Credit Union, Limited

Statement of Financial Position

As at September 30, 2012

	September 30, 2012 $	September 30, 2011 $	October 1, 2010 $
Assets			
Cash and equivalents	14,201,412	7,541,045	7,338,080
Loans and mortgages (notes 7 and 17)	64,364,566	61,726,638	61,254,094
Prepaid expenses and other	105,299	114,072	124,933
Income taxes receivable	-	42,728	119,029
Property and equipment (note 8)	892,803	925,284	958,024
Investments (note 9)	6,270,395	7,661,105	7,140,561
Deferred income taxes (note 13)	219,525	234,678	248,768
	86,054,000	78,245,550	77,183,489
Liabilities			
Member deposits (notes 10 and 17)	76,560,053	68,877,217	68,764,962
Accrued interest payable	623,698	634,406	663,601
Other liabilities	568,124	1,198,070	671,569
Income taxes payable	77,119	-	-
	77,828,994	70,709,693	70,100,132
Contingent liability (note 11)			
Members' Equity			
Undistributed income	8,225,006	7,535,857	7,083,357
	86,054,000	78,245,550	77,183,489

Approved by the Board of Directors

Naomi Howard Director

Bernard Jay Director

Malpeque Bay Credit Union, Limited

Statement of Changes in Members' Equity

For the year ended September 30, 2012

	2012 $	2011 $
Undistributed income - Beginning of year (note 20)	7,535,857	7,083,357
Net earnings for the year	689,149	452,500
Undistributed income - End of year	8,225,006	7,535,857

Malpeque Bay Credit Union, Limited

Statement of Comprehensive Income

For the year ended September 30, 2012

	2012 $	2011 $
Revenue		
Loan interest (note 17)	3,419,283	3,430,009
Investment (note 17)	199,375	121,385
CUCPEI dividend	376,257	-
Service fees	437,499	429,423
Commissions	335,107	422,001
Other income	28,861	30,511
	4,796,382	4,433,329
Expenses		
Staff	1,358,099	1,247,288
Premises	72,054	77,364
Insurance	126,594	127,286
Office	65,642	78,360
Service fees	522,768	511,890
General	356,247	293,121
Cost of capital	940,244	1,058,194
Amortization	83,855	77,690
	3,525,503	3,471,193
Operating earnings	1,270,879	962,136
Other expense		
Share dividends	268,201	194,746
Provision for loan losses	151,757	231,300
	419,958	426,046
	850,921	536,090
Provision for income taxes		
Current (note 13)	146,619	69,500
Deferred income taxes (notes 13 and 20)	15,153	14,090
	161,772	83,590
Net earnings for the year (note 20)	689,149	452,500

Malpeque Bay Credit Union, Limited
Statement of Cash Flows
For the year ended September 30, 2012

	2012 $	2011 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	689,149	452,500
Items not affecting cash		
Amortization	83,855	77,689
Provision for loan losses	151,757	231,300
Deferred taxes	15,153	14,090
	939,914	775,579
Net change in non-cash working capital items		
Increase in loans and mortgages	(2,789,685)	(703,844)
Decrease in prepaid expenses and other	8,773	10,861
Decrease in income taxes receivable	42,728	76,301
Increase in member deposits	7,682,836	112,255
Decrease in accrued interest payable	(10,708)	(29,195)
Increase in income taxes payable	77,119	-
Increase (decrease) in other liabilities	(629,946)	526,501
	5,321,031	768,458
Investing activity		
Purchase of property and equipment	(51,374)	(44,949)
Decrease (increase) in investments	1,390,710	(520,544)
	1,339,336	(565,493)
Increase in cash	6,660,367	202,965
Cash - Beginning of year	7,541,045	7,338,080
Cash - End of year	14,201,412	7,541,045
Supplementary disclosure		
Interest paid	1,024,407	1,142,775
Interest received	3,514,979	3,559,636
Dividends paid	194,746	139,361
Dividends received	421,732	468
Income taxes paid	69,500	112,228
Income taxes received	42,728	119,028

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2012

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

The Credit Union prepares its financial statements in accordance with Canadian generally accepted accounting principles as defined in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. In these financial statements , the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in compliance with IFRS and have consistently applied the same accounting policies in its opening IFRS statement of financial position at October 1, 2010 and throughout all periods presented, as if these policies have always been in effect. The Credit Union has applied IFRS 1 - First-time adoption of International Financial Reporting Standards in preparing these first IFRS financial statements. An explanation of the impact of the transition to IFRS is provided in note 20.

