

2014 ANNUAL REPORT



**CREDIT
UNION**

MORELL

MISSION

At Morell Credit Union, we are focused on you: your community, your future, your prosperity. We want to be a partner in your success. We're committed to providing outstanding financial service and wise financial guidance that will enable you, our members, to reach your financial goals. We are a community-minded cooperative that helps build through involvement, leadership, and monetary generosity in the community. We pride ourselves in our commitment to serving you, our members, and community as best as possible, and we believe that this annual report will be an indication of that commitment.

VALUES

Honest | Passionate | Holistic | Spiritual | Evolutionary | Simplistic | Inclusive

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2014 AT A GLANCE

* We launched all new Spending and Savings Accounts to better serve our members

* Together with all the credit unions on PEI, we launched a single social media presence to better communicate and engage with our members

* Redefined our Youth to represent all members 25 and under, regardless of occupation or education, to save on monthly fees with the Spending Accounts

* For the 10th consecutive year, we were honoured to be ranked #1 in Customer Service Excellence across the country*

* Assets surpassed \$32 Million

*THE IPSOS 2014 BEST BANKING AWARDS ARE BASED ON QUARTERLY CUSTOMER SERVICE INDEX (CSI) SURVEY RESULTS. SAMPLE SIZE FOR THE TOTAL 2014 CSI PROGRAM YEAR ENDED AUGUST 2014 WAS 45,428 COMPLETED SURVEYS YIELDING 68,738 FINANCIAL INSTITUTION RATINGS





PICTURED FROM LEFT TO RIGHT: ROSIE QUINN, FINANCIAL SERVICES OFFICER | DAWN LAYBOLT, ADMIN ASSISTANT/MSR | HEATHER SAMPSON, INVESTMENT OFFICER/MSR SUPERVISOR | MEGAN MACPHEE, LENDING ASSISTANT/MSR | JESSICA MACDONALD, MSR | KAREN BEER, MANAGER OF OPERATIONS | JENNIFER SHEEHAN, MSR | SHERRI CLARK, GENERAL MANAGER

STAFF



BOARD OF DIRECTORS

PICTURED FROM LEFT TO RIGHT: JOHN CAMERON, PRESIDENT | DENNIS CLOUGH, VICE-PRESIDENT | ALLAN COFFIN | MURIEL COFFIN | TOM ATKINS | KEVIN MACADAM | PETER MACADAM | SHERYLL O'HANLEY, SECRETARY | RANDY BYRNE



PRESIDENT'S REPORT

Despite an economy that continues to sputter, your Credit Union continues to grow. Our Equity position remains strong at 9%, comfortably above our requirement of 5%. The accounting firm of MRSB has again completed our year-end audit and financial statements, which Michelle Burge will review later.

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

Second, the Board salutes our dedicated staff and management for their pleasant and professional service. On behalf of the Board of Directors, I want to sincerely thank Sherri and her staff for their work, while they continue to upgrade their professional skills.

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 of Atlantic Canada, we look forward to working with Atlantic Central in the development of the most effective ways to serve our members of the Mount Stewart, Morell, and St. Peter's region.

Finally, I want to thank my fellow Directors for their dedication and concern for the well-being of our Credit Union. The terms of three directors have expired, but all three—Tom Atkins, Kevin MacEwen, and Peter McAdam—have agreed to reoffer.

Respectfully submitted,

JOHN CAMERON
PRESIDENT



MANAGER'S REPORT

I'm pleased to announce your Credit Union has achieved another successful financial year. I would like to comment on a couple of highlights.

Total Assets at year end amounted to \$32,559,357, an increase over the previous year of \$1,170,903. A key performance indicator for any organization is retained earnings or equity position. As John alluded to in his report, our equity position is strong, growing to 9% at the end of September 2014.

The Financial Services Industry continues to evolve, and we are not immune to these changes. Driven by consumer demand, banks and other non-traditional forms of Financial Institutions continue to enhance competition at a rapid rate. While methods of banking such as Counter Service and ATM's are an expectation, online and mobile banking are becoming a necessity. We ensure you that we work closely with all our partners within the Atlantic Region to develop products and services that will meet consumer demand.

Last year I reported about the formation of a province-wide marketing department and the appointment of a Youth Co-ordinator for the province. You have all probably seen the efforts of that department. If you are in our office, you will notice our new video screen displays that will keep you up to date on all events and promotions pertaining to our credit union. No doubt, you have all seen the Yu-mob which was present at the Credit Union and local events in our communities. Kate Ryan, the Youth-Co-coordinator, also attended schools in our area to present programs on money-related topics such as Savings and Student loans. Our Credit Union staff was asked to participate, along with our friends at Morell Co-op, in a convenience campaign. As you can see from the video, the staff provided superior customer service for randomly chosen members.

