

2017

Annual
Report



**CREDIT
UNION**

MORELL

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2017 Highlights

Assets: **\$36,178,882**

Deposits: **\$29,631,820**

Loans: **\$22,324,771**

Membership: **1,921**

Back to Members

\$
16K

Back to Communities

\$
11K



Assets

10.8%

Deposits

10.1%

Loans

7.5%

Avg. Member Savings

7.8%

New Members

124

Members Online

712

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

Vision for the Future

To make money easy for everyone to understand and use.



“We strive to be the leading source of information and inspiration for our members to make more money.”

Board of Directors

Dennis Clough
President



John Sutherland
Vice President



Sheryll O'Hanley
Secretary



Tom Atkins



Allan Coffin



Kevin MacEwen



Sarah Dymont



Randy Byrne



Peter MacAdam



Staff



President's Report




A successful Credit Union depends on many things and the first I will mention is the membership. Our membership is very supportive of the Credit Union operation. We wouldn't be here if the membership didn't make use of the many products the Credit Union has available. The Board thanks you for your loyalty.

When I first sat down to pen these few words from the President's office, I was tempted to say I never cease to be amazed by how well our small Credit Union does. But, I shouldn't be amazed, with the staff we have and how well they work together, the outcome has to be favourable. That's exactly what the financial indicators show, a very favourable financial year and favourable financial year end position. The financials will be further expanded on in the Auditor's report.

It should be noted that the staff is involved in more than the financials of your Credit Union. I am sure you have noticed that Sherri and her staff take part in numerous community activities. They do this because they think it is important to be good neighbors by taking an active interest in the day to day activities of the communities that we serve.

In addition, there are many changes taking place within the internal operation of your credit union and to put these changes in place takes many hours of extra work. This burden falls on the shoulders of



Sherri and her staff and they work tirelessly to see that it happens.

The third cog in this operation is the Board of Directors and the support it gives to the Credit Union operation. Besides the regular and committee meetings, directors are always there to give suggestions and advice. On behalf of the membership, I thank Sheryll O'Hanley, John Sutherland, Tom Atkins, Kevin MacEwen, Randy Byrne, Peter MacAdam, Sarah Dymont and Allan Coffin for sharing their time and experience. This year we say good bye to three long time directors, Kevin MacEwen, Peter MacAdam, and Tom Atkins who have all completed their nine years terms. On behalf of the Board, Management and Staff we thank you for your contribution to our Credit Union.

Personally, I thank one and all for the opportunity to help the board and to expand my own knowledge and experience.

Respectfully submitted,

G. Dennis Clough

President

Manager's Report



Your Credit Union was incorporated on January 27, 1938. This year we celebrate 80 years of doing business in Morell. Quite a milestone for our Credit Union.

2017 has been a very busy and successful year for Morell Credit Union. Our growth in all areas was strong. Our focus was on you, the membership, ensuring that you had access to our products and services via traditional methods as well as on our online options.

Financial Results for the year ending December 31, 2017 are favourable. Total Assets at year-end amounted to \$36,178,882, representing an increase of 10.8%. This is an all time high for our Credit Union. Our loan portfolio increased by 7.5%, while our member deposits grew by 10.0%. Our Equity position remains strong at 9.31%, well above our 5% requirement. Our undistributed income has reached over \$3.3 million dollars.

Your Credit Union is constantly looking for opportunities to enhance our product offerings. Behind the scenes we spend a great deal of time collaborating with other like-minded Credit Unions and sister organizations to make sure we are offering you the most up-to-date services. We could not do this without the dedication of the staff. Their dedication not only to you, the

“While traditional services remain important, we see the banking wants and needs of our membership changing.”

membership, but to our community speaks volumes and contributed to our success this past year.

At this time, I would like to officially welcome Shelly Darbsyson to our team. Shelly brings 29 years experience in the banking industry to our organization and would be more than happy to meet with you to discuss any of your banking needs.

