

2016

Annual Report



MORELL

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2016 Highlights

+1.8%
Assets

\$15k
Back to Members

+2.1%
Avg. Members Savings

+2.1%
Deposits

\$18k
Back to Communities

2
New Ways to Bank

+7.1%
Loans

+1.4%
Profits

610
Members Banking Online

104
New Members

2k
Membership



**Credit unions are built on fairness, trust,
equality and independence.**

**We provide honest banking and make a
local impact in our communities.**

Your money stays and works here.



Mission

The mission of Morell Credit Union is to provide competitive financial services tailored to meet the needs of our owners and their communities.

We pride ourselves in directing the organization we control and in the equality of services provided.

Morell Credit Union is a community-minded Co-operative that helps build through its involvement, its leadership, and the retention of financial resources in the community.

Values

Honest

Passionate

Holistic

Spiritual

Evolutionary

Simplistic

Inclusive

Board of Directors



John Cameron
President



Dennis Clough
Vice-President



Sheryll O'Hanley
Secretary



Tom Atkins



John Sutherland



Kevin MacEwen



Muriel Coffin



Randy Byrne



Peter MacAdam



Staff



President's Report

While facing constant change, Morell Credit Union strives to remain a vital and caring community organization.

In reviewing another successful year, the Board recognizes and appreciates the reasons for the Credit Union's success: First, thanks to you, fellow members, for your support, input, and confidence. Rest assured that Morell Credit Union, in association with the Credit Union System across the Island and across Atlantic Canada, will continue to provide, and improve upon, the services you need.

The Board also applauds our dedicated staff and management for their pleasant and professional service. On behalf of the Board of Directors, I sincerely thank Sherri and her staff for their professional and community work during a challenging and profitable year.

We also extend our thanks and appreciation to the Atlantic Central team for their support and cooperation over the past year. Along with the other credit unions on the Island and in the rest of Atlantic Canada, we look forward to working with Atlantic Central in developing the most effective ways to serve our members of the Mount Stewart, Morell, and St. Peter's region.

Finally, a sincere thanks to my fellow Directors for their dedication and concern for the well-being of our Credit Union. The three-year terms of two directors have expired, both of whom cannot reoffer: Muriel Coffin and myself. As well, Tom Atkins will leave the Board

with one year remaining in his term. As I leave the Board after nine years, I'm thankful for the opportunity to have worked with a group committed to the Credit Union and to the area.

Respectfully submitted,

John Cameron

President



Manager's Report

It is my pleasure to report to you on the operations of Morell Credit Union Ltd. Your Credit Union has completed another successful year, and I am extremely pleased with our growth, despite a difficult economy and an historically low interest-rate environment.

Financial Results for the year ending December 31, 2016 are positive. Total Assets at year-end amounted to \$32,641,881, representing an increase of 1.76%. Our loan portfolio increased by 7.1%, while our member deposits grew by 2.1%. Our Equity position remains strong at 9.85%, well above our 5% requirement. Our undistributed income has reached a new high of just over \$3.2 million dollars.

Your Credit Union is a full-service financial institution offering competitive products and services. During 2016, many of you have seen changes to our account packages. These changes allow our credit union to streamline our offerings to meet your everchanging needs. While traditional services remain important, we see the banking wants and needs of our membership changing. This year we installed a technology bar to assist you with the electronic services that we launched in 2015. The technology bar has been a welcome addition to our office and is meant to make you, the member, more comfortable with using electronic services.

We continue to work in a fast-paced, constantly changing environment. With the assistance of our Atlantic Central office, and a collaborative group of PEI Credit Unions, we continue to explore opportunities to enhance our competitive position within

our marketplace to provide you with the best financial services. Without your continued support, Morell Credit Union would not be where it is today.

As Morell Credit Union identifies goals for the upcoming year that are ambitious and exciting, we recognize that our success is largely due to our dedicated staff. Their continued work effort and desire to see the Credit Union and community prosper is evident in their everyday work performance. For your commitment over the past year, I truly thank each of you.

We are fortunate to have our Credit Union advised by a strong Board of Directors. I wish to personally thank each board member for guidance and support over the last 12 months. Tonight, we see three long-term directors retire. Tom Atkins, Muriel Coffin, and John Cameron have contributed many hours of personal time over the last nine years to attend meetings and training sessions to ensure the well-being of your Credit Union. We thank them for their efforts on your behalf.

Respectfully submitted,

Sherri Clark
General Manager

Building a Community Together

Being supportive and involved with our members along with the community is, as always, of great importance to credit unions. Our high standard for social responsibility means that we strive to serve our community as best as possible. One of the most significant ways in which we support the community is through donations, sponsorships and volunteering.

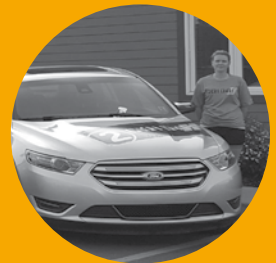
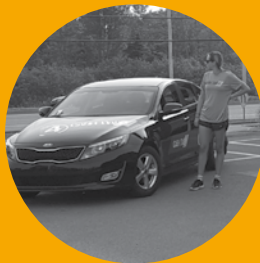
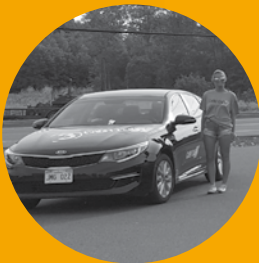
This year, we invested over \$18,625.00 in donations and sponsorships benefiting not only community groups but also numerous local families alike.