In 2013, the Board of Directors announced the creation of the 75th Anniversary Fund. This Fund was mandated by the Board to support Youth and Seniors in the 3 communities that we serve. Please refer to page 7 where you can see a graph of the fund distribution. As Manager, I had the privilege of delivering these funds, and I have to say it was a rewarding experience and an honor to represent our Credit Union in carrying out this wonderful gift to our communities.

In closing, I wish to thank the staff for the unending dedication to our Credit Union, the Board of Directors for their support and guidance over the last year, and last but not least you, the membership, who continues to support our Credit Union, which in turn supports our communities.

Respectfully Submitted,

SHERRI CLARK
GENERAL MANAGER



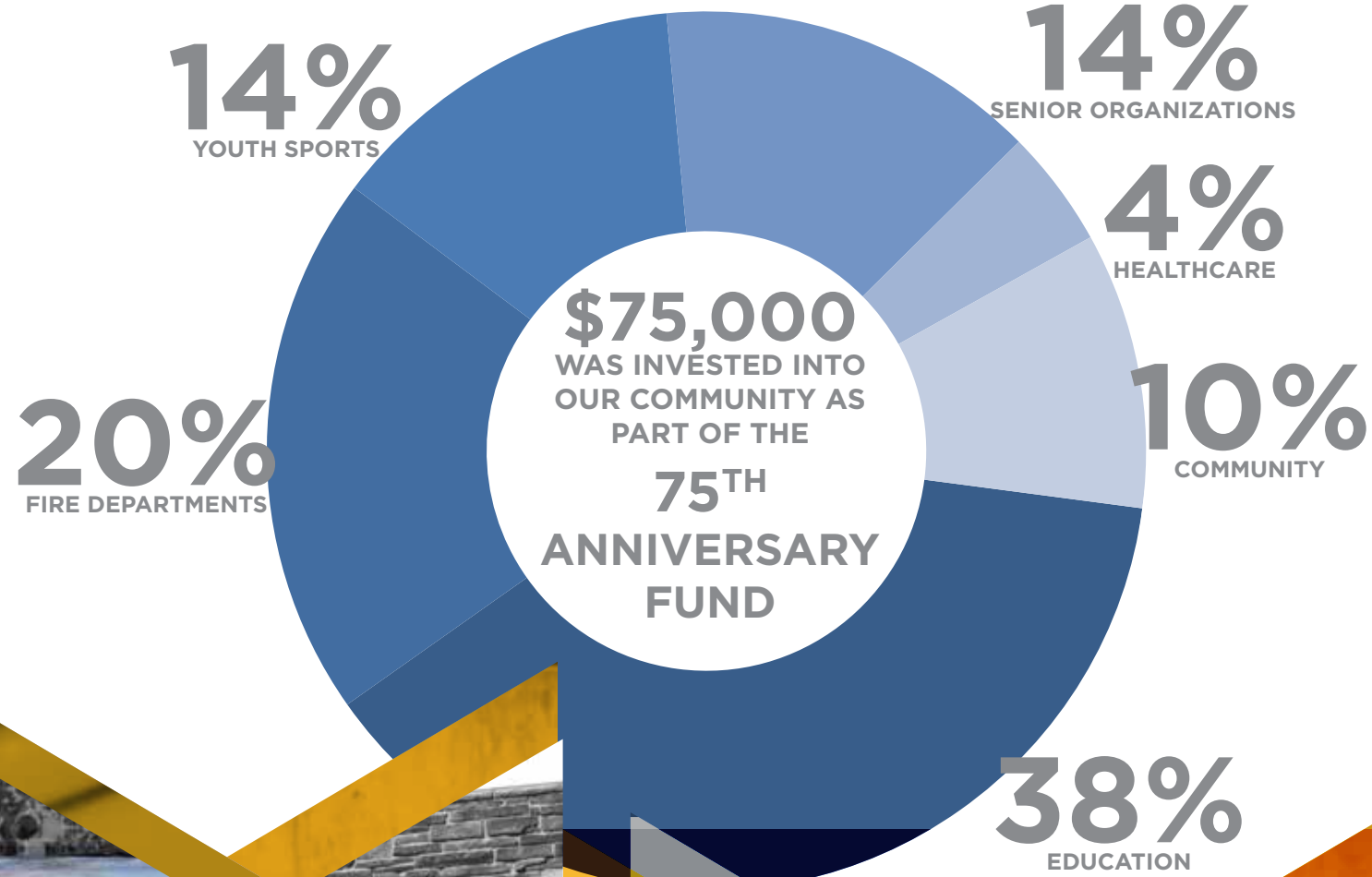
INVOLVED IN OUR COMMUNITY

Giving back to our members and to the community has always been of high importance to credit unions. We have a high standard for social responsibility, and each year we strive to serve our community even more. One of the most significant ways in which we give back to the community is through donations. Decisions for donations are made so that they can have the biggest impact on people in need and the community as a whole, so we are confident that we are living up to our social responsibility standards and creating the greatest positive impact possible. As a financial co-operative, we strive to help our members reach their financial goals, and with donations, we are able to help great community organizations reach their goals.