These financial statements have been approved for issue by the Board of Directors on October 29, 2012.

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

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

3 Summary of significant accounting policies

(a) Foreign currency translation

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

(b) Financial instruments

i) Recognition and measurement

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued. At initial recognition, the Credit Union classifies its financial instruments as follows:

- Financial assets at fair value through profit or loss ("FVTPL")

  Financial assets at FVTPL through the statement of comprehensive income are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term, if so designated by management or it is a derivative that is not designated and not effective as a hedging instrument.

Financial assets carried at fair value through the statement of comprehensive income are initially recognized, and subsequently carried at fair value, with changes recognized in the statement of comprehensive income. Transaction costs are expensed.

Assets in this category include cash and equivalents and investments in the liquidity reserve deposit.

- Held to maturity investments

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has the positive intent and ability to hold to maturity, and which are not designated as at FVTPL or as available for sale.

Held to maturity investments are carried at amortized cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held to maturity investments would result in the reclassification of all held to maturity investments as available for sale, and would prevent the Credit Union from classifying investment securities as held to maturity for the current and the following two financial years. However sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- ♦ Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value

- ♦ Sales or reclassifications after the Credit Union has collected substantially all of the asset's original principal

- ♦ Sales or reclassifications attributable to non-recurring isolated events beyond the Credit Union's control that could not have been reasonably anticipated.

Assets in this category include investments in term deposits.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recorded at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

Assets in this category include loans and mortgages.

- Available for sale ("AFS")

  Available for sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available for sale investments are recognized initially at fair value plus transactions costs, and are subsequently carried at fair value, other than the Credit Union's investment in certain shares as their fair value cannot be reliably measured. Upon such time that their fair value can be reliably measured, the carrying amount of these financial assets will be adjusted to fair value. Gains and losses arising from remeasurement are recognized in other comprehensive income.

  Dividends or distributions on available for sale investments are recognized in the statement of comprehensive income as investment income, when the Credit Union's right to receive payment is established.

  Assets in this category include investments in credit union and co-operative type shares.

- Other financial liabilities

  Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

  Liabilities in this category include member deposits, accrued interest payable, and other liabilities.

ii) Impairment of financial assets

The Credit Union assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are recorded, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as conditions that correlate with defaults in the group.

- Financial assets classified as loans and receivables

  For the purposes of individual evaluation of impairment, the amount of the impairment loss on a loan or receivable is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. The calculation of the carrying value reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

  For the purposes of a collective evaluation of impairment, financial assets are categorized on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

  The Credit Union adjusts the inputs to its collective allowance methodology on an ongoing basis, taking into account factors such as historical loss experience and adjusting for current observable data that did not impact the period which the historical loss experience was based on. Estimates of changes in future cash flows from groups of assets reflects and are directionally consistent with changes in related observable data from period to period.

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

  Loans that were past due and either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are not longer considered to be past due but are treated as new loans. In subsequent years, if the loan becomes past due, this will be disclosed only if renegotiated again.

- Assets classified as available for sale

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

(c) Cash and equivalents

Cash and 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:

Building	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.

The Credit Union allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates each part separately. The useful lives of property and equipment are reviewed, and adjusted if appropriate, at each statement of financial position date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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 September 30, 2012.

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

(e) Revenue recognition

i) Loan interest

Interest on loans 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 to the net carrying amount of the loan. When estimating the future cash flows the credit union considers all contractual terms of the loan 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. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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.

(f) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly to equity.

i) Current income tax

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

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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intent to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(g) Related parties

A related party is a person or an entity that is related to the Credit Union.

A person or a close member of that person's family is related to the Credit Union if that person:

i) Has control or joint control over the Credit Union, with the power to govern the Credit Union's financial and operating policies;

ii) Has significant influence over the Credit Union, participating in financial and operating policy decisions, but not control over these policies; or

iii) Is a member of the key management personnel of the Credit Union. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director of the Credit Union.

(h) Standards issued but not yet effective

As at September 30, 2012, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these financial statements. Other than the introduction of IFRS 9 described below, these changes are not excepted to a have a material impact on the financial statements.

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IFRS 9 Financial Instruments, was issued in November 2009 and addresses classifications and measurement of financial assets. It will replace the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 will also replace the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

This standard is effective for periods beginning on or after January 1, 2015.