As a financial co-operative, our motive is to always assist our members with their financial goals, while also positively impacting our community.



Cash Dash 2.0

The Cash Dash, our amazing-race styled event, returned this year with added challenges for participants. Instead of a single day event across PEI, the four teams of two raced for two days across three provinces—PEI, New Brunswick, and Nova Scotia. This year the tasks and services focused on the cooperative movement, with activities like balancing ledgers and earning community support. Teams competed against each other for the grand prize of \$5,000. Our following built upon last year's success, with a tremendous response to both interest and overall online social interactions.



The Do Good Project

As a cooperative financial institution, credit unions truly believe in giving back and bettering the communities they serve. In 2016, we launched The Do Good Project, which gave the public the opportunity to decide how to make a positive impact within their neighborhood. In addition to coming up with the ideas, the public also chose the two winning projects based on popular vote.

We had an overwhelming response to this contest; eight plans submitted and close to two thousand votes cast.

The top two finalists, Lynn Thompson and Lewie Sutherland, earned \$2,500 each to make their community plans a reality. Lynn Thompson will be using the money to enhance the outdoor play-space at Morell Early Learning Centre, and Lewie Sutherland will be improving the Alysha Toombs Memorial Park in Kensington.

A decade of Relay For Life

2016 marked our tenth and final year as the proud provincial event sponsor for the Canadian Cancer Society's Relay for Life. Since 2006, PEI credit unions have together contributed over \$500,000 towards cancer research - with an impressive 60% being staff raised. Through this partnership, we have increased staff's involvement with the Society, educated our stakeholders about cancer prevention and raised significant funds to assist in the delivery of the Society's programs on PEI.

In June we were honored to be recognized as Outstanding Sponsorship Partner at the 30th Annual Maritime Philanthropy Awards thanks to a nomination by the Canadian Cancer Society. We would like to extend our gratitude to the Society for allowing us to be an active part of this amazing initiative over the past 10 years.



Fill The YuMob

In December our fourth Annual #FilltheYuMob took place, where not one, but TWO, carloads of toys were collected. All toys were given to Santa's Angels, a volunteer group that delivers the toys on Christmas Day to over 300 local families in need. Thank you to everyone who participated in this notable cause.

Scholarships

We are pleased to announce 3 Morell Credit Union Scholarship Recipients for 2016. Each scholarship recipient received \$2,000 towards furthering their education. In total, Morell Credit Union distributed \$6,000.

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



Meranda Hendricken



Noah McGuire



Kathleen Cleveland

Investing In People

Investing in People, our primarily social media based campaign, aims to make a small positive financial impact for individuals during their day to day lives. From paying for car services, to helping furnish a student's new apartment, we have helped Islanders from tip to tip. Since its inception in 2015, over one hundred individuals have benefited, which we hope to grow in the upcoming year.

For 2016, we tried to change things up for the holiday season by launching Investing in Cheer. Three individuals were each given \$500 to spread some much needed Christmas cheer to deserving groups. These groups included the QEH pediatrics unit, Boys and Girls Club Charlottetown, and two families in need in the Kinkora area.



Inspire Learning Centre

Credit Unions on PEI were proud to partner with the new and innovative Inspire Learning Centre in 2016. Located in Summerside the state-of-the-art regional learning centre is a bustling hub for job seekers, entrepreneurs, study groups and people of all ages!

The Inspire Learning Centre, dubbed the “library of tomorrow” offers state of the art facilities including semi-private reading pods, collaborative workstations and borrowable media in every category! Credit Unions look forward to the year ahead with the Inspire Learning Centre and the impact it will make on the community and surrounding areas.



Junior Achievement



2016 marked an important partnership for the credit union system on PEI as we teamed up with Junior Achievement to bring our financial knowledge into the classroom. Through JA PEI's Economics for Success program, the credit union has been able to instruct over 1,500 students on the fundamentals of financial literacy and the significance of budgeting.

As a result of the successful and well-received programming, credit union employee, Kate Ryan was awarded JA PEI's Volunteer of the Year award in 2016. Credit Unions will continue their partnership with JA for the upcoming year with 500 students already enrolled for the programs upcoming semester.

Out in the Community



Staff getting prepared for the annual Morell River Run Festival parade.



Staff helping out the local Turkey Drive hosted by the Stacey Ryan & Wayne Fisher Memorial Hockey Tournament Committee and the Morell Lions Club.



Staff hosting an appreciation BBQ for Members.



Staff volunteering at the Mount Stewart Consolidated Family fun night.



Staff volunteering the Brian McGuire Memorial Golf Tournament.

Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Members of Morell Credit Union Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Morell Credit Union Limited, which comprise the statement of financial position as at December 31, 2016 and the statements of changes in members' equity, comprehensive income and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained 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 Morell Credit Union Limited as at December 31, 2016 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.