Our Board of Directors play a huge role in our Credit Union. Their governance and guidance help to shape the Credit Union into a successful organization. I wish to personally thank each board member for their guidance and support over the last 12 months. Tonight, we see three long-term directors retire. Tom Atkins, Kevin MacEwen, and Peter MacAdam 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

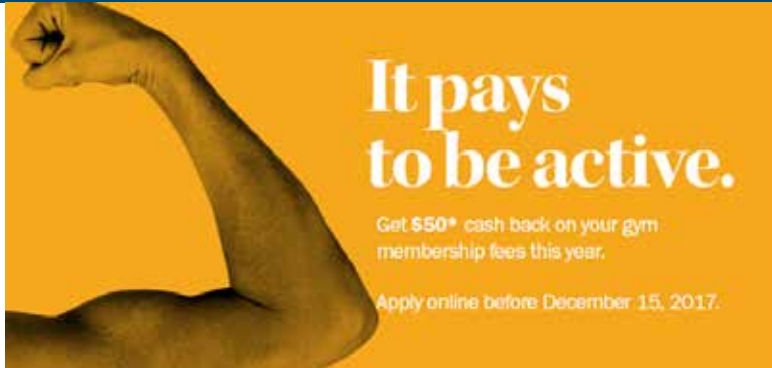
General Manager

Get Active

2017 marked the launch of our new social cause across Island credit unions – where we are committed to more physically active communities on PEI. This initiative was conceptualized around the 2016 Public Health Officer's Report which reported that over half of Islanders consider themselves physically inactive. Physical inactivity leads to a staggering decrease in overall health resulting in a higher risk factor for the development of health conditions including stroke, heart disease, obesity and type 2 diabetes. This decrease in health can negatively impacts a household's finances, especially in the retirement stages where income is fixed.

This year, over \$11,000 in donations were made on behalf of the credit union, with the ultimate goal to encourage getting physically active in our community.

Gym Rebate Program



Our commitment to this cause has first been demonstrated by our Get Active Gym Program where we offered \$50 cash back to any of our members who paid gym membership fees in 2017. This resulted in close to \$4,000 being rebated to our members who show a dedication to their physical wellbeing.

Credit unions are committed to a more physically active



Storm Basketball

Continuing with our flagship social cause of inspiring Islanders to get up and get active, Credit Unions signed on as a major sponsor of the Island Storm for the 2017-2018 season.

Teaming up with the professional NBL team has given us many unique opportunities including two Under 25 Free games, where anyone 25 and under was able to attend the Storm game for free. The first of our Under 25 Free game saw 1,028 free tickets distributed to fans – resulting in a savings of \$11,500 for the local community!



Credit Union Place

Since the opening of Credit Union Place in Summerside in 2007 credit unions on the Island have maintained a strong relationship with the multi purpose facility lead by Consolidated Credit Union.

As a fixture to both the Summerside community and the Island as a whole, 2017 marked a new 10-year agreement that all PEI credit unions have invested in. The naming rights of the facility have been immeasurable in true value as Credit Union Place continues to be a top Atlantic Canadian venue for high-end entertainment and sporting events.

Alongside the naming rights, credit union members receive discounts on services offered by the facility – to date this has saved our membership \$75,000 yearly in user fees. We're thrilled to have signed-on for another 10 years and look forward to our future with Credit Union Place.

Random Acts of Kindness

This holiday season, we went in and around Morell and surprised people with Random acts of Kindness.

The list of what we purchased for our community members was long. Some examples were gas, groceries, gifts cards to the local restaurant, dropped sweets off at local businesses for a coffee break, as well as purchased lunch for a couple of high school students.



Junior Achievement

For the last two years' credit unions on the Island have held a valuable partnership with JA PEI. Working off JA's already well-received programming we teamed up to enhance their Economics for Success program with the additional knowledge of a financial expert.

Economics for Success focuses on the importance of financial literacy and teaches students budgeting skills which they'll need for the future. Through the growing popularity of the program we have currently been able to instruct over 2,400 students at 14 different Island high-schools. With having signed on as a partner again in 2018, we look forward to reaching more students and continuing the conversation about financial literacy!



FilltheYuMob Toy Drive

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

As a direct result of the general public's generosity, we filled the SUV to top in under 4 hours, a new record.

All the 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.



Cash Dash 3

The Cash Dash, our amazing-race styled summer event, returned for it's third consecutive year!

Continuing with our two-day event, four teams of two raced across the three maritime provinces tackling over 30 different challenge stops.

This year our stops were centered around the Game of Life – and all of the impromptu and sometimes inconvenient challenges that will be thrown your way. With this being our third year under our belt and a \$5,000 grand prize we noticed a strong increase in general interest as well as high numbers in social interactions as people checked in to cheer on their favourite team!



