

2020



**MORELL CREDIT UNION
ANNUAL REPORT**

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2020 highlights

\$47M
assets

▲ 13.2%

\$43M
deposits

▲ 13.9%

2K
members

\$31M
loans

▲ 16.4%

10.8%

growth in avg. member savings

\$1.9M
total revenues

▲ 10.8%

Our 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 Cooperative that helps build through its involvement, its leadership, and the retention of financial resources in the community.

Our Values

Simplistic

Holistic

Inclusive

Honest

Passionate

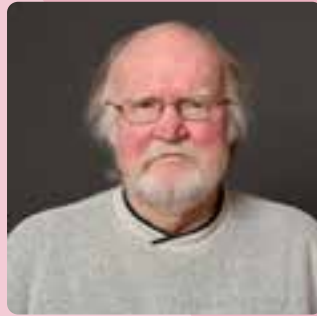
Spiritual

Evolutionary

Board of Directors



Sheryll O'Hanley
President



John Sutherland
Vice President



Peter MacAdam
Secretary



Sarah Dymont



Randy Byrne



Allan Coffin



Kevin MacEwen



Keila Hebert



Lisa MacIntyre

Sheryll O'Hanley
President



President's Report

The past year has been anything but normal. Covid-19 has been the top story in all media outlets, the top conversation in political circles, and the top focus of businesses and families. Surviving Covid-19 physically, emotionally, and/or financially has been the fight for all of us. During the past year we have seen examples of individuals and business that are committed to fighting this pandemic on the frontline, being kind, and watching out for one another. The staff and management at the Morell Credit Union have been those individuals and have shown exemplary service to the community.

Our Credit Union continue to see changes. We may not be able to linger at the counter and have a conversation with an employee or neighbor, but we know we are safe. The Staff always makes sure the Credit Union is a safe location to do business. On behalf of myself and the Board I want to say a heartfelt thank you to all the staff and management of Morell Credit Union. Your commitment to providing safe financial services has been reassuring to our members.

I would also like to extend a huge thank you to the Board. During the lockdown, we consistently met through phone meetings. Our Board speaks up for the membership to ensure all decisions are made with membership, cooperative values in mind. You are very well represented at the Board table.

The Morell Credit Union continues to have a strong community presence. We have continued to maintain strong financial growth and still provide support to community initiatives. We are pleased to be a major sponsor of the Morell Credit Union Rink. Our Credit Union is a valuable fixture in our communities.

The positive growth of Morell Credit Union wouldn't be possible without the guidance and management from Sherri Clark. For the past 25 years, Sherri has grown with the Credit Union and has shown strong leadership skills. Thank you Sherri for making and implementing challenging decisions on a daily basis, and for your leadership and guidance.

I am about to embark on my last year on the Board. It has been a pleasure to work for the membership and to work with so many wonderful Board members. I encourage you to get involved with the Credit Union and encourage others to become members. Thank you for supporting the Morell Credit Union.



Sheryll O'Hanley
President



Sherri Clark
General Manager

Manager's Report

It is my pleasure as General Manager to report to you on the results of the 2020 fiscal year. As you will see, 2020 is the best year on record financially for your Credit Union in our 82-year history.

2020 was certainly a year we will not soon forget. Credit Union's were deemed to be an essential service provider and we quickly had to change our operating model to follow the Covid 19 protocols. This was difficult to say the least, we had to be concerned about the safety of Members and staff, while trying to adapt to new methods of banking so that we could service our Members to the best of our ability, these actions required change from everyone. Thank you to our Members, you adapted to our changes quickly which made our jobs easier. Also, thank you to our staff and Board of Directors. Working through the unknown was stressful for staff and their families, however, our staff responded quickly and efficiently, as they always do to ensure your banking requirements were met. Coupled with all the changes was a prime rate drop of 1.50%, which also impacted our business model.

Not only did we adapt very quickly in stressful times, we were also there to help our members by being able to offer the Federal Government CEBA business loans in addition to other Provincial and internal supports as required. We were also able to advance our online account openings and digital signature platform to ensure service levels remained consistent.