(i) Capital disclosures

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

4 Critical accounting estimates and judgments

The Credit Union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or area which require significant estimates are described below:

(a) Provision for loan losses

The Credit Union regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of members in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

(b) Estimated useful lives of property and equipment

Management estimates the useful lives of property and equipment based on the period during which assets are expected to be available for use. The amounts and timing of recorded depreciation expense of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the Credit Union's property and equipment in the future.

(c) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using specific valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or by using models. Where market observable data inputs are not available, they are estimated based on appropriate assumption. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. To the extent practical, models use only observable data.

For investments in co-operatives and credit unions, consideration was given as to whether or not par value was equal to redemption value and whether the co-operative or credit union had the right to redeem those shares at their discretion. To the extent that the redemption value of those shares is equal to their par value, then these shares will also be designated as AFS at fair value with fair value equal to (or in the case of potential impairment, less than) par value. In certain cases, the fair value of co-operative or credit union investments exceeds par value when applying a discounted cash flow method of valuation and using market rates of return for similar investments available in public markets. Despite fair value exceeding par value, these investments are reported at par value on the basis that they are not liquid investments and have a limited number of potential purchasers. Where fair value cannot be reliably measured, these investments are recorded at cost.

(d) Income taxes

The actual amounts of income tax expense only become final upon filing and acceptance of the tax return by relevant authorities which occur subsequent to the issuance of the financial statements. Estimation of income taxes include evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. The assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

5 Risk management

The Credit Union's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market and operational risk. Authority for all risk-taking activities rests with the Board, which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Credit Union manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

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(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 balance sheet 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 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 or 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:

	September 30, 2012 $	**September 30, 2011 $**	**October 1, 2010 $**
Cash and equivalents	14,201,412	7,541,045	7,338,080
Loans and mortgages	64,364,566	61,726,638	61,254,094
Investments	6,270,395	7,661,105	7,140,561
	84,836,373	76,928,788	75,732,735

Cash and equivalents and investments have low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the Credit Union's underwriting methodologies and risk modelling is customer based rather than product based. The Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing risk.

(b) Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations associated with financial liabilities as they come due. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/or market events.

The Credit Union's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

Exposure to liquidity risk:

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to deposits. For this purpose, liquid assets may comprise of the following:

	September 30, 2012 $	September 30, 2011 $
Cash and equivalents	14,201,412	7,541,045

The Credit Union is required to maintain 6% of the prior quarter's assets in liquid investments of which 100% must be held by Atlantic Central. The Credit Union was in compliance with this requirement at September 30, 2012.

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

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	September 30, 2012 Total $
Member deposits	49,070,912	14,280,697	-	63,351,609
Share account	13,208,444	-	-	13,208,444
Accrued interest payable	623,698	-	-	623,698
Other liabilities	568,124	-	-	568,124
Income taxes payable	77,119	-	-	77,119
	63,548,297	14,280,697	-	77,828,994

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	Under 1 year $	Over 1 to 5 years $	Over 5 years $	September 30, 2011 Total $
Member deposits	44,211,074	13,819,666	-	58,030,740
Share account	10,846,477	-	-	10,846,477
Accrued interest payable	634,406	-	-	634,406
Other liabilities	1,198,070	-	-	1,198,070
	56,890,027	13,819,666	-	70,709,693

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	October 1, 2010 Total $
Member deposits	39,961,791	17,824,372	-	57,786,163
Share account	10,978,799	-	-	10,978,799
Accrued interest payable	663,601	-	-	663,601
Other liabilities	671,569	-	-	671,569
	52,275,760	17,824,372	-	70,100,132

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 2012 $	**Net interest income change 2011 $**
Before tax impact of		
1% increase in interest rates	318,000	243,400
1% decrease in interest rates	(235,300)	(318,000)

(e) Operational risk

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

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

(f) Capital management

The primary objective of the Credit Union's capital management is to ensure that it maintains a healthy financial position in order to support its business. The Credit Union manages its capital structure and makes changes to it in light of changes in economic conditions.

The Credit Union has agreed to maintain an equity level equal to 5% of the total assets.