Commercial Accounts

2017 marked the launch of our new Commercial Accounts, bringing over many of the features of our personal products. Our new Operating and Investment Accounts bring the ease of use, and new money saving features such as free Me-to-Me Online transfers, Merchant discounts, and lower fee options for Not-For-Profits.

Our new accounts also change the way we charge for business deposits. Now, those who don't need the service avoid any overcharges, while still offering the lowest fees in our industry for those that do .

Scholarships

We are pleased to announce 3 Morell Credit Union Scholarship Recipients for 2017. 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.



Bethany MacKinnon



Hannah Dunn



Hannah McBride

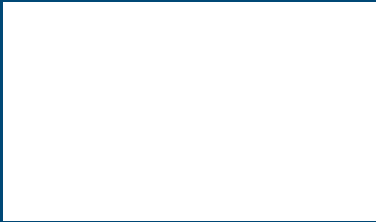
Financial Lit. Escape Room

In 2017 we brought financial literacy to life by jumping on the crazed trend of escape rooms.

Our free murder mystery escape room; "Stolen", intertwined the excitement of a frantic mystery plot while subtly teaching the importance of credit reports, using strong passwords and how to spot fraudulent transactions. Stolen operated out of a local warehouse where we were able to transform a portion of their offices into the run-down living quarters of our villain. Stolen functioned as a retail operation for two weeks with our 60 time-slots being 90% booked in the first 24 hours, resulting in more than 220 thrill-seeking individuals visiting the space.

Ultimately, Stolen was a great success in creating a new and innovative way to explain different financial topics.





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, 2017 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, 2017 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

MRSB Chartered Professional Accountants

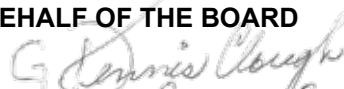
Morell Credit Union Limited

Statement of Financial Position

December 31, 2017

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents (Note 4) | \$ 1,896,138 | \$ 2,715,695 |
| Investments (Note 5) | 11,163,939 | 8,455,633 |
| Accounts receivable (Note 6) | 187,621 | 184,839 |
| Member loans and mortgages (Note 7) | 22,324,771 | 20,776,562 |
| Provision for impaired loans (Note 8) | (140,375) | (221,219) |
| Prepaid expense | 24,879 | 24,121 |
| Deferred income taxes (Note 10) | 2,416 | 1,641 |
| Property and equipment (Schedule 1) | 719,493 | 704,609 |
| | <u>\$ 36,178,882</u> | <u>\$ 32,641,881</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 49,284 | \$ 67,609 |
| Employee benefits payable | 21,494 | 23,520 |
| Accrued interest payable | 219,179 | 203,846 |
| Income taxes payable | 864 | 301 |
| Member deposits (Note 11) | 29,631,820 | 26,904,548 |
| Share deposits | 2,888,304 | 2,226,823 |
| | <u>32,810,945</u> | <u>29,426,647</u> |
| Contingent liabilities (Note 12) | | |
| Commitments (Note 13) | | |
| Members' equity | | |
| Members' shares (Statement 4) | 9,310 | 8,930 |
| Undistributed earnings (Statement 4) | 3,358,627 | 3,206,304 |
| | <u>3,367,937</u> | <u>3,215,234</u> |
| | <u>\$ 36,178,882</u> | <u>\$ 32,641,881</u> |

ON BEHALF OF THE BOARD



Director



Director

Notes 1 - 20 are an integral part of these financial statements

Morell Credit Union Limited

Statement of Changes in Members' Equity

Year Ended December 31, 2017

| | <u>2017</u> | <u>2016</u> |
|--|----------------------------|----------------------------|
| Members' shares (Note 14) | | |
| Balance - beginning of year | \$ 8,930 | \$ 8,965 |
| Redemption of members' shares, net of issuance | <u>380</u> | <u>(35)</u> |
| Balance - end of year | <u>9,310</u> | <u>8,930</u> |
| Undistributed earnings | | |
| Balance - beginning of year | 3,206,304 | 3,063,737 |
| Net comprehensive income (Statement 5) | <u>152,323</u> | <u>142,567</u> |
| Balance - end of year | <u>3,358,627</u> | <u>3,206,304</u> |
| Members' equity | <u>\$ 3,367,937</u> | <u>\$ 3,215,234</u> |