MRSB Chartered Professional Accountants

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS

MORELL CREDIT UNION LIMITED
Statement of Financial Position
December 31, 2016

	2016	2015
Assets		
Cash and cash equivalents (Note 4)	\$ 2,715,695	\$ 844,389
Investments (Note 5)	8,455,633	10,955,989
Accounts receivable (Note 6)	184,839	211,749
Member loans and mortgages (Note 7)	20,776,562	19,393,935
Provision for impaired loans (Note 8)	(221,219)	(226,700)
Prepaid expense	24,121	25,481
Real estate for resale	-	135,697
Deferred income taxes (Note 10)	1,641	1,716
Property and equipment (Schedule 1)	704,609	733,439
	\$ 32,641,881	\$ 32,075,695
Liabilities		
Accounts payable and accrued liabilities	\$ 67,609	\$ 87,397
Employee benefits payable	23,520	21,557
Accrued interest payable	203,846	229,644
Income taxes payable	301	18,131
Member deposits (Note 11)	26,904,548	26,348,355
Share deposits	2,226,823	2,297,909
	29,426,647	29,002,993
Commitments (Note 12)		
Members' equity		
Members' shares (Statement 4)	8,930	8,965
Undistributed earnings (Statement 4)	3,206,304	3,063,737
	3,215,234	3,072,702
	\$ 32,641,881	\$ 32,075,695

ON BEHALF OF THE BOARD

 Director
 Director

Notes 1 - 19 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED
Statement of Changes in Members' Equity
Year Ended December 31, 2016

	2016	2015 (15 months)
Members' shares (Note 13)		
Balance - beginning of period	\$ 8,965	\$ 8,775
Redemption of members' shares, net of issuance	<u>(35)</u>	<u>190</u>
Balance - end of period	<u>8,930</u>	<u>8,965</u>
Undistributed earnings		
Balance - beginning of period	3,063,737	2,923,188
Net comprehensive income (Statement 5)	<u>142,567</u>	<u>140,549</u>
Balance - end of period	<u>3,206,304</u>	<u>3,063,737</u>
Members' equity	<u>\$ 3,215,234</u>	<u>\$ 3,072,702</u>

MORELL CREDIT UNION LIMITED
Statement of Comprehensive Income
Year Ended December 31, 2016

	2016	2015 <small>(15 months)</small>
Income		
Interest and investment	\$ 1,163,014	\$ 1,505,849
Cost of capital and borrowings		
Interest and service charges	371,538	511,651
Share dividends	14,504	24,440
	386,042	536,091
Financial margin	776,972	969,758
Other		
Commissions	300,636	347,504
Miscellaneous	33,270	59,730
	333,906	407,234
	1,110,878	1,376,992
Expenses		
Advertising and promotions	61,662	58,346
Amortization of property and equipment	30,092	42,564
Automated teller machines	16,224	20,833
Data processing	99,167	117,456
Director expenses	17,036	21,059
Dues and memberships	909	1,914
Insurance	57,883	72,702
Office	34,626	62,499
Premises	43,083	60,752
Professional fees	29,584	33,746
Provision (recovery) impaired loans	5,919	(6,387)
Service fees	127,414	192,759
Telephone	10,916	12,549
Travel	10,103	7,895
Wages and wage levies	397,304	511,802
	941,922	1,210,489
Income before income taxes	168,956	166,503
Income taxes (recovery)		
Current (Note 14)	26,314	26,098
Deferred	75	(144)
	26,389	25,954
Net comprehensive income	\$ 142,567	\$ 140,549

Notes 1 - 19 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED
Statement of Cash Flow
Year Ended December 31, 2016

	2016	2015 <i>(15 months)</i>
Cash flows from operating activities		
Net comprehensive income	\$ 142,567	\$ 140,549
Items not affecting cash:		
Amortization of property and equipment	30,092	42,564
Deferred income taxes	75	(144)
	172,734	182,969
Changes in non-cash working capital:		
Investments	2,500,356	(501,034)
Accounts receivable	26,910	(24,290)
Prepaid expense	1,360	(4,277)
Accounts payable and accrued liabilities	(19,787)	35,945
Employee benefits payable	1,963	220
Accrued interest payable	(25,798)	(15,979)
Income taxes payable	(17,830)	10,233
	2,467,174	(499,182)
	2,639,908	(316,213)
Cash flows from investing activities		
Increase in member loans and mortgages, net of provision	(1,388,108)	(360,528)
Purchase of property and equipment	(1,263)	(9,857)
(Increase) decrease in real estate for resale	135,697	(135,697)
	(1,253,674)	(506,082)
Cash flows from financing activities		
Increase (decrease) in member deposits	556,193	(907,714)
Increase (decrease) in share deposits and members' shares	(71,121)	253,084
	485,072	(654,630)
Net change in cash and cash equivalents during the period	1,871,306	(1,476,925)
Cash and cash equivalents - beginning of period	844,389	2,321,314
Cash and cash equivalents - end of period	\$ 2,715,695	\$ 844,389
Cash flow supplementary information		
Interest received	\$ 1,183,994	\$ 1,440,963
Interest paid	387,626	531,467
Income taxes paid	26,013	13,780

Notes 1 - 19 are an integral part of these financial statements

Notes to the Financial Statements

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

1. DESCRIPTION OF BUSINESS

Morell Credit Union Limited was incorporated under the Companies Act of Prince Edward Island on January 27, 1938 and is governed by the Prince Edward Island Credit Unions Act. Morell Credit Union Limited is a member-owned financial institution whose principal business activities include financial and banking services for its members at its branch in Morell, Prince Edward Island.

These financial statements were authorized for issue by the Board of Directors on February 20, 2017.