PROVINCIAL EVENT SPONSOR OF THE RELAY FOR LIFE

Even though we are individually committed to community involvement and social responsibility, all the credit unions on Prince Edward Island also work together to sponsor larger events that affect all of P.E.I. One of the major events that PEI Credit Unions sponsor is the Canadian Cancer Society's Relay For Life. This year, the PEI Credit Unions were again the Provincial Event Sponsor for the Relay For Life. In addition to the monetary funding, credit union employees volunteer their time and expertise to work bank nights in their local areas. Our staff also participated in the Relay for Life for the 9th consecutive year as team members.





MORELL CREDIT UNION IN 2014



1
LOCATION



1.7K
MEMBERS



\$32
MILLION IN ASSETS



\$29
MILLION IN DEPOSITS



\$19
MILLION IN LOANS



317
LOCATIONS



1,740
LOCATIONS



5.32
MILLION



\$165.6
BILLION

CANADIAN
SYSTEM

55

159
LOCATIONS

8

CREDIT UNIONS

14
LOCATIONS

POINTS OF SERVICE

54
THOUSAND

MEMBERS

328
THOUSAND

ASSETS

\$856
MILLION

PROVINCIAL
SYSTEM

\$4.9
BILLION

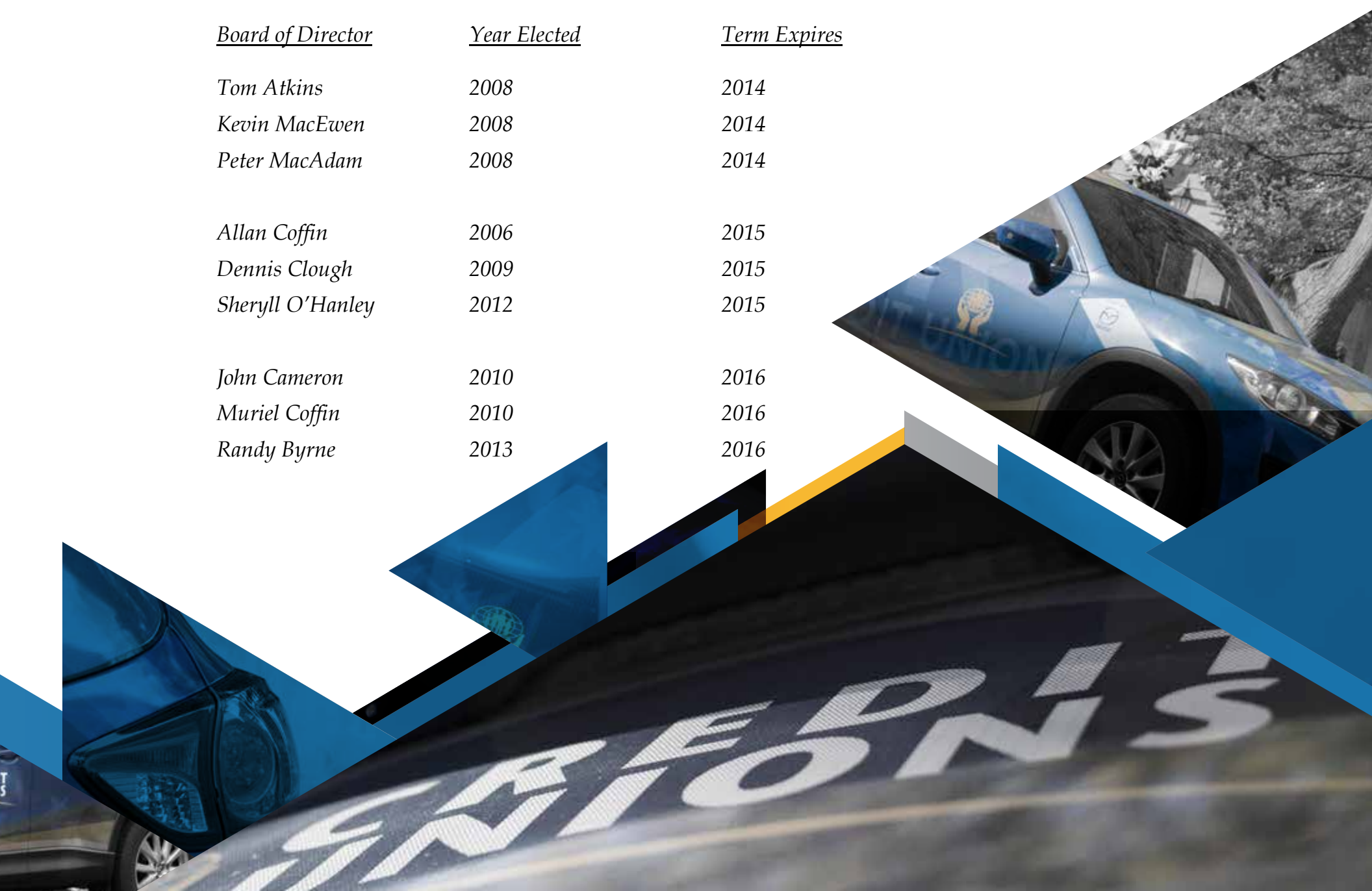
REGIONAL
SYSTEM



BOARD OF DIRECTORS' TERMS

Board of Directors 2013 – 2014

| <u>Board of Director</u> | <u>Year Elected</u> | <u>Term Expires</u> |
|--------------------------|---------------------|---------------------|
| <i>Tom Atkins</i> | 2008 | 2014 |
| <i>Kevin MacEwen</i> | 2008 | 2014 |
| <i>Peter MacAdam</i> | 2008 | 2014 |
| <i>Allan Coffin</i> | 2006 | 2015 |
| <i>Dennis Clough</i> | 2009 | 2015 |
| <i>Sheryll O'Hanley</i> | 2012 | 2015 |
| <i>John Cameron</i> | 2010 | 2016 |
| <i>Muriel Coffin</i> | 2010 | 2016 |
| <i>Randy Byrne</i> | 2013 | 2016 |



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 September 30, 2014 and the statements of comprehensive income, changes in member's equity, 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 International Standards on Auditing. 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.



AUDITOR'S REPORT

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Morell Credit Union Limited as at September 30, 2014 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

MRSB Chartered Accountants

MRSB CHARTERED ACCOUNTANTS