Notes 1 - 20 are an integral part of these financial statements

Morell Credit Union Limited

Statement of Comprehensive Income

Year Ended December 31, 2017

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Income | | |
| Interest and investment | \$ 1,156,521 | \$ 1,163,014 |
| Cost of capital and borrowings | | |
| Interest and service charges | 373,423 | 371,538 |
| Share dividends | 16,474 | 14,504 |
| | <u>389,897</u> | <u>386,042</u> |
| Financial margin | <u>766,624</u> | <u>776,972</u> |
| Other | | |
| Commissions | 264,283 | 300,636 |
| Miscellaneous | 27,649 | 33,270 |
| | <u>291,932</u> | <u>333,906</u> |
| | <u>1,058,556</u> | <u>1,110,878</u> |
| Expenses | | |
| Advertising and promotions | 51,500 | 61,662 |
| Amortization of property and equipment | 31,736 | 30,092 |
| Automated teller machines | 14,672 | 16,224 |
| Data processing | 106,959 | 99,167 |
| Director expenses | 15,540 | 17,036 |
| Dues and memberships | 1,680 | 909 |
| Insurance | 58,072 | 57,883 |
| Loss on disposal of property and equipment | 7,172 | - |
| Office | 35,989 | 34,626 |
| Premises | 44,849 | 43,083 |
| Professional fees | 21,789 | 29,584 |
| Provision (recovery) impaired loans | (65,545) | 5,919 |
| Service fees | 130,221 | 127,414 |
| Telephone | 12,080 | 10,916 |
| Travel | 5,675 | 10,103 |
| Wages and wage levies | 407,441 | 397,304 |
| | <u>879,830</u> | <u>941,922</u> |
| Income before income taxes | <u>178,726</u> | <u>168,956</u> |
| Income taxes (recovery) | | |
| Current (Note 15) | 27,178 | 26,314 |
| Deferred | (775) | 75 |
| | <u>26,403</u> | <u>26,389</u> |
| Net comprehensive income | <u>\$ 152,323</u> | <u>\$ 142,567</u> |

Notes 1 - 20 are an integral part of these financial statements

Morell Credit Union Limited

Statement of Cash Flow

Year Ended December 31, 2017

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Net comprehensive income | \$ 152,323 | \$ 142,567 |
| Items not affecting cash: | | |
| Amortization of property and equipment | 31,736 | 30,092 |
| Deferred income taxes | (775) | 75 |
| Loss on disposal of property and equipment | 7,172 | - |
| | <u>190,456</u> | <u>172,734</u> |
| Changes in non-cash working capital: | | |
| Investments | (2,708,306) | 2,500,356 |
| Accounts receivable | (2,782) | 26,910 |
| Prepaid expense | (758) | 1,360 |
| Accounts payable and accrued liabilities | (18,324) | (19,787) |
| Employee benefits payable | (2,026) | 1,963 |
| Accounts payable and accrued liabilities | (2) | - |
| Accrued interest payable | 15,333 | (25,798) |
| Income taxes payable | 563 | (17,830) |
| | <u>(2,716,302)</u> | <u>2,467,174</u> |
| | <u>(2,525,846)</u> | <u>2,639,908</u> |
| Cash flows from investing activities | | |
| Increase in member loans and mortgages, net of provision | (1,629,053) | (1,388,108) |
| Purchase of property and equipment | (53,791) | (1,263) |
| Decrease in real estate for resale | - | 135,697 |
| | <u>(1,682,844)</u> | <u>(1,253,674)</u> |
| Cash flows from financing activities | | |
| Increase in member deposits | 2,727,272 | 556,193 |
| Increase (decrease) in share deposits and members' shares | 661,861 | (71,121) |
| | <u>3,389,133</u> | <u>485,072</u> |
| Net change in cash and cash equivalents during the year | (819,557) | 1,871,306 |
| Cash and cash equivalents - beginning of year | 2,715,695 | 844,389 |
| Cash and cash equivalents - end of year | \$ 1,896,138 | \$ 2,715,695 |
| Cash flow supplementary information | | |
| Interest received | \$ 1,158,774 | \$ 1,183,994 |
| Interest paid | 360,019 | 387,626 |
| Income taxes paid | 26,314 | 26,013 |

Notes 1 - 20 are an integral part of these financial statements

Notes to the Financial Statements

Morell Credit Union Limited
Year Ended December 31, 2017

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 12, 2018.