In accordance with the recommendations of the Canadian Institute of Chartered Accountants related to the financial statement presentation of financial instruments, the ownership shares are presented in the balance sheet as financial liabilities. At September 30, 2012, the equity level for regulatory purposes is as follows:

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	September 30, 2012 $	September 30, 2011 $
Ownership shares (note 12)	25,660	26,035
Members' equity	8,225,006	7,535,857
Total regulatory equity	8,250,666	7,561,892
Total assets	86,054,000	78,245,550
Equity level	9.6%	9.7%

	#	September 30, 2012 $	#	September 30, 2011 $
Opening, October 1	5,207	26,035	5,326	26,630
Issued	545	2,725	516	2,580
Redeemed	(620)	(3,100)	(635)	(3,175)
Closing, September 30	5,132	25,660	5,207	26,035

6 Financial instruments

Fair values versus carrying amounts

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

	September 30, 2012		September 30, 2011	
	Carrying amount $	**Fair value $**	**Carrying amount $**	**Fair value $**
Assets carried at fair value				
Financial assets held for trading -				
Cash	14,201,412	14,201,412	7,541,045	7,541,045
Liquidity reserve deposit	5,168,946	5,168,946	4,606,034	4,606,034
	19,370,358	19,370,358	12,147,079	12,147,079
Assets carried at amortized cost				
Loans and mortgages	64,364,566	64,364,566	61,726,638	61,726,638
Investments - held to maturity	-	-	1,711,104	1,711,104
Investments - available for sale	1,101,449	1,101,449	1,343,967	1,343,967
	65,466,015	65,466,015	64,781,709	64,781,709
Liabilities carried at amortized cost				
Member deposits	76,560,053	76,560,053	68,877,217	68,877,217
Accrued interest payable	623,698	623,698	634,406	634,406
Other liabilities	568,124	568,124	1,198,070	1,198,070
	77,751,875	77,751,875	70,709,693	70,709,693

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

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7 Loans and mortgages

(a) Summary

	Total $	Impaired Loans $ (included in total)	Specific Provision $	Collective Provision $	September 30, 2012 Net $	September 30, 2011 Net $	October 1, 2010 Net $
Personal	20,105,514	132,916	54,445	16,270	20,034,799	18,980,905	17,713,313
Business	27,013,858	2,414,354	250,000	113,250	26,650,608	24,205,922	23,665,977
Mortgages	7,982,008	50,316	-	2,360	7,979,648	9,104,646	10,220,677
Lines of credit and overdrafts	8,437,340	743	743	-	8,436,597	8,471,059	8,670,351
League Savings and Mortgage	864,707	-	-	-	864,707	668,910	680,338
Accrued interest	398,207	-	-	-	398,207	295,196	303,438
	64,801,634	2,598,329	305,188	131,880	64,364,566	61,726,638	61,254,094

Mortgages and other loans

Mortgage loans are secured by realty mortgages with interest rates of 3.35% - 7.39% (2011 - 3.3% - 7.39%). Other loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 1.25% - 18%. The loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities.

The Credit Union's prime lending rate

The Credit Union's prime lending rate is set by the Board based on the prime interest rate of chartered banks in Canada. The rate as at September 30, 2012 was 3.25% (2011 - 3.25%).

(b) Continuity of allowance for impaired loans

	Specific $	Collective $	Total $
Balance - October 1, 2010	644,675	126,185	770,860
Increase in allowance	197,850	33,450	231,300
Amounts written off during the year	(220,205)	-	(220,205)
Recoveries of loans previously written off	1,214	-	1,214
Balance - September 30, 2011	623,534	159,635	783,169
Increase (decrease) in allowance	179,512	(27,755)	151,757
Amounts written off during the year	(503,520)	-	(503,520)
Recoveries of loans previously written off	5,662	-	5,662
Balance - September 30, 2012	305,188	131,880	437,068

(c) Members' loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired:

	$
September 30, 2012	578,304
September 30, 2011	1,467,832
October 1, 2010	999,215

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Notes to Financial Statements

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8 Property and equipment

	Land $	Buildings $	Furniture, equipment and computer $	Pavement $	Total $
Cost					
Balance - October 1, 2010	87,066	1,321,624	1,087,957	16,767	2,513,414
Additions	-	19,739	25,210	-	44,949
Balance - September 30, 2011	87,066	1,341,363	1,113,167	16,767	2,558,363
Additions	-	2,143	49,231	-	51,374
Balance - September 30, 2012	87,066	1,343,506	1,162,398	16,767	2,609,737
Accumulated amortization					
Balance - October 1, 2010	-	606,016	939,694	9,680	1,555,390
Current year amortization	-	36,850	40,272	567	77,689
Balance - September 30, 2011	-	642,866	979,966	10,247	1,633,079
Current year amortization	-	35,540	47,793	522	83,855
Balance - September 30, 2012	-	678,406	1,027,759	10,769	1,716,934
Carrying value					
October 1, 2010	87,066	715,608	148,263	7,087	958,024
September 30, 2011	87,066	698,497	133,201	6,520	925,284
September 30, 2012	87,066	665,100	134,639	5,998	892,803