All Credit Unions in 2015 on Prince Edward Island have changed their year end date from September 30 to December 31, to coincide with most other Credit Unions in the Atlantic Canada region. Morell Credit Union Limited's financial statements for the period ending December 31, 2015 comprise 15 months compared to 12 months for the year ending December 31, 2016. As a result, the amounts presented in the financial statements are not entirely comparable.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with and are in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in Note 3.

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in Note 3. These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents is comprised of cash on hand and cash in financial institutions.

Investments

Investments for which there are quoted prices in an active market are carried at fair value by the Credit Union. Unrealized gains or losses are reported as part of net comprehensive income. Investments for which there is not an active market are carried at amortized cost except when it is established that their value is impaired. Impairment losses, or reversal of previously recognized impairment losses, are reported as part of net comprehensive income.

Accounts receivable

Accounts receivable arise from miscellaneous rebates and accrued interest on loans and mortgages and investments. An allowance for bad debts has been calculated through discussions with management, assessment of the other circumstances influencing the collectibility of amounts and using historical loss experience. Amounts deemed uncollectible are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the year of recovery.

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MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loans and mortgages

Member loans and mortgages are initially measured at fair value, net of origination fees and inclusive of transaction costs incurred.

Member loans and mortgages are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans, plus accrued interest. Interest is accounted for on the accrual basis for all loans and mortgages.

Impairment

Loans and mortgages are considered impaired when there has been deterioration in credit quality. 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 followed by a measurable decrease in the estimated future cash flows from a loan or mortgage. Deterioration of estimated future cash flows is determined considering the financial condition of the borrower, payment history and security pledged.

The Credit Union first assesses whether objective evidence of impairment exists individually for member loans and mortgages. If it is determined that no objective evidence of impairment exists for individual assets, the asset is included in a group of financial assets with similar credit characteristics and that group is assessed collectively for impairment. Assets that are individually assessed for impairment are not included in the collective assessment. The expected cash flows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience, future estimates based on current events and objective evidence of impairment similar to those in the portfolio.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recorded impairment loss is reversed. Any subsequent reversal of impairment loss is recognized in net comprehensive income.

Member loans and mortgages considered uncollectible are written off.

Interest on an impaired loan or mortgage continues to be recognized in earnings on an accrual basis and is provided for in the allowance for loan losses. At December 31, 2016, interest accrued on impaired loans and mortgages totals \$NIL (2015 - \$8,456).

Non-financial assets are assessed for impairment at least annually and, where impairment exists, the carrying value is reduced to the recoverable amount.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income taxes

Income tax expense comprises current and deferred tax.

Current income taxes are recognized for the estimated income taxes payable or recoverable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the period end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to 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.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the period end date and are expected to apply when the liabilities/assets are settled/recovered.

Property and equipment

Property and equipment is stated at cost less accumulated amortization. Property and equipment is amortized over its estimated useful life on a declining balance basis at the following rates:

Building	4%
Equipment	20%
Computer hardware	30%, 45% and 55%

One-half of the annual rate is recorded in the year of acquisition; no amortization is recorded in the year of disposal.

Finance charges

Fees related to the purchase of Index-Linked RRSP units are amortized using the straight-line method over the term of the investment and are netted against the cost of the liability.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee future benefits

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

The Credit Union provides post employment benefits through a defined contribution plan. Pension expenses for the defined contribution pension plan include the required employer contributions. Contributions to the plan are recognized as an expense in the period that the relevant employee services are rendered. During the period, the contributions by the Credit Union to the defined contribution pension plan were \$16,261 (2015 - \$19,489).

Liabilities are recorded for employee benefits including salaries and wages, deductions at source and bonuses that are expected to be settled within 12 months of the financial statement date. These represent present obligations resulting from employees' services provided to the financial statement date and are calculated at the undiscounted amounts based on remuneration rate that the Credit Union expects to pay at the financial statement date.

Benefits such as medial care are non-vesting and are expensed by the Credit Union as the benefits are taken by the employees.

Member deposits

Deposits are measured at fair value on recognition net of transaction costs directly attributable to issuance. Subsequent measurement is at amortized cost using the effective interest method. Chequing accounts, call deposits and term deposits are on a call basis and earn interest at various rates.

Share deposits pay a dividend return at the discretion of the Board of Directors. Privileges of the shares are under the authority of the Board of Directors. The dividend rate declared and paid for 2016 was 0.75% (2015 - 1.25%) and was based on the average of the lowest monthly share balances.

Share deposits

The Credit Union has authorized an unlimited number of voting equity shares, with a value of \$5 per share. The shares are non-transferable, redeemable by the Credit Union, retractable by members subject to the Credit Union's right to suspend redemption, 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.

As at the financial statement date, the Credit Union has 1,786 member shares issued and outstanding with a value of \$8,930 (2015 - 1,793 shares with a value of \$8,965).

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MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can readily be measured. The principal sources of revenue are interest and fee income. Interest on loans and mortgages is recognized and reported on an accrual basis using the effective interest method.

Operating expenses are recognized upon the utilization of the services or at the date of their origin. Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in the statement of comprehensive income, as a reduction to income over the expected life of the relevant loans and mortgages.

Foreign currency translation

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities have been translated at the year end exchange rate. Non-monetary assets have been translated at the rate of exchange prevailing at the date of transaction. Revenues and expenses have been translated at the average rates of exchange during the year, except for amortization, which has been translated at the same rate as the related assets.