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.

(continues)

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, 2017, interest accrued on impaired loans and mortgages totals \$NIL (2016 - \$NIL).

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

(continues)

Notes to the Financial Statements

Morell Credit Union Limited
Year Ended December 31, 2017

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)

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 \$17,604 (2016 - \$16,261).

Liabilities are recorded for employee benefits including salaries and wages, deductions at source and bonuses that are expected to be settled within twelve 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 2017 was 0.75% (2016 - 0.75%) 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 1,862 member shares issued and outstanding with a value of \$9,310 (2016 - 1,786 shares with a value of \$8,930).

(continues)

Notes to the Financial Statements

Morell Credit Union Limited
Year Ended December 31, 2017

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)

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)

Notes to the Financial Statements

Morell Credit Union Limited
Year Ended December 31, 2017

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, 2017 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 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>2017</u> | <u>2016</u> |
|--------------------------------|---------------------|---------------------|
| Cash in financial institutions | \$ 1,579,612 | \$ 2,322,295 |
| Cash on hand | 316,526 | 393,400 |
| | <u>\$ 1,896,138</u> | <u>\$ 2,715,695</u> |

Notes to the Financial Statements

Morell Credit Union Limited
Year Ended December 31, 2017

5. INVESTMENTS

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|---------------------|
| Shares | | |
| Concentra Financial Services Association - 20,000 Class A Series 1 preferred shares | \$ 500,000 | \$ 500,000 |
| Atlantic Central Credit Union Limited - common shares | 297,170 | 302,630 |
| Atlantic Central Credit Union Limited - Class B preferred shares | 91,500 | 91,500 |
| Atlantic Central Credit Union Limited - Class LSM preferred shares | 64,201 | 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 |
| | <u>971,091</u> | <u>976,551</u> |
| Debentures | | |
| Atlantic Central Credit Union Limited liquidity deposit - 1.19% | 2,192,848 | 1,979,082 |
| Atlantic Central Credit Union Limited term deposit - 1.65%; matures May 7, 2018 | 2,000,000 | 2,000,000 |
| Atlantic Central Credit Union Limited term deposit - 1.30%; matures December 4, 2018 | 1,000,000 | 1,500,000 |
| League Savings and Mortgage term deposit - 1.75%; matures October 30, 2019 | 2,000,000 | - |
| Atlantic Central Credit Union Limited term deposits - 1.38%; matures April 9, 2018 | 2,000,000 | - |
| League Savings and Mortgage term deposit - 1.60%; matures May 31, 2020 | 1,000,000 | - |
| Atlantic Central Credit Union Limited term deposit - matured during the year | - | 2,000,000 |
| | <u>10,192,848</u> | <u>7,479,082</u> |
| | <u>\$ 11,163,939</u> | <u>\$ 8,455,633</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>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Accrued interest - loans and mortgages | \$ 140,126 | \$ 142,379 |
| Accrued interest - investments | 43,954 | 28,669 |
| Other receivables | 3,541 | 13,791 |
| | <u>\$ 187,621</u> | <u>\$ 184,839</u> |

Notes to the Financial Statements

Morell Credit Union Limited
Year Ended December 31, 2017

7. MEMBER LOANS AND MORTGAGES

| | Total loans | Specific allowance | Net loans |
|--------------------------------|----------------------|-----------------------|----------------------|
| 2017 | | | |
| Personal and business | \$ 9,444,153 | \$ (90,375) | \$ 9,353,778 |
| Lines of credit and overdrafts | 839,910 | (50,000) | 789,910 |
| Mortgages | 10,547,448 | - | 10,547,448 |
| LS&M reverse MOP | 1,493,260 | - | 1,493,260 |
| | \$ 22,324,771 | \$ (140,375) | \$ 22,184,396 |
| 2016 | | | |
| 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 |

8. PROVISION FOR IMPAIRED LOANS

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Provision for impaired loans - beginning of year | \$ 221,219 | \$ 226,700 |
| Provision (recovery) impaired loans - current year | (65,545) | 5,919 |
| Recovery of loans written off | 6,877 | 3,264 |
| Loans written off - current year | (22,176) | (14,664) |
| Provision for impaired loans - end of year | \$ 140,375 | \$ 221,219 |