9 Investments

	September 30, 2012 $	September 30, 2011 $	October 1 2010 $
Financial assets			
Fair value through profit or loss:			
Liquidity reserve deposit	5,168,946	4,606,034	4,775,000
Held to maturity:			
Term deposits	-	1,711,104	1,702,027
Available for sale:			
Credit Union Central shares	-	246,461	612,878
Atlantic Central shares	1,024,830	1,046,850	-
League Savings & Mortgage shares	23,596	23,596	23,596
League Data shares	27,060	27,060	27,060
Co-operative membership	25,000	-	-
7730543 Canada Inc Shares	963	-	-
Total investments	6,270,395	7,661,105	7,140,561

In order to meet Credit Union national standards, the Credit Union is required to maintain on deposit in Atlantic Central an amount equal to 6% of the prior quarter's assets (see note 5b). The deposit bears interest at a variable rate.

No market exists for the available for sale share investments. Certain of the available for sale share investments may be surrendered on withdrawal from membership for proceeds equal to the paid-in value.

10 Member deposits

	September 30, 2012 $	September 30, 2011 $	October 1, 2010 $
Ownership shares and share accounts (note 12)	13,208,444	10,846,477	10,978,799
Savings and Plan 24	20,039,156	17,568,212	15,573,089
Chequing accounts (note 17)	12,989,199	10,249,134	10,132,377
Term deposits	11,881,453	11,995,234	13,451,568
RRSP and RRIF	18,441,801	18,218,160	18,629,129
	76,560,053	68,877,217	68,764,962

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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 2012 was 2.5% (2011 - 2.0%) 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% - 2.0% (2011 - 0% - 2.0%)

Chequing accounts are held on a call basis and pay the account holders interest at the Credit Union's stated rates, 0% - 0.84% (2011 - 0% - 0.30%).

Outstanding t*erm deposits* for periods of one to five years generally may not be withdrawn prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Fixed *term deposits* bear interest at various rates ranging from 1.0% - 5.29% (2011 - 0.25% - 5.3%) 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 0.25% - 5.6% (2011 - 0.25% - 6.30%).

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

11 Contingent liability

		September 30, 2012 $	September 30, 2011 $	October 1, 2010 $
(a)	Outstanding guarantees on behalf of members	54,000	162,000	265,000

(b) In 2009, all student loans issued by the company were transferred to Consolidated Credit Union Ltd. However, the Credit Union remains as guarantor on these loans. The loan balance as at September 30, 2012 was $77,682 (2011 - $113,760).

Included in the loans and mortgages balance is a provision of $10,000 (2011 - $42,500) relating to the student loan guarantees.

12 Share accounts

An unlimited number of membership shares are available for issuance with a par value of $5 each. These shares are non-transferable, redeemable by the Credit Union, retractable by shareholders subject to the Credit Union's right to suspend redemptions, if the redemption would impair the financial stability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Corporation. Dividends on membership shares are payable at the discretion of the Board.

13 Income taxes

(a) Tax rate reconciliation

	2012 $	2011 $
Income before income taxe	850,921	536,090
Taxes at statutory rates - 31.38% (2011 - 32.88%)	267,019	176,266
Impact of small business deduction	(96,900)	(104,400)
Permanent differences and other	(23,500)	(2,366)
	146,619	69,500

(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% (2011 - 31.25%) as follows:

	2012 $	2011 $
Balance, October 1	234,678	248,768
Comprehensive income expense	(15,153)	(14,090)
Balance, September 30	219,525	234,678

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2012

Deferred income tax assets are attributable to the following items:

	2012 $	2011 $
Deferred income tax assets		
Property and equipment	33,792	31,856
Allowance for impaired loans	50,343	69,370
Community involvement reserve	-	11,970
Retirement allowance	135,390	121,482
	219,525	234,678

14 Pension plan

The Credit Union provides employees with a voluntary defined contribution pension plan in which the Credit Union matches employee contributions to the plan, within specified limits. During the year, the Credit Union expensed $61,586 (2011 - $60,074) in contributions to the plan. This expense is included with staff expenses on the Statement of Comprehensive Income.