Charlottetown, PE



October 22, 2014



MORELL CREDIT UNION LIMITED
Statement of Financial Position
September 30, 2014

| | 2014 | 2013 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents (Note 4) | \$ 2,321,314 | \$ 1,057,606 |
| Investments (Note 5) | 10,454,955 | 10,401,781 |
| Accounts receivable (Note 6) | 187,459 | 260,457 |
| Income taxes recoverable | - | 31,486 |
| Member loans and mortgages (Note 7) | 19,113,844 | 19,116,012 |
| Provision for impaired loans (Note 8) | (307,137) | (312,591) |
| Prepaid expense | 21,204 | 32,211 |
| Future income taxes (Note 10) | 1,572 | 1,322 |
| Property and equipment (Schedule 1) | 766,146 | 800,170 |
| | \$ 32,559,357 | \$ 31,388,454 |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 51,450 | \$ 137,064 |
| Employee benefits payable | 21,337 | 18,887 |
| Accrued interest payable | 245,623 | 241,211 |
| Income taxes payable | 7,900 | - |
| Member deposits (Note 11) | 27,256,069 | 27,270,248 |
| Share deposits | 2,045,015 | 918,454 |
| | 29,627,394 | 28,585,864 |
| Commitments (Note 12) | | |
| Members' equity | | |
| Members' shares (Statement 4) | 8,775 | 8,980 |
| Undistributed earnings (Statement 4) | 2,923,188 | 2,793,610 |
| | 2,931,963 | 2,802,590 |
| | \$ 32,559,357 | \$ 31,388,454 |

ON BEHALF OF THE BOARD

 Director
 Director

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

FINANCIAL POSITION



MORELL CREDIT UNION LIMITED
Statement of Changes in Members' Equity
Year Ended September 30, 2014

| | 2014 | 2013 |
|--|---------------------|---------------------|
| Members' shares (Note 13) | | |
| Balance - beginning of year | \$ 8,980 | \$ 9,225 |
| Redemption of members' shares, net of issuance | <u>(205)</u> | <u>(245)</u> |
| Balance - end of year | <u>8,775</u> | <u>8,980</u> |
| Undistributed earnings | | |
| Balance - beginning of year | 2,793,610 | 2,686,814 |
| Net comprehensive income (Statement 5) | <u>129,578</u> | <u>106,796</u> |
| Balance - end of year | <u>2,923,188</u> | <u>2,793,610</u> |
| Members' equity | <u>\$ 2,931,963</u> | <u>\$ 2,802,590</u> |



MEMBERS' EQUITY

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

MORELL CREDIT UNION LIMITED
Statement of Comprehensive Income
Year Ended September 30, 2014