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:

| | 2017 | 2016 |
|---------------|------------------|------------------|
| 31 to 60 days | \$ - | \$ 4,822 |
| 61 to 90 days | 24,208 | 14,290 |
| | \$ 24,208 | \$ 19,112 |

Notes to the Financial Statements

Morell Credit Union Limited
Year Ended December 31, 2017

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>2017</u> | <u>2016</u> |
|------------------------|-------------|-------------|
| Property and equipment | \$ 2,416 | \$ 1,641 |

11. MEMBER DEPOSITS

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Term deposits | \$ 8,721,861 | \$ 8,740,166 |
| Registered Retirement Savings Plan (RRSP) deposits | 7,052,633 | 7,451,443 |
| Personal chequing accounts | 7,586,294 | 5,789,063 |
| Registered Retirement Income Fund (RRIF) deposits | 2,594,752 | 2,052,783 |
| Tax Free Savings Account (TFSA) deposits | 2,272,999 | 1,624,181 |
| Call deposits | 1,403,281 | 1,246,912 |
| | <u>\$ 29,631,820</u> | <u>\$ 26,904,548</u> |

12. CONTINGENT LIABILITIES

The Credit Union has provided letters of credit on behalf of members in the amount of \$5,000.

13. COMMITMENTS

The Credit Union has entered into a lease agreement for the lease of a photocopier. Future minimum lease payments as at December 31, 2017 are as follows:

| | |
|------|----------|
| 2018 | \$ 3,657 |
| 2019 | 3,657 |
| 2020 | 3,657 |
| 2021 | 914 |

14. MEMBERS' SHARES

| | <u>Number of shares</u> | <u>December 31 2017</u> | <u>Number of shares</u> | <u>December 31 2016</u> |
|----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Balance - beginning of year | 1,786 | \$ 8,930 | 1,793 | \$ 8,965 |
| Shares issued, net of redemption | 76 | 380 | (7) | (35) |
| Balance - end of year | <u>1,862</u> | <u>\$ 9,310</u> | <u>1,786</u> | <u>\$ 8,930</u> |

Notes to the Financial Statements

Morell Credit Union Limited
Year Ended December 31, 2017

15. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 32.47% (2016 - 32.48%) to the income for the period and is reconciled as follows:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Income before income taxes | <u>\$ 178,726</u> | <u>\$ 168,956</u> |
| Income tax expense at the combined basic federal and provincial tax rate: | \$ 58,032 | \$ 54,877 |
| Increase (decrease) resulting from: | | |
| Small business deduction | (30,477) | (29,831) |
| Taxable capital gain in excess of financial statement gain | 2,329 | - |
| Capital cost allowance claimed in excess of amortization | (704) | (163) |
| Non-deductible expenses | 623 | 1,613 |
| Tax reserves | 23,625 | 1,640 |
| Provision for loan loss reserve | (21,282) | 1,968 |
| Recovery of loans previously written off | 2,233 | 1,085 |
| Loans written off in the current period | (7,201) | (4,875) |
| Effective tax expense | <u>\$ 27,178</u> | <u>\$ 26,314</u> |

The effective income tax rate is 15.21% (2016 -15.57%).

16. LINE OF CREDIT AVAILABILITY

The Credit Union has an approved line of credit with Atlantic Central Credit Union Limited of \$825,000, 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 2.7% and is secured by a general security agreement.

17. 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>2017</u> | <u>2016</u> |
|---|-------------|-------------|
| Short-term employee benefits | \$ 164,100 | \$ 152,857 |
| Contributions to a retirement pension plan | 8,842 | 8,203 |
| Deposit balances due to key management at December 31 | 318,195 | 333,265 |

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.

18. 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.

(continues)

Notes to the Financial Statements

Morell Credit Union Limited

Year Ended December 31, 2017

18. 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.

(continues)

18. 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.

19. 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.

(continues)

Notes to the Financial Statements

Morell Credit Union Limited
Year Ended December 31, 2017

19. 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.

20. 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, 2017 amounted to \$22,324,771 (2016 - \$20,776,562).