15 Line of credit availability

In 2012, the Credit Union had an approved line of credit with Atlantic Central of $10,000,000. As of September 30, 2012, the line of credit was not being utilized.

16 Composition of key management

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

(a) Key management, excluding directors

	2012 $	2011 $
Salaries and short-term employee benefits	413,787	377,425
Retirement benefit obligations	246,089	243,589

(b) Directors' remuneration

	2012 $	2011 $
Honorariums	8,900	8,800
Payment for expenses while on credit union business	18,457	13,911

(c) Loans to directors and key management personnel

	2012 $	2011 $
Loans outstanding at beginning of year	557,704	579,388
Loans issued during the year	31,292	164,990
Loan repayments during the year	(50,533)	(161,519)
Net decrease in lines of credit	(25,303)	(25,155)
Loans outstanding at end of year	513,160	557,704
Interest income earned	20,150	20,953

No provisions have been recognized in respect of loans given to key management (2011 - nil). The loans issued to directors and key management personnel and close family members during the year of $31,292 (2011 - $161,519) are repayable over 1 - 5 years and have interest rates ranging from 1.25% to 6.25% (2011 - 1.25% to 6.25%).

17 Related party transactions

The Credit Union provides financial services to members. These members hold the loans and mortgages and member deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

The loans and mortgages balance includes $2,009,130 (2011 - nil) in loans to 7730543 Canada Inc. The loans to 7730543 Canada Inc. are interest bearing at 1% with no set terms of repayment. Included in member deposits is $822,010 (2011 - nil) of cash deposits in chequing accounts from 7730543 Canada Inc.

Included in loan interest and investment revenue is $10,864 (2011 - nil) and $45,475 (2011 - nil), respectively, of income received from 7730543 Canada Inc.

The Credit Union is a shareholder in 7730543 Canada Inc.

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2012

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.

					September 30, 2012
	Under 1 year $	**Over 1 to 5 years $**	**Over 5 years $**	**Not interest rate sensitive $**	**Total $**
Assets					
Cash and equivalents	-	-	-	962,440	962,440
Short-term deposits	18,407,918	-	-	-	18,407,918
Effective interest rate	0.89%				
Investments	1,049,389	52,060	-	-	1,101,449
Effective interest rate	2.30%	0%			
Loans and mortgages	20,553,593	29,320,926	5,226,861	-	55,101,380
Effective interest rate	4.39%	5.46%	5.22%		
Lines of credit and overdrafts	8,437,340	-	-	-	8,437,340
Effective interest rate	4.92%				
League Savings & Mortgage reverse MOP program	-	864,707	-	-	864,707
Effective interest rate		4.73%			
General risk on loan portfolio	-	-	-	(437,068)	(437,068)
Accrued loan interest receivable	-	-	-	398,207	398,207
Deferred income taxes	-	-	-	219,525	219,525
Prepaid expenses and other	-	-	-	105,299	105,299
Property and equipment	-	-	-	892,803	892,803
Total assets	48,448,240	30,237,693	5,226,861	2,141,206	86,054,000
Liabilities and surplus					
Member deposits	49,070,912	14,280,697	-	-	63,351,609
Effective interest rate	1.60%	2.01%			
Share deposits	13,208,444	-	-	-	13,208,444
Effective interest rate	2.05%				
Effective interest rate					
Accrued interest payable	-	-	-	623,698	623,698
Other liabilities	-	-	-	568,124	568,124
Income taxes payable	-	-	-	77,119	77,119
Undistributed earnings	-	-	-	8,225,006	8,225,006
Total liabilities and surplus	62,279,356	14,280,697	-	9,493,947	86,054,000
Interest rate sensitivity gap	(13,831,116)	15,956,996	5,226,861	(7,352,741)	-