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Income | | |
| Interest and investment | \$ 1,254,904 | \$ 1,314,211 |
| Cost of capital and borrowings | | |
| Interest and service charges | 459,078 | 468,688 |
| Share dividends | 20,419 | 19,433 |
| | <u>479,497</u> | <u>488,121</u> |
| Financial margin | <u>775,407</u> | <u>826,090</u> |
| Other | | |
| Commissions | 272,619 | 319,368 |
| Miscellaneous | 46,900 | 50,240 |
| | <u>319,519</u> | <u>369,608</u> |
| | <u>1,094,926</u> | <u>1,195,698</u> |
| Expenses | | |
| Advertising and promotions | 51,120 | 111,519 |
| Amortization of property and equipment | 37,296 | 40,380 |
| Automated teller machines | 17,447 | 18,316 |
| Data processing | 84,306 | 86,770 |
| Director training | 8,198 | 12,533 |
| Dues and memberships | 750 | 500 |
| Insurance | 55,674 | 61,358 |
| Office | 40,616 | 38,146 |
| Premises | 53,016 | 53,053 |
| Professional fees | 24,050 | 35,738 |
| Provision for impaired loans | 40,000 | 37,013 |
| Service fees | 140,659 | 150,511 |
| Telephone | 10,384 | 12,223 |
| Travel | 7,944 | 10,678 |
| Wages and wage levies | 372,422 | 405,455 |
| | <u>943,882</u> | <u>1,074,193</u> |
| Income before income taxes | <u>151,044</u> | <u>121,505</u> |
| Income taxes | | |
| Current (Note 14) | 21,716 | 15,040 |
| Future | (250) | (331) |
| | <u>21,466</u> | <u>14,709</u> |
| Net comprehensive income | <u>\$ 129,578</u> | <u>\$ 106,796</u> |

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



COMPREHENSIVE INCOME

| | 2014 | 2013 |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Net comprehensive income | \$ 129,578 | \$ 106,796 |
| Items not affecting cash: | | |
| Amortization of property and equipment | 37,296 | 40,380 |
| Future income taxes | (250) | (331) |
| | <u>166,624</u> | <u>146,845</u> |
| Changes in non-cash working capital: | | |
| Investments | (53,174) | 527,388 |
| Accounts receivable | 72,998 | (50,769) |
| Prepaid expense | 11,007 | (8,937) |
| Accounts payable and accrued liabilities | (85,613) | 56,556 |
| Employee benefits payable | 2,450 | (3,029) |
| Accrued interest payable | 4,412 | (23,501) |
| Income taxes payable | 39,386 | (66,291) |
| | <u>(8,534)</u> | <u>431,417</u> |
| | <u>158,090</u> | <u>578,262</u> |
| Cash flows from investing activities | | |
| Increase in member loans and mortgages | (3,286) | (1,851,202) |
| Purchase of property and equipment | (3,273) | (19,876) |
| | <u>(6,559)</u> | <u>(1,871,078)</u> |
| Cash flows from financing activities | | |
| Decrease in member deposits | (14,179) | (260,478) |
| Increase in share deposits and members' shares | 1,126,356 | 34,503 |
| | <u>1,112,177</u> | <u>(225,975)</u> |
| Net change in cash and cash equivalents | 1,263,708 | (1,518,791) |
| Cash and cash equivalents - beginning of year | 1,057,606 | 2,576,397 |
| Cash and cash equivalents - end of year | \$ 2,321,314 | \$ 1,057,606 |
| Cash flow supplementary information | | |
| Interest received | \$ 1,319,876 | \$ 1,324,749 |
| Interest paid | 486,171 | 438,360 |
| Income taxes paid (recovered) | (17,670) | 81,331 |

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

CASH FLOWS



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 October 22, 2014.

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 POLICIESCash 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)



NOTES

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 September 30, 2014, interest accrued on impaired loans and mortgages totals \$NIL (2013 - \$7,125).

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

(continues)



3. SIGNIFICANT ACCOUNTING POLICIES (continued)Future income taxes

Income tax expense comprises current and future 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 year end date.

Future 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 future 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. Future 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 future 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 substantive enacted by the year 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 year, the contributions by the Credit Union to the defined contribution pension plan were \$12,636 (2013 - \$14,254).

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 2014 was 1.5% (2013 - 2.0%) 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 1,755 member shares issued and outstanding with a value of \$8,775 (2013 - 1,796 shares with a value of \$8,890).

(continues)

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)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Changes in accounting standards

Effective October 1, 2013 the Credit Union adopted IFRS 13 - Fair Value Measurement. This standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The standard establishes a framework for measuring fair value, including a revised definition of fair value, and sets out disclosure requirements for fair value measurements. The Credit Union has concluded that there were no significant changes in the fair value measurement of financial instruments required on adoption of this new standard. In addition, adoption of this new standard did not result in any changes in the carrying amount of assets or liabilities as previously reported.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended September 30, 2014 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.

Other standards and amendments have been issued but are not yet effective and are not expected to have a material impact. They include:

IAS 32 - Financial Instruments: Presentation clarifies requirements for offsetting financial assets and financial liabilities. Presentation has been issued and is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. Amendments to this standard are not expected to have a material impact on the Credit Union.



4. CASH AND CASH EQUIVALENTS

| | 2014 | 2013 |
|--------------------------------|---------------------|---------------------|
| Cash in financial institutions | \$ 1,996,650 | \$ 687,462 |
| Cash on hand | 324,664 | 370,144 |
| | \$ 2,321,314 | \$ 1,057,606 |

5. INVESTMENTS

| | 2014 | 2013 |
|---|----------------------|----------------------|
| Shares | | |
| Atlantic Central Credit Union Limited - common shares | \$ 302,590 | \$ 309,900 |
| Atlantic Central Credit Union Limited - Class B preferred shares | 91,500 | 91,500 |
| League Savings and Mortgage - Class A preferred shares | 54,201 | 54,201 |
| 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 |
| 7730543 Canada Inc. | 8 | - |
| | 466,511 | 473,813 |
| Debentures | | |
| Atlantic Central Credit Union Limited term deposit - 1.50%; matures December 3, 2014 | 3,000,000 | 3,000,000 |
| Atlantic Central Credit Union Limited term deposit - 1.40%; matures October 30, 2014 | 2,000,000 | 2,000,000 |
| Atlantic Central Credit Union Limited term deposit - 1.50%; matures May 22, 2015 | 2,000,000 | 2,000,000 |
| Atlantic Central Credit Union Limited liquidity deposit - 1.00% | 1,978,444 | 1,917,968 |
| Atlantic Central Credit Union Limited term deposit - 1.40%; matures November 5, 2014 | 1,000,000 | 1,000,000 |
| League Savings and Mortgage subordinate debt | 10,000 | 10,000 |
| | 9,988,444 | 9,927,968 |
| | \$ 10,454,955 | \$ 10,401,781 |

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.

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended September 30, 2014

6. ACCOUNTS RECEIVABLE

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| Accrued interest - loans and mortgages | \$ 98,473 | \$ 163,446 |
| Accrued interest - investments | 86,195 | 90,950 |
| Other receivables | 2,791 | 6,061 |
| | <u>\$ 187,459</u> | <u>\$ 260,457</u> |

7. MEMBER LOANS AND MORTGAGES

| 2014 | <u>Total loans</u> | <u>Specific allowance</u> | <u>Net loans</u> |
|--------------------------------|------------------------|-------------------------------|----------------------|
| Personal and business | \$ 10,376,608 | \$ (187,137) | \$ 10,189,471 |
| Lines of credit and overdrafts | 1,410,448 | (120,000) | 1,290,448 |
| Mortgages | 6,772,988 | - | 6,772,988 |
| LS&M reverse MOP | 553,800 | - | 553,800 |
| | <u>\$ 19,113,844</u> | <u>\$ (307,137)</u> | <u>\$ 18,806,707</u> |

| 2013 | <u>Total loans</u> | <u>Specific allowance</u> | <u>Net loans</u> |
|--------------------------------|------------------------|-------------------------------|----------------------|
| Personal and business | \$ 11,007,127 | \$ (229,281) | \$ 10,777,846 |
| Lines of credit and overdrafts | 1,305,898 | (83,310) | 1,222,588 |
| Mortgages | 6,700,587 | - | 6,700,587 |
| LS&M reverse MOP | 102,400 | - | 102,400 |
| | <u>\$ 19,116,012</u> | <u>\$ (312,591)</u> | <u>\$ 18,803,421</u> |

8. PROVISION FOR IMPAIRED LOANS

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| Provision for impaired loans - beginning of year | \$ 312,591 | \$ 490,047 |
| Provision for impaired loans - current year | 40,000 | 37,013 |
| Recovery of loans written off | 253 | - |
| Loans written off - current year | <u>(45,707)</u> | <u>(214,469)</u> |
| Provision for impaired loans - end of year | <u>\$ 307,137</u> | <u>\$ 312,591</u> |

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

| | <u>2014</u> | <u>2013</u> |
|----------------|------------------|-------------------|
| 31 to 60 days | \$ - | \$ 25,450 |
| 61 to 90 days | 22,926 | - |
| 91 to 180 days | - | 88,349 |
| Over 180 days | - | 47,030 |
| | <u>\$ 22,926</u> | <u>\$ 160,829</u> |

10. FUTURE INCOME TAXES

Future 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 future 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 future income tax assets are as follows:

| | <u>2014</u> | <u>2013</u> |
|------------------------|-----------------|-----------------|
| Property and equipment | <u>\$ 1,572</u> | <u>\$ 1,322</u> |

11. MEMBER DEPOSITS

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| Term deposits | \$ 9,990,872 | \$ 10,110,156 |
| Registered Retirement Savings Plan (RRSP) deposits | 8,493,195 | 9,036,349 |
| Personal chequing accounts | 5,185,780 | 4,429,807 |
| Registered Retirement Income Fund (RRIF) deposits | 1,617,083 | 1,661,128 |
| Call deposits | 1,371,343 | 1,575,864 |
| Tax Free Savings Account (TFSA) deposits | 597,796 | 456,944 |
| | <u>\$ 27,256,069</u> | <u>\$ 27,270,248</u> |

12. COMMITMENTS

The Credit Union has entered into a lease agreement for the lease of a postage machine and a photocopier. Future minimum lease payments as at September 30, 2014, are as follows:

| | |
|------|----------|
| 2015 | \$ 3,619 |
| 2016 | 3,634 |
| 2017 | 2,616 |
| 2018 | 2,277 |

13. MEMBERS' SHARES

| | Number of shares | 2014 | Number of shares | 2013 |
|-------------------------------------|---------------------|----------|---------------------|----------|
| Balance - beginning of year | 1,796 | \$ 8,980 | 1,845 | \$ 9,225 |
| Shares redeemed, net of issuance | (41) | (205) | (49) | (245) |
| Balance - end of year | 1,755 | \$ 8,775 | 1,796 | \$ 8,980 |

14. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 32.47% (2013 - 30.77%) to the income for the year and is reconciled as follows:

| | 2014 | 2013 |
|--|------------|------------|
| Income before income taxes | \$ 151,044 | \$ 121,505 |
| Income tax expense at the combined basic federal and provincial tax rate: | \$ 49,044 | \$ 37,387 |
| Increase (decrease) resulting from: | | |
| Small business deduction | (23,001) | (17,696) |
| Capital cost allowance claimed in excess of amortization | 183 | 407 |
| Non-deductible expenses | (4,333) | 424 |
| Adjustment to prior year | - | (22) |
| Tax reserves | 1,594 | 49,136 |
| Provision for loan loss reserve | 12,990 | 11,387 |
| Recovery of loans previously written off | 82 | - |
| Loans written off in the current year | (14,843) | (65,983) |
| Effective tax expense | \$ 21,716 | \$ 15,040 |

The effective income tax rate is 14.38% (2013 - 12.38%).

15. LINE OF CREDIT AVAILABILITY

The Credit Union has an approved line of credit with Atlantic Central Credit Union Limited of \$800,000, which is due for renewal on December 31, 2014, and was not utilized at the year end. The line of credit bears an interest rate of 3.0% and is secured by a general security agreement.



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 year 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>2014</u> | <u>2013</u> |
|---|-------------|-------------|
| Short-term employee benefits | \$ 141,171 | \$ 150,484 |
| Contributions to a retirement pension plan | 6,425 | 7,524 |
| Mortgages, loan balances, and lines of credit due from key management at September 30 | 8,894 | 10,941 |
| Deposit balances due to key management at September 30 | 68,534 | 59,826 |

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.

(continues)

17. RISK MANAGEMENT (continued)

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.

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)



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.

(continues)

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 during the 2014 fiscal year amounted to \$19,113,844.

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 year plus the operating surplus in the current year and members' shares, divided by the total assets of the Credit Union.

| | <u>2014</u> | <u>2013</u> |
|-------------------------|-------------------|--------------|
| Undistributed earnings | \$ 2,923,188 | \$ 2,793,610 |
| Members' shares | 8,775 | 8,980 |
| Total regulatory equity | 2,931,963 | 2,802,590 |
| Total assets | 32,559,357 | 31,388,454 |
| | 9.00 % | 8.93 % |

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>2014</u> | <u>2013</u> |
|---------------|-------------------|---------------|
| Total assets | \$ 32,559,357 | \$ 31,388,454 |
| Liquid assets | 12,963,728 | 11,719,844 |
| | 39.82 % | 37.34 % |



20. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.



MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Statement of Property and Equipment
Year Ended September 30, 2014

(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 2014 | NBV 2013 |
|-------------------|------------------------------|-----------------|---------------------------------|------------------------|-------------------------------|------------------|-------------|-------------------------|-------------------|-------------------|
| Land | \$ 130,535 | \$ - | \$ - | \$ 130,535 | \$ - | \$ - | \$ - | \$ - | \$ 130,535 | \$ 130,535 |
| Building | 841,050 | - | - | 841,050 | 226,421 | 24,585 | - | 251,006 | 590,044 | 614,629 |
| Equipment | 252,024 | - | - | 252,024 | 200,073 | 10,390 | - | 210,463 | 41,561 | 51,952 |
| Computer hardware | 183,302 | 3,273 | - | 186,575 | 180,248 | 2,321 | - | 182,569 | 4,006 | 3,054 |
| | \$1,406,911 | \$ 3,273 | \$ - | \$1,410,184 | \$ 606,742 | \$ 37,296 | \$ - | \$ 644,038 | \$ 766,146 | \$ 800,170 |

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



Interest Rate Sensitivity

Year Ended September 30, 2014

| | Under 1 year | Over 1 to 5 years | Over 5 years | Not interest rate sensitive | Total |
|--|----------------------|----------------------|---------------------|--------------------------------|----------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,586,532 | \$ - | \$ - | \$ 734,782 | \$ 2,321,314 |
| Effective interest rate | 0.93 % | - % | - % | - % | |
| Investments | 9,978,444 | - | - | 476,511 | 10,454,955 |
| Effective interest rate | 1.38 % | - % | - % | - % | |
| Accounts receivable | - | - | - | 187,459 | 187,459 |
| Loans and mortgages | 3,640,742 | 10,412,401 | 3,463,116 | - | 17,516,259 |
| Effective interest rate | 4.93 % | 5.33 % | 6.19 % | - % | |
| Lines of credit and overdrafts | 1,290,448 | - | - | - | 1,290,448 |
| Effective interest rate | 5.91 % | - % | - % | - % | |
| Prepaid expense | - | - | - | 21,204 | 21,204 |
| Future income taxes | - | - | - | 1,572 | 1,572 |
| Property and equipment | - | - | - | 766,146 | 766,146 |
| | <u>\$ 16,496,166</u> | <u>\$ 10,412,401</u> | <u>\$ 3,463,116</u> | <u>\$ 2,187,674</u> | <u>\$ 32,559,357</u> |
| LIABILITIES AND MEMBERS' EQUITY | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ - | \$ 51,450 | \$ 51,450 |
| Employee benefits payable | - | - | - | 21,337 | 21,337 |
| Accrued interest payable | - | - | - | 245,623 | 245,623 |
| Income taxes payable | - | - | - | 7,900 | 7,900 |
| Member deposits | 18,025,547 | 4,056,213 | - | 5,174,309 | 27,256,069 |
| Effective interest rate | 1.84 % | 2.54 % | - % | - % | |
| Share deposits | 2,045,015 | - | - | - | 2,045,015 |
| Effective interest rate | 1.50 % | - % | - % | - % | |
| Members' shares | 8,775 | - | - | - | 8,775 |
| Effective interest rate | 1.50 % | - % | - % | - % | |
| Undistributed earnings | - | - | - | 2,923,188 | 2,923,188 |
| | <u>\$ 20,079,337</u> | <u>\$ 4,056,213</u> | <u>\$ -</u> | <u>\$ 8,423,807</u> | <u>\$ 32,559,357</u> |

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 September 30, 2014, Morell Credit Union Limited's net interest spread was 2.20%. 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.

*Morell Credit Union Limited
75th Annual Meeting
Tuesday, November 4th, 2013*

Mount Stewart Community Complex, Mount Stewart

The 75th Annual Meeting of the Morell Credit Union Limited was called to order by John Cameron, President, at 7:30 p.m.

Megan MacPhee gave the declaration of the quorum, with 95 members and 9 guests in attendance. President John then called upon those present to observe a Minute of Silence in memory of those who had passed away since our last Annual Meeting.

President John acknowledged the kitchen staff on an excellent meal served.

President John welcomed everyone to Mount Stewart and introduced our guests for the evening: Michelle Burge from MRSB, Mike Cameron from Atlantic Central, Richard Kenny from CUDIC, Ewan Clark and Pearl MacCallum from Cox & Palmer and Olive Crane MLA.

President John asked for a motion to accept the minutes as presented.

It was moved by Tom Atkins, seconded by Kenny Dunn, to accept the minutes as presented.

MOTION CARRIED

No questions or new business arose from the minutes.

President John presented his report.

It was moved by John Cameron, seconded by Patti VanDiepen to accept the President's Report as presented.

MOTION CARRIED

Sherri Clark, Manager presented her report for the fiscal year ended September 30, 2013.

It was moved by Sherri Clark, seconded by Richard Gill to accept the Manager's Report as presented.

MOTION CARRIED

Michelle Burge from MRSB Chartered Accountants presented the 2013 Audited Financial Statements and addressed questions from the floor.

It was moved by Dennis Clough and seconded by Sheryll O'Hanley that the Financial Statement be approved as presented.

MOTION CARRIED



**75TH ANNUAL
MEETING MINUTES**

Door prizes were drawn at this time, winners being Michelle Burge, Kathy MacEwen, Dennis Clough, Diana LaBute, Olive Crane, Peter Sheppard, D.J. Dunn, Jenny Dunn, Sharon Dunn, Terrence MacDonald, Darren Gunn.

President John invited Mike Cameron to speak on behalf of Atlantic Central.

New Business

Sherri Clark presented Muriel Coffin and John Cameron with a Director Certificate for 6 years of service; and John Sutherland with a Director Certificate for 9 years of service.

Sheryll O'Hanley representing the Nominating Committee noted that Muriel Coffin and John Cameron have agreed to re-offer. Randy Byrne has agreed to let his name stand for a 3-year term. Sheryll O'Hanley then called for nominations from the floor.

With no further nominations, it was moved by Dennis Clough to cease nominations. Sheryll O'Hanley stated that all three seats have been acclaimed.

MOTION CARRIED.

Cash prizes were drawn at this time, and the winners were Kevin MacEwen, \$100.00, Danny Webster, \$75.00, Peter Van Diepen, \$50.00, Lena Moore, \$250.00 Gift card from Morell Co-op and Kevin Sampson, \$250.00.

John Cameron then thanked John Sutherland for his years of dedication to the Morell Credit Union and joked of his "Greenwich Road" wit that had made all the meetings a pleasure to attend. John will be missed by all the board and staff of the Credit Union.

Mike Cameron from Atlantic Central carried out the induction of Directors.

John Cameron asked for a motion to adjourn the meeting and Dennis Clough moved adjournment at 8:20pm.

Heather Sampson
Recorder



**CREDIT
UNION**

MORELL



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