As we turn to the financials, 2020 even with all its challenges, turned out to be our most successful

year on record. We recorded Asset growth of 13.2% to \$47,412,424. Member Loans and Mortgages increased by 16.3% while deposits increased by 12.5%. Our equity position remains strong at 8.47%, well in excess of the required 5%. It is worthy to note, these results were accomplished with exceptionally low loan delinquency levels.

Your Credit Union remained committed to your communities in 2020. On January 1, we announced a partnership with Morell Community Rink, whereby, we would donate \$50,000 for the 10 year naming rights to the facility. The facility has been rebranded the Morell Credit Union Rink. For the remainder of the year, we were not able to physically attend many events due to Covid 19, however, we did provide donation support to many benefits and organizations.

In closing, I would like to take the opportunity to thank the staff for their contribution to our success in 2020. It was a trying year, filled with great change to say the least. Everyday they reported to work prepared to do their very best for our members. I would also like to thank the Board of Directors for their guidance and support in 2020.

Respectfully submitted.



Sherri Clark
General Manager

Staff



Sherri Clark



Connie Bernard



Sam Jenkins



Jennifer Handrahan



Debbie MacKinnon



Frances Gallant



Heather Sampson

Thank you

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

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

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

Helping our members during COVID-19

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

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

Saved members money when it counted most.

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

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

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

Helped our members manage their finances during the hard times.

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

Tablets for Seniors



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

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

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

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

Working Together: Financial Live Q&A

Loyal 2 Local Challenge



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

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

Helping our members during COVID-19

Morell Credit Union Rink

On January 1, we announced a partnership with Morell Community Rink, whereby, we would donate \$50,000 for the 10 year naming rights to the facility. The facility has been rebranded the Morell Credit Union Rink.



Get Active Program

\$4K in gym rebates paid to members.



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

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

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



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

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

Of course, this wouldn't have been possible without the support from the Toys'R'Us Charlottetown store and staff – thank you for being amazing every year!

7th Annual Fill the YuMob

Investing in You Womens Conference



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

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

CREDIT UNION

Investing
in You

WOMEN'S CONFERENCE

\$4,000 in scholarships

2

Students

We are pleased to announce the two Morell Credit Union Scholarship Recipients for 2020.

Each Recipient received \$2,000 towards furthering their education. In total, Morell Credit Union distributed \$4,000 to make post-secondary education more affordable for Island students.

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



**Emily
Sanderson**



**Lucas
Dunn**



30 Spenders

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

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

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

Your Two Cents: Season 2



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

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

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



Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Members of Morell Credit Union Limited

Opinion

We have audited the financial statements of Morell Credit Union Limited (the Credit Union), which comprise the statement of financial position as at December 31, 2020, and the statements of changes in members' equity, profit or loss and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2020, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

MRSB Chartered Professional Accountants Inc.

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS INC.

Charlottetown, PE

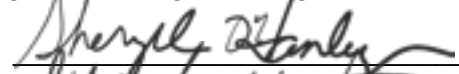

February 17, 2021

Statement of Financial Position

MORELL CREDIT UNION
December 31, 2020

	2020	2019
ASSETS		
Cash and cash equivalents (Note 6)	\$ 8,405,847	\$ 1,700,730
Investments (Note 7)	7,080,218	12,523,684
Accounts receivable (Note 8)	286,905	305,736
Member loans and mortgages (Note 9)	31,147,091	26,769,820
Provision for impaired loans (Note 10)	(210,961)	(122,737)
Prepaid expense	42,883	26,922
Deferred income taxes (Note 12)	434	503
Property and equipment (Schedule 1)	660,007	675,711
	\$ 47,412,424	\$ 41,880,369
LIABILITIES		
Accounts payable and accrued liabilities	\$ 85,148	\$ 103,374
Employee benefits payable	29,109	31,756
Accrued interest payable	198,655	235,216
Income taxes payable	14,070	5,609
Member deposits (Note 13)	35,873,498	31,887,328
Share deposits	7,195,397	5,899,814
	43,395,877	38,163,097
MEMBERS' EQUITY		
Share capital (Statement 4)	10,195	10,200
Undistributed earnings (Statement 4)	4,006,352	3,707,072
	4,016,547	3,717,272
	\$ 47,412,424	\$ 41,880,369