Foreign exchange gains and losses on monetary assets and liabilities are included in the determination of earnings.

Measurement uncertainty

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The estimates and underlying assumptions are continually reviewed on an ongoing basis based on historical experience, best knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances, including expectations of future events. The resulting accounting estimates will, by definition, seldom equal the related actual results, and actual results may ultimately differ from these estimates.

Revisions to accounting estimates are recorded in the period in which the estimate is reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include the provision for impaired loans, measurement of employee benefits, and the estimates of useful lives for depreciation of property and equipment.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The Credit Union classifies its financial assets and financial liabilities according to their characteristics and management's intentions related thereto for the purposes of ongoing measurements. Financial assets and liabilities are initially recognized at fair value regardless of classification choice and are subsequently accounted for based on their classification as described below.

Financial assets must be classified as fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity (HTM), or loans and receivables (L&R). Financial liabilities are required to be classified as FVTPL or other financial liabilities (OFL). All financial instruments, including all derivatives, are subsequently measured at fair value on the statement of financial position with the exception of loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

A financial asset is derecognized when the contractual rights to the cash flows from the asset have expired, or the Credit Union transfers the contractual rights to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to a third party and the Credit Union has transferred all of the risks and rewards of ownership of that asset to a third party. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Changes in fair value of financial assets and financial liabilities classified as FVTPL are reported in earnings, while the changes in value of available for sale financial assets are reported within other comprehensive income (OCI) until the financial asset is disposed of, or becomes impaired.

Accumulated OCI is reported on the statement of financial position as a separate component of members' equity. It includes, on a net of taxes basis, the net unrealized gains and losses on available for sale financial assets. The Credit Union has classified its equity investments as AFS; however, because there is no active market for these investments and their fair value cannot be estimated reliably, the Credit Union has not recorded any other comprehensive income as a result of these.

The Credit Union has classified its financial instruments as follows:

FVTPL	Cash and cash equivalents
AFS	Investments - shares
HTM	Investments - debentures
L&R	Member loans and mortgages and accounts receivable
OFL	Accounts payable and accrued liabilities, employee benefits payable, accrued interest payable, and member and share deposits

The Credit Union utilizes settlement date accounting for all purchases and sales of financial assets in its investment portfolio. Transactions costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are added to the fair value of the financial asset or liability on initial recognition and amortized using the effective interest method.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting standards

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2016 and have not been adopted by the Credit Union in preparing these financial statements. Other than the introduction of IFRS 9, these changes are not expected to have a material impact on the financial statements.

IFRS 9 - Financial Instruments

In 2009 and 2010, the IASB issued IFRS 9 Financial Instruments which contains new requirements for accounting for financial assets and liabilities, and will contain new requirements for impairment and hedge accounting, replacing the corresponding requirements in IAS 39. It will lead to significant changes in the way the Credit Union accounts for financial instruments. The key changes issued and proposed relate to:

- Financial assets - financial assets will be held at either fair value or amortized cost, except for equity investments not held for trading and certain eligible debt instruments, which may be held at fair value through other comprehensive income;
- Financial liabilities - gains and losses on fair value changes arising on non-derivative financial liabilities designated at fair value through profit or loss will be taken to other comprehensive income;
- Impairment - credit losses expected (rather than only losses incurred in the year) on loans, debt securities and loan commitments not held at fair value through profit or loss will be reflected in impairment allowances; and
- Hedge accounting - hedge accounting will be more closely aligned with financial risk management.

In 2014, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 on the Credit Union has not yet been determined.

The IASB has issued two new standards, *IFRS 16 Leases* and *IFRS 15 Revenue from Contracts with Customers* which are effective for annual periods beginning on or after January 1, 2019 and January 1, 2018, respectively. The Credit Union is currently assessing the impact of these standards.

4. CASH AND CASH EQUIVALENTS

	<u>2016</u>	<u>2015</u>
Cash in financial institutions	\$ 2,322,295	\$ 464,013
Cash on hand	<u>393,400</u>	<u>380,376</u>
	<u>\$ 2,715,695</u>	<u>\$ 844,389</u>

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

5. INVESTMENTS

	<u>2016</u>	<u>2015</u>
Shares		
Concentra Financial Services Association - 20,000 Class D Series 1 preferred shares	\$ 500,000	\$ 500,000
Atlantic Central Credit Union Limited - common shares	302,630	299,220
Atlantic Central Credit Union Limited - Class B preferred shares	91,500	91,500
Atlantic Central Credit Union Limited - Class LSM preferred shares	64,201	-
League Data Limited - 1,511 Class B preferred shares	15,510	15,510
Morell Consumers Co-operative Association, Ltd.	1,902	1,902
Atlantic Central Credit Union Limited - Class PEI shares	800	800
CU PEI Investment Corp.	8	8
League Savings and Mortgage - Class A preferred shares	-	54,201
	<u>976,551</u>	<u>963,141</u>
Debentures		
Atlantic Central Credit Union Limited term deposit - 1.60%; matures October 30, 2017	2,000,000	2,000,000
Atlantic Central Credit Union Limited term deposit - 1.65%; matures May 7, 2018	2,000,000	2,000,000
Atlantic Central Credit Union Limited liquidity deposit - 0.82%	1,979,082	1,918,348
Atlantic Central Credit Union Limited term deposit - 1.35%; matures December 4, 2017	1,500,000	3,064,500
Atlantic Central Credit Union Limited term deposit - matured during the year	-	1,000,000
League Savings and Mortgage subordinate debt - matured during the year	-	10,000
	<u>7,479,082</u>	<u>9,992,848</u>
	<u>\$ 8,455,633</u>	<u>\$ 10,955,989</u>

Liquidity deposits are investments placed with Atlantic Central Credit Union Limited to provide protection against cash flow demand. National standards have been established requiring 6% of Morell Credit Union Limited assets to be held on deposit.