					September 30, 2011
	Under 1 year $	**Over 1 to 5 years $**	**Over 5 years $**	**Not interest rate sensitive $**	**Total $**
Assets					
Cash and equivalents	-	-	-	1,276,219	1,276,219
Short-term deposits	6,264,826	-	-	-	6,264,826
Effective interest rate	0.80%				
Investments	7,661,105	-	-	-	7,661,105
Effective interest rate	1.54%				
Loans and mortgages	31,296,703	21,656,283	74,858	-	53,027,844
Effective interest rate	4.96%	6.26%	5.55%		
Lines of credit and overdrafts	8,517,857	-	-	-	8,517,857
Effective interest rate	5.21%				
League Savings & Mortgage reverse MOP program	-	668,910	-	-	668,910
Effective interest rate		4.68%			
General risk on loan portfolio	-	-	-	(783,169)	(783,169)
Accrued loan interest receivable	-	-	-	295,196	295,196
Deferred income taxes	-	-	-	234,678	234,678
Income taxes receivable	-	-	-	42,728	42,728
Prepaid expenses and other	-	-	-	114,072	114,072
Property and equipment	-	-	-	925,284	925,284
Total assets	53,740,491	22,325,193	74,858	2,105,008	78,245,550
Liabilities and surplus					
Member deposits	44,211,074	13,819,666	-	-	58,030,740
Effective interest rate	1.39%	2.58%			
Share deposits	10,846,477	-	-	-	10,846,477
Effective interest rate	2.0%				
Effective interest rate					
Accrued interest payable	-	-	-	634,406	634,406
Other liabilities	-	-	-	1,198,070	1,198,070
Undistributed earnings	-	-	-	7,535,857	7,535,857
Total liabilities and surplus	55,057,551	13,819,666	-	9,368,333	78,245,550
Interest rate sensitivity gap	(1,317,060)	8,505,527	74,858	(7,263,325)	-

As at September 30, 2012, the Credit Union's net interest spread was 3.2% (2011 - 3.13%). The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year-end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year-end interest bearing liabilities.

19 Commitments

The Credit Union had lines of credit and loans and mortgages approved but not disbursed at September 30, 2012 amounting to $15,228,609 and $517,276, respectively.

Malpeque Bay Credit Union, Limited

Notes to Financial Statements

September 30, 2012

20 Transition to IFRS

As stated in note 2, these are the Credit Union's first financial statements prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing these financial statements for the year ended September 30, 2012, for the comparative information presented for the year ended September 30, 2011, and in preparation of an opening IFRS statement of financial position as at October 1, 2010 (the Credit Union’s date of transition).

The effect of the Credit Union’s transition to IFRS is summarized in this note as follows:

(a) Transition elections

IFRS 1 – First-time adoption of IFRS (“IFRS 1”)

Generally, the conversion to IFRS requires an entity to present its financial statements as if it had always reported under IFRS. IFRS 1 provides guidance on the initial adoption of IFRS and provides certain exceptions and exemptions to full retrospective application of IFRS that an entity may elect. The key exemption elected by the credit union is as follows:

Estimates – IFRS 1 requires estimates made under IFRS at October 1, 2010 to be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error. The Credit Union’s estimates under IFRS as at October 1, 2010 are consistent with estimates under Canadian GAAP for the same time. Therefore, this exemption has no impact on the Credit Union’s IFRS statements.

(b) The adoption of IFRS results in adjustments to previously reported assets, members' equity and net earnings of the Credit Union. Accordingly, the effect of adopting IFRS retrospectively is as follows:

Reconciliation of the Credit Union's undistributed income:

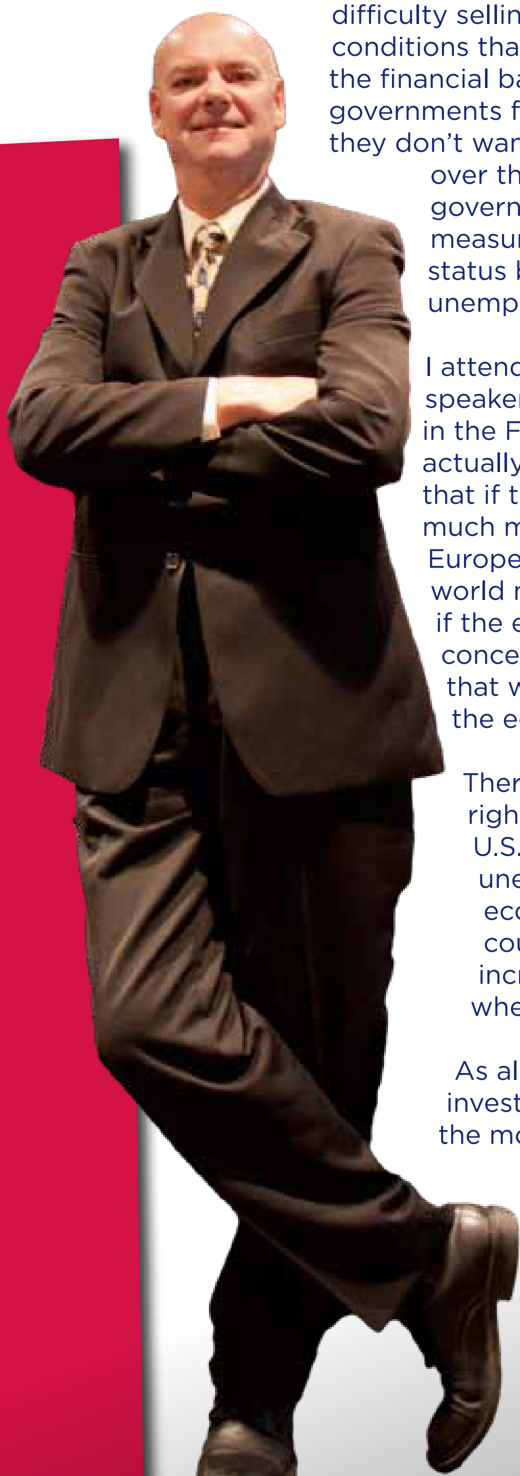
	September 30, 2011 $	**October 1, 2010 $**
Undistributed income previously reported in accordance with previous GAAP	7,301,179	6,834,589
Adjustments:		
Recording of deferred income taxes in accordance with IFRS	234,678	248,768
Undistributed income in accordance with IFRS	7,535,857	7,083,357

Reconciliation of the company's net earnings for the year ended September 30, 2011:

	$
Net earnings as previously reported in accordance with previous GAAP	466,590
Adjustments:	
Decrease in deferred tax asset	(14,090)
Net earnings reported in accordance with IFRS	452,500

Credential Financial Strategies Report

2012 didn't bring the growth in the markets that we all hoped it would as the TSX has been flat for most of the year. There were a lot of reasons for this.



Tension in the Middle East between Turkey and Syria is mounting. Some European countries are having difficulty selling belt-tightening to their people as they try to meet the conditions that have been imposed by the European Union to qualify for the financial bailouts they need. Countries like Greece that have had weak governments for years, now have people rioting in the streets because they don't want to "do without". People in Greece have paid little or no tax over the years and yet still receive large government benefits. The government in France fell in the election over proposed austerity measures, and Spain's debt has been downgraded to junk bond status because of the fragility of their economy which has a 25% unemployment rate.

I attended a financial planning conference recently and one of the speakers is a world renowned economist who represented Canada in the Free Trade talks. He feels that the biggest issue in Europe is actually whether the euro will survive the recession there. He felt that if the currency survives then the European markets will rebound much more quickly. He feels that some countries may leave the European Union but that won't have near the negative impact on world markets that the dissolving of the EU would, and he felt that if the euro failed then that may happen. The speaker felt the other concern was whether interest rates would go up. He doesn't feel that will happen anytime soon. This would stall any momentum that the economy is starting to experience.

There are many things negatively impacting the world economy right now, but there are also some reasons for optimism. The U.S. economy is starting to show signs of growth and their unemployment rate continues to go down, and Canada's economy shows slow but steady growth. Many people in this country were pleased to see Prime Minister Harper refuse to increase Canada's financial support to the European bailout fund when German leader Angela Merkel asked recently.

As always the challenge for us all is making sure the mix of investments we hold matches the time frame we have until we need the money, and our comfort level with volatility.

Paul Chessman CFP CHS CWC

Certified Financial Planner

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1 VOLUNTARY AND OPEN MEMBERSHIP

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

4

2 DEMOCRATIC MEMBER CONTROL

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

3 MEMBER ECONOMIC PARTICIPATION

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes. developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

SEVEN CO-OPERATIVE PRINCIPLES

The following seven internationally accepted Co-operative Principles help shape credit union business decisions and governance, setting them apart from other financial institutions.

AUTONOMY AND INDEPENDENCE

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5 EDUCATION TRAINING AND INFORMATION

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives.

They inform the general public about the nature and benefits of co-operation.

6 CO-OPERATION AMONG CO-OPERATIVES

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7 CONCERN FOR COMMUNITY

Co-operatives work for the sustainable development of their communities through policies approved by their members.

CREDIT UNION

MALPEQUE BAY