ON BEHALF OF THE BOARD

 Director
 Director

Notes 1 - 22 are an integral part of these financial statements

Statement of Changes in Member's Equity

MORELL CREDIT UNION
Year Ended December 31, 2020

	2020	2019
Members' shares (Note 14)		
Balance - beginning of year	\$ 10,200	\$ 9,440
Issuance of members' shares, net of redemption	<u>(5)</u>	<u>760</u>
Balance - end of year	<u>10,195</u>	<u>10,200</u>
Undistributed earnings		
Balance - beginning of year	3,707,072	3,501,637
Net income (Statement 5)	<u>299,280</u>	<u>205,435</u>
Balance - end of year	<u>4,006,352</u>	<u>3,707,072</u>
Members' equity	<u>\$ 4,016,547</u>	<u>\$ 3,717,272</u>

Notes 1 - 22 are an integral part of these financial statements

Statement of Comprehensive Income

MORELL CREDIT UNION
Year Ended December 31, 2020

	2020	2019
Income		
Interest and investment	\$ 1,544,158	\$ 1,417,694
Cost of capital and borrowing		
Interest and service charges	374,925	374,400
Share dividends	12,628	33,412
	387,553	407,812
Financial margin	1,156,605	1,009,882
Other		
Commissions	350,799	298,695
Miscellaneous	22,820	23,681
Government assistance	9,625	-
	383,244	322,376
	1,539,849	1,332,258
Expenses - by nature		
Advertising and promotions	41,874	84,428
Amortization of property and equipment	34,818	35,250
Automated teller machines	12,048	14,437
Data processing	145,473	128,580
Director	12,496	19,600
Dues and memberships	1,309	860
Insurance	71,355	64,740
Office	52,354	37,575
Premises	51,307	47,338
Professional fees	17,887	20,041
Provision for impaired loans	90,000	22,837
Service fees	139,317	137,246
Telephone	11,030	8,713
Travel	754	3,974
Wages and wage levies	516,532	471,917
	1,198,554	1,097,536
Income before income taxes	341,295	234,722
Income taxes		
Current (Note 15)	41,946	27,869
Deferred	69	1,418
	42,015	29,287
Net income	\$ 299,280	\$ 205,435

Notes 1 - 22 are an integral part of these financial statements

Statement of Cash Flow

MORELL CREDIT UNION
Year Ended December 31, 2020

	2020	2019
Cash flows from operating activities		
Net income	\$ 299,280	\$ 205,435
Items not affecting cash:		
Amortization of property and equipment	34,818	35,250
Deferred income taxes	69	1,418
	<u>334,167</u>	<u>242,103</u>
Changes in non-cash working capital:		
Investments	5,443,467	(1,248,355)
Accounts receivable	18,831	(104,273)
Prepaid expense	(15,961)	(939)
Accounts payable and accrued liabilities	(18,227)	17,220
Employee benefits payable	(2,647)	6,120
Accrued interest payable	(36,561)	15,063
Income taxes payable	8,461	10,533
	<u>5,397,363</u>	<u>(1,304,631)</u>
	<u>5,731,530</u>	<u>(1,062,528)</u>
Cash flows from investing activities		
Increase in member loans and mortgages, net of provision	(4,289,047)	(3,869,947)
Purchase of property and equipment	(19,114)	(16,389)
	<u>(4,308,161)</u>	<u>(3,886,336)</u>
Cash flows from financing activities		
Increase in member deposits	3,986,170	2,585,748
Increase in share deposits	1,295,578	2,168,884
	<u>5,281,748</u>	<u>4,754,632</u>
Increase (decrease) in cash and cash equivalents	6,705,117	(194,232)
Cash and cash equivalents - beginning of year	<u>1,700,730</u>	<u>1,894,962</u>
Cash and cash equivalents - end of year	<u>\$ 8,405,847</u>	<u>\$ 1,700,730</u>
Cash flow supplementary information (Note 16)		

Notes 1 - 22 are an integral part of these financial statements

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

1. REPORTING ENTITY

Morell Credit Union Limited was incorporated provincially 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. The Credit Union's head office is located at 29 Park Street, Morell, PE.

2. BASIS OF ACCOUNTING

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 4.

These financial statements were authorized for issue by the Board of Directors on February 17, 2021. The members of the Morell Credit Union have the power to amend the financial statements after issuance.

3. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis except for available-for-sale investments which are measured at fair value through profit or loss.

These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

4. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents is comprised of cash on hand, cash in financial institutions and term deposit investments that have a maturity of less than three months. Cash and cash equivalents are carried at amortized cost.

Investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has the positive intent and ability to hold to maturity, and which are not designated as fair value through profit or loss (FVTPL) or as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted investments whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

(continues)

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 subsequently measured at amortized cost, using the effective interest method, less any impairment losses.

Impairment

The Credit Union applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 for the financial assets measured at amortized cost.

The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of the credit deterioration since origination:

- Stage 1 - where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 - when a financial instrument experiences a credit risk subsequent to origination but it is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 - financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The probability of default (PD), exposure at default (EAD) and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical inputs are as follows:

- PD - the probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life.

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Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

- EAD - the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.
- LGD - the loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral and the impact of forward-looking macroeconomic factors. Common assessments for credit risk include management judgment, delinquency, and monitoring.

When measuring expected credit loss, the Credit Union considers the maximum contractual period over which the Credit Union is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment and extension and rollover options.

The Credit Union considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- Default or delinquency in interest or principal payments;
- High probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- Measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Credit Union considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

The Credit Union writes off an impaired financial asset, either partially or fully, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Impairment of financial assets

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

(continues)

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

4. 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 year end date.

Deferred tax assets and liabilities are recognized when 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 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 and 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%
Paving	8%

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

(continues)

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

4. 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 year that the relevant employee services are rendered. During the year, the contributions by the Credit Union to the defined contribution pension plan were \$22,086 (2019 - \$20,551).

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

Member deposits

Borrowings and deposits and membership shares that are classified as liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Term, RRSP, RRIF and demand deposits can be fixed or variable rate. Interest can be paid annually, semi-annually, monthly or upon maturity.

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 2020 was 0.20% (2019 - 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 Insurance Corporation.

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Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit impaired assets, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Income and expense recognition

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

Other fee and commission income – including account servicing fees, loan discharge and administration fees, and syndication fees – is recognized as the related services are performed.

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 profit or loss as a reduction to income over the expected life of the relevant loans and mortgages. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Government assistance

Government assistance for current expenses is recorded as revenue. During the year, the Credit Union received \$9,625 (2019 - \$nil) from the Federal Government of Canada relating to COVID-19 temporary wage subsidy.

Government grants are recorded when there is a reasonable assurance that the Credit Union had complied with and will continue to comply with, all the necessary conditions to obtain the grants.

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Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 profit or loss.

Financial assets and financial liabilities

The Credit Union initially recognizes loans and advances, deposits and liabilities on the date on which they are originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: the asset is held within a business model whose objective is to hold assets to collect contractual cash flow; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are classified as measured at FVTPL. Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There are no changes to any of the Credit Union business models during the current or prior year.

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL. The Credit Union derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Credit Union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. In transactions in which the Credit Union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Credit Union continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

(continues)

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union currently has legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Credit Union has classified its financial assets and liabilities as follows:

Cash and cash equivalents - amortized cost

Available-for-sale investments - fair value through profit or loss

Held-to-maturity investments - amortized cost

Accounts receivable, member loans and mortgages, member and share deposits, accounts payable and accrued liabilities - amortized cost

Changes in accounting standards

Future accounting developments

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended December 31, 2020 and have not been adopted by the Credit Union in preparing these financial statements. These changes are not expected to have a material impact on the Credit Union's financial statements.

On January 23, 2020, IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments to IAS 1 are required to be applied for annual periods beginning on or after January 1, 2023. The amendments must be applied retrospectively in accordance with IAS 8.

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. In assessing whether there has been a significant increase in credit risk, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. Future assessments of credit risk may be materially different from current circumstances which would result in a significant increase or decrease in the allowance for credit losses.

(b) Estimated useful lives of property and equipment

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

(c) Income taxes

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

6. CASH AND CASH EQUIVALENTS

	2020	2019
Term deposit investments	\$ 6,000,000	\$ -
Cash in financial institutions	1,948,645	1,410,549
Cash on hand	457,202	290,181
	\$ 8,405,847	\$ 1,700,730

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

7. INVESTMENTS

	<u>2020</u>	<u>2019</u>
Shares		
Concentra Financial Services Association - 20,000 Class A preferred shares	\$ 500,000	\$ 500,000
Atlantic Central Credit Union Limited - common shares	375,640	314,330
Atlantic Central Credit Union Limited - Class B preferred shares	91,500	91,500
Atlantic Central Credit Union Limited - Class LSM preferred shares	71,871	68,374
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
	<u>1,057,223</u>	<u>992,416</u>
Debentures		
Atlantic Central Credit Union Limited liquidity deposit, 1.26% interest	2,772,995	2,499,012
Atlantic Central Credit Union Limited term deposits	2,000,000	-
League Savings and Mortgage term deposits 1.55%; due May 31, 2021	1,000,000	5,032,256
Concentra term deposits 1.11%; due March 23, 2022	250,000	4,000,000
	<u>6,022,995</u>	<u>11,531,268</u>
Grand total	<u>\$ 7,080,218</u>	<u>\$ 12,523,684</u>

The Credit Union shall maintain sufficient liquid assets to meet its obligations as they come due. As prescribed in the Credit Union Regulations, Section 2, the Credit Union shall maintain liquid assets of not less than 10% of the total amount of member deposits in and borrowings of the Credit Union as follows: 9% shall be invested in eligible financial instruments of Atlantic Central; 6% of assets, or other such amount as may be determined by Central from time to time, shall be maintained in the segregated liquidity account. The remainder will be invested in: current account, cash management account, and term deposits that have a remaining term to maturity of not more than one year.

8. ACCOUNTS RECEIVABLE

	<u>2020</u>	<u>2019</u>
Accrued interest - loans and mortgages	\$ 157,996	\$ 158,074
Other receivables	111,917	77,662
Accrued interest - investments	16,992	70,000
	<u>\$ 286,905</u>	<u>\$ 305,736</u>

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

9. MEMBER LOANS AND MORTGAGES

	Total loans	Loan allowance	Net loans
2020			
Personal and business	\$ 9,890,448	\$ (121,483)	\$ 9,768,965
Lines of credit and overdrafts	2,524,183	(60,497)	2,463,686
Mortgages	17,810,490	(28,981)	17,781,509
LS&M reverse mortgages	921,970	-	921,970
	\$ 31,147,091	\$ (210,961)	\$ 30,936,130
2019			
Personal and business	\$ 9,336,748	\$ (48,585)	\$ 9,288,163
Lines of credit and overdrafts	1,410,899	(62,062)	1,348,837
Mortgages	14,828,043	(11,791)	14,816,252
LS&M reverse mortgages	1,194,130	(299)	1,193,831
	\$ 26,769,820	\$ (122,737)	\$ 26,647,083

10. PROVISION FOR IMPAIRED LOANS

	2020	2019
Provision for impaired loans - beginning of year	\$ 122,737	\$ 126,954
Provision for impaired loans	90,000	22,837
Recovery of loans written off	279	3,431
Loans written off - current year	(2,055)	(30,485)
Provision for impaired loans - end of year	\$ 210,961	\$ 122,737

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.

11. LOANS IN ARREARS

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

	2020	2019
0 to 30 days	\$ 136,998	\$ 128,595
31 to 60 days	-	21,215
	\$ 136,998	\$ 149,810

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

12. 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>2020</u>	<u>2019</u>
Property and equipment	\$ 434	\$ 503

13. MEMBER DEPOSITS

	<u>2020</u>	<u>2019</u>
Personal chequing accounts	\$ 12,373,088	\$ 9,484,996
Term deposits	8,410,018	7,967,086
Registered Retirement Savings Plan (RRSP) deposits	6,522,493	6,971,086
Registered Retirement Income Fund (RRIF) deposits	3,315,800	2,916,530
Tax Free