6. ACCOUNTS RECEIVABLE

	<u>2016</u>	<u>2015</u>
Accrued interest - loans and mortgages	\$ 142,379	\$ 163,360
Accrued interest - investments	28,669	33,045
Other receivables	13,791	15,344
	<u>\$ 184,839</u>	<u>\$ 211,749</u>

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

7. MEMBER LOANS AND MORTGAGES

December 31, 2016	Total loans	Specific allowance	Net loans
Personal and business	\$ 10,806,534	\$ (128,733)	\$ 10,677,801
Lines of credit and overdrafts	1,055,701	(92,486)	963,215
Mortgages	7,336,981	-	7,336,981
LS&M reverse MOP	1,577,346	-	1,577,346
	\$ 20,776,562	\$ (221,219)	\$ 20,555,343

December 31, 2015	Total loans	Specific allowance	Net loans
Personal and business	\$ 9,920,935	\$ (146,700)	\$ 9,774,235
Lines of credit and overdrafts	1,262,818	(80,000)	1,182,818
Mortgages	7,091,826	-	7,091,826
LS&M reverse MOP	1,118,356	-	1,118,356
	\$ 19,393,935	\$ (226,700)	\$ 19,167,235

8. PROVISION FOR IMPAIRED LOANS

	2016	2015
Provision for impaired loans - beginning of period	\$ 226,700	\$ 307,137
Provision (recovery) impaired loans - current period	5,919	(6,387)
Recovery of loans written off	3,264	1,323
Loans written off - current period	(14,664)	(75,373)
Provision for impaired loans - end of period	\$ 221,219	\$ 226,700

Members' loans can have either variable or fixed rate of interest. The rates offered to members are determined by the type of security offered, the member's credit worthiness, competition from other lenders and the current prime rate.

9. LOANS IN ARREARS

The following is an analysis of loans in arrears based on the age of repayments outstanding:

	2016	2015
31 to 60 days	\$ 4,822	\$ -
61 to 90 days	14,290	2,480
Over 180 days	-	135,697
	\$ 19,112	\$ 138,177

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

10. DEFERRED INCOME TAXES

Deferred income taxes reflect the tax consequences of 'temporary differences' between the statement of financial position carrying amounts and the tax bases of assets and liabilities. These deferred income taxes are calculated using the income tax rates and tax laws that are expected to apply when these temporary differences are reflected in taxable income.

Temporary differences which give rise to deferred income tax asset are as follows:

	<u>2016</u>	<u>2015</u>
Property and equipment	\$ 1,641	\$ 1,716

11. MEMBER DEPOSITS

	<u>2016</u>	<u>2015</u>
Term deposits	\$ 8,740,166	\$ 8,908,733
Registered Retirement Savings Plan (RRSP) deposits	7,451,443	8,098,929
Personal chequing accounts	5,789,063	5,226,436
Registered Retirement Income Fund (RRIF) deposits	2,052,783	1,504,840
Tax Free Savings Account (TFSA) deposits	1,624,181	1,324,109
Call deposits	1,246,912	1,285,308
	<u>\$ 26,904,548</u>	<u>\$ 26,348,355</u>

12. COMMITMENTS

The Credit Union has entered into a lease agreement for the lease of a photocopier. Future minimum lease payments as at December 31, 2016 are as follows:

2017	\$ 3,657
2018	3,657
2019	3,657
2020	3,657
2021	914

13. MEMBERS' SHARES

	<u>Number of shares</u>	<u>December 31 2016</u>	<u>Number of shares</u>	<u>December 31 2015</u>
Balance - beginning of period	1,793	\$ 8,965	1,755	\$ 8,775
Shares issued, net of redemption	(7)	(35)	38	190
Balance - end of period	<u>1,786</u>	<u>\$ 8,930</u>	<u>1,793</u>	<u>\$ 8,965</u>

MORELL CREDIT UNION LIMITED**Notes to Financial Statements****Year Ended December 31, 2016****14. INCOME TAXES**

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 32.48% (2015 - 33.79%) to the income for the period and is reconciled as follows:

	<u>2016</u>	<u>2015</u>
Income before income taxes	<u>\$ 168,956</u>	<u>\$ 166,503</u>
Income tax expense at the combined basic federal and provincial tax rate:	<u>\$ 54,877</u>	<u>\$ 56,261</u>
Increase (decrease) resulting from:		
Small business deduction	(29,831)	(25,314)
Capital cost allowance claimed in excess of amortization	(163)	340
Non-deductible expenses	1,613	319
Tax reserves	1,640	30,507
Provision for loan loss reserve	1,968	(24,390)
Recovery of loans previously written off	1,085	435
Loans written off in the current period	(4,875)	(9,942)
Provision for October to December 2014 included in 15 month financial statements	-	(2,118)
Effective tax expense	<u>\$ 26,314</u>	<u>\$ 26,098</u>

The effective income tax rate is 15.57% (2015 -15.67%).