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>2017</u> | <u>2016</u> |
|-------------------------|--------------------------|-------------------|
| Undistributed earnings | \$ 3,358,627 | \$ 3,206,304 |
| Members' shares | <u>9,310</u> | <u>8,930</u> |
| Total regulatory equity | 3,367,937 | 3,215,234 |
| Total assets | <u>36,178,882</u> | <u>32,641,881</u> |
| | <u>9.31 %</u> | <u>9.85 %</u> |

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>2017</u> | <u>2016</u> |
|---------------|-----------------------|-------------------|
| Total assets | \$ 36,178,882 | \$ 32,641,881 |
| Liquid assets | <u>13,247,698</u> | <u>11,356,166</u> |
| | <u>36.62 %</u> | <u>34.79 %</u> |

MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Statement of Property and Equipment
Year Ended December 31, 2017

(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 2017 | NBV 2016 |
|-------------------|------------------------------|------------------|---------------------------------|------------------------|-------------------------------|------------------|--------------------|-------------------------|-------------------|-------------------|
| Land | \$ 130,535 | \$ - | \$ - | \$ 130,535 | \$ - | \$ - | \$ - | \$ - | \$ 130,535 | \$ 130,535 |
| Building | 850,907 | 5,784 | - | 856,691 | 303,462 | 22,013 | - | 325,475 | 531,216 | 547,445 |
| Equipment | 252,025 | 43,879 | (50,000) | 245,904 | 227,089 | 7,942 | (42,830) | 192,201 | 53,703 | 24,937 |
| Computer hardware | 187,838 | 4,128 | - | 191,966 | 186,146 | 1,781 | - | 187,927 | 4,039 | 1,692 |
| | \$1,421,305 | \$ 53,791 | \$ (50,000) | \$1,425,096 | \$ 716,697 | \$ 31,736 | \$ (42,830) | \$ 705,603 | \$ 719,493 | \$ 704,609 |

Notes 1 - 20 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Interest Rate Sensitivity
Year Ended December 31, 2017

(Schedule 2)

| | Under 1 year | Over 1 to 5 years | Over 5 years | Not interest rate sensitive | Total |
|--------------------------------|----------------------|----------------------|---------------------|--------------------------------|----------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,245,482 | \$ - | \$ - | \$ 650,656 | \$ 1,896,138 |
| Effective interest rate | 0.85 % | - | - | - | |
| Investments | 7,192,847 | 3,000,000 | - | 971,092 | 11,163,939 |
| Effective interest rate | 1.39 % | 1.70 % | - | - | |
| Accounts receivable | - | - | - | 187,621 | 187,621 |
| Member loans and mortgage | 3,630,344 | 15,356,839 | 2,407,303 | - | 21,394,486 |
| Effective interest rate | 4.32 % | 4.39 % | 5.26 % | - | |
| Lines of credit and overdrafts | 789,910 | - | - | - | 789,910 |
| Effective interest rate | 5.44 % | - | - | - | |
| Prepaid expense | - | - | - | 24,879 | 24,879 |
| Deferred income taxes | - | - | - | 2,416 | 2,416 |
| Property and equipment | - | - | - | 719,493 | 719,493 |
| | \$ 12,858,583 | \$ 18,356,839 | \$ 2,407,303 | \$ 2,556,157 | \$ 36,178,882 |

LIABILITIES AND MEMBERS' EQUITY

| | | | | | |
|---|----------------------|---------------------|-------------|----------------------|----------------------|
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ - | \$ 49,284 | \$ 49,284 |
| Employee benefits payable | - | - | - | 21,494 | 21,494 |
| Accrued interest payable | - | - | - | 219,179 | 219,179 |
| Income taxes payable | - | - | - | 864 | 864 |
| Member deposits | 16,388,694 | 5,712,278 | - | 7,530,848 | 29,631,820 |
| Effective interest rate | 1.68 % | 1.79 % | - | - | |
| Share deposits | 2,888,304 | - | - | - | 2,888,304 |
| Effective interest rate | 0.75 % | - | - | - | |
| Members' shares | 9,310 | - | - | - | 9,310 |
| Effective interest rate | 0.75 % | - | - | - | |
| Undistributed earnings | - | - | - | 3,358,627 | 3,358,627 |
| | \$ 19,286,308 | \$ 5,712,278 | \$ - | \$ 11,180,296 | \$ 36,178,882 |

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, 2017, Morell Credit Union Limited's net interest spread was 2.02%. 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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