15. LINE OF CREDIT AVAILABILITY

The Credit Union has an approved line of credit with Atlantic Central Credit Union Limited of \$1,500,000, which is due for renewal on December 31, 2020, and was not utilized at the year end. The line of credit bears an interest rate of 2.2% and is secured by a general security agreement.

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

16. RELATED PARTY TRANSACTIONS

Morell Credit Union Limited provides financial services to members. These members hold the loans, deposits and share deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

As at period end, some members of the Board of Directors, Credit Committee, management, and employees had loans and mortgages from Morell Credit Union Limited. These loans were in the normal course of operations with interest rates at the regular rates offered to all members of the Credit Union. Interest rates of deposits and dividends on shares were at identical rates offered to all Credit Union members.

Key management personnel include the General Manager and other senior officers of the Credit Union. The components of total compensation received by key management personnel, and balances due to/from key management personnel are as follows:

	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$ 152,857	\$ 176,574
Contributions to a retirement pension plan	8,203	9,076
Mortgages, loan balances, and lines of credit due from key management at December 31	-	3,243
Deposit balances due to key management at December 31	333,265	333,836

Short-term employee benefits include salaries, variable compensation and other benefits. The mortgage and deposit transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

17. RISK MANAGEMENT

The Credit Union manages significant risks through a comprehensive infrastructure of policies, procedures, methods, oversight, and independent review designed to reduce the significant risks and to manage those risks within an appropriate threshold. The Board of Directors is provided with timely, relevant, accurate, and complete reports on the management of significant risks. Significant risks managed by the Credit Union include credit, liquidity, currency and interest rate risks.

Credit risk

Credit risk is the risk that a member will fail to meet their obligation to the Credit Union. Providing credit facilities to qualified members is one of the Credit Union's primary sources of earnings and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the member's ability to repay principal and interest over the term of the facility, which is determined by following Board approved policies and procedures, which includes assessing the member's credit history, character, collateral, and debt servicing capacity. In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. Also, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

Overdue loan accounts, or lending delinquency, is closely monitored and frequently reported to senior management to ensure all allowances for potential loan losses are adequately provided for and written-off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as described by approved lending agreements.

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MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

17. RISK MANAGEMENT *(continued)*

The Credit Union's loan portfolio is focused in two main areas: consumer and commercial loans and mortgages, the latter of which are to mainly small and mid-sized companies. A syndication process is available with other Credit Unions for larger commercial loans, when considered necessary, to appropriately mitigate the Credit Union's credit risk. Consumer mortgages are made available on a conventional basis up to 80% of the lesser of cost or appraised value of single family housing, up to 75% on other residential properties, up to 65% of the lesser of cost or appraised value on commercial properties having general purpose usage, and up to 50% of the lesser of cost or appraised value on commercial properties designed for specific use. Other credit facilities provided include personal overdrafts that have no recourse to the Credit Union.

The Credit Union maintains both specific and collective allowances for credit losses. Specific allowances are established on an account by account basis using management's knowledge of the account and prevailing conditions. In addition, accounts delinquent greater than ninety days are included in the specific allowance. Collective allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans and includes factors such as market conditions, concentration of credit risk for member accounts, and the general state of the economy. Senior management regularly monitors credit risk and reports to the Board of Directors on a monthly basis.

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 parties fail to perform their obligations. The principal collateral and other credit enhancements holds as security for loans include a) insurance and mortgages over properties, b) recourse to sell assets such as real estate, equipment, inventory, and accounts receivable and c) recourse to liquid assets, guarantees, and securities.

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 reviews the member's capacity to repay the loan rather than relying exclusively on collateral.

Liquidity risk

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis. The Credit Union has established policies to ensure the Credit Union is able to generate sufficient funds to meet all of its financial commitments in a timely and cost effective manner. The Credit Union's liquidity management practices include ensuring the quality of investment acquired for liquidity purposes meet very high standards, matching maturities of assets and liabilities and monitoring cash flow on a regular basis. Management monitors the Credit Union's liquidity position and reports to the Board on a regular basis.

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MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

17. RISK MANAGEMENT *(continued)*

The Credit Union is required to maintain 6% of prior quarter's assets in liquid investments in which 100% must be held by Atlantic Central Credit Union Limited and the Credit Union was in compliance with this requirement at year end. Cash flows payable under financial liabilities by remaining contractual maturities are disclosed in Schedule 2. The Credit Union expects that many members will not request repayment on the earliest date the Credit Union could be required to pay.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Credit Union is exposed to currency risk through its cash accounts and member deposits. The Credit Union maintains deposits in foreign currencies to service its member accounts.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate materially due to changes in market interest rates. The Credit Union is exposed to interest rate risk through its loans and mortgages, providing lending services to its members for a rate based on the Bank of Canada base rate plus a risk premium determined at the loan inception. The Credit Union manages and controls interest rate risk primarily by managing asset and liability maturities. Interest rate risk is measured on a quarterly basis and the results are reported to the Board of Directors.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

Morell Credit Union Limited has evaluated the fair value of its financial instruments based on the current interest rate environment, market values, and the actual prices of financial instruments with similar terms. Fair value represents the amount at which a financial investment could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Credit Union's financial instruments.

A three-tier hierarchy is used as a framework for disclosing fair values based on inputs used to value the Credit Union's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

Level 1 - Quoted prices for active markets for identical financial instruments that the entity can access at the measurement date.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The carrying value of cash and cash equivalents approximates their fair value as they are short-term in nature or are receivable on demand.

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MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2016

18. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Long-term investments in shares in the Credit Union System and others have been classified as available for sale and are required to be measured at fair value with any changes in fair value recorded in other comprehensive income. The Credit Union has determined the fair value of these investments cannot be measured reliably and therefore measures these investments at cost with no adjustment to other comprehensive income. The Credit Union's investments in system debentures have been classified as held-to-maturity and are required to be measured at amortized cost.

The differences between the carrying and fair values of the Credit Union's loans and deposits are primarily due to changes in interest rates. The carrying value of the Credit Union's financial instruments are not adjusted to reflect increases or decreases in fair value as a result of interest rate changes, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

19. CAPITAL MANAGEMENT

Morell Credit Union Limited provides lending services to its members in the form of loans, lines of credit and mortgages. The Credit Union's objective in the lending process is to remain within the lending guidelines set for the institution and to provide an adequate return to its members through adjusting risk premiums with the level of assessed risk on an individual basis. These services are provided to members at the discretion of the general manager and lending personnel within the established parameters. Total lending activities managed by the Credit Union as of December 31, 2016 amounted to \$20,776,562 (2015 - \$19,393,935).

Consistent with other Prince Edward Island Credit Unions, Morell 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. This ratio is calculated by adding the undistributed earnings at the end of the previous period plus the operating surplus in the current period and members' shares, divided by the total assets of the Credit Union.

	<u>2016</u>	<u>2015</u>
Undistributed earnings	\$ 3,206,304	\$ 3,063,737
Members' shares	8,930	8,965
Total regulatory equity	<u>3,215,234</u>	3,072,702
Total assets	<u>32,641,881</u>	32,075,695
	<u>9.85 %</u>	9.58 %

Credit Union bylaws require Morell Credit Union Limited to maintain sufficient liquid assets and a line of credit to meet its normal cash flow requirements. Overall, a minimum liquid asset level of 10% of total assets must be maintained to ensure ongoing cash flow requirements are met.

	<u>2016</u>	<u>2015</u>
Total assets	\$ 32,641,881	\$ 32,075,695
Liquid assets	<u>11,356,166</u>	12,012,127
	<u>34.79 %</u>	37.45 %

MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Statement of Property and Equipment
Year Ended December 31, 2016

(Schedule 1)

	Cost beginning of year	Additions	Disposals and write downs	Cost end of year	Amort beginning of year	Amort in year	Disposals	Amort end of year	NBV 2016	NBV 2015
Land	\$ 130,535	\$ -	\$ -	\$ 130,535	\$ -	\$ -	\$ -	\$ -	\$ 130,535	\$ 130,535
Building	850,907	-	-	850,907	280,651	22,811	-	303,462	547,445	570,256
Equipment	252,025	-	-	252,025	220,855	6,233	-	227,088	24,937	31,171
Computer hardware	186,575	1,263	-	187,838	185,098	1,048	-	186,146	1,692	1,477
	\$1,420,042	\$ 1,263	\$ -	\$1,421,305	\$ 686,604	\$ 30,092	\$ -	\$ 716,696	\$ 704,609	\$ 733,439

Notes 1 - 19 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Interest Rate Sensitivity
Year Ended December 31, 2016

(Schedule 2)

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	\$ 1,995,775	\$ -	\$ -	\$ 719,920	\$ 2,715,695
Effective interest rate	0.44 %	-	-	-	-
Investments	5,479,081	2,000,000	-	976,552	8,455,633
Effective interest rate	1.05 %	1.60 %	-	-	-
Accounts receivable	-	-	-	184,839	184,839
Member loans and mortgage	3,268,843	13,710,948	2,612,337	-	19,592,128
Effective interest rate	4.01 %	4.64 %	5.62 %	-	-
Lines of credit and overdrafts	963,215	-	-	-	963,215
Effective interest rate	5.75 %	-	-	-	-
Prepaid expense	-	-	-	24,121	24,121
Deferred income taxes	-	-	-	1,641	1,641
Property and equipment	-	-	-	704,609	704,609
	\$ 11,706,914	\$ 15,710,948	\$ 2,612,337	\$ 2,611,682	\$ 32,641,881

LIABILITIES AND MEMBERS' EQUITY

Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 67,609	\$ 67,609
Employee benefits payable	-	-	-	23,520	23,520
Accrued interest payable	-	-	-	203,846	203,846
Income taxes payable	-	-	-	301	301
Member deposits	16,971,681	4,165,235	-	5,767,632	26,904,548
Effective interest rate	1.66 %	1.98 %	-	-	-
Share deposits	2,226,823	-	-	-	2,226,823
Effective interest rate	0.75 %	-	-	-	-
Members' shares	8,930	-	-	-	8,930
Effective interest rate	0.75 %	-	-	-	-
Undistributed earnings	-	-	-	3,206,304	3,206,304
	\$ 19,207,434	\$ 4,165,235	\$ -	\$ 9,269,212	\$ 32,641,881

The above 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, loans and mortgages are shown at contractual maturity but certain could prepay earlier.

As at December 31, 2016, Morell Credit Union Limited's net interest spread was 2.28%. 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.

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COA 1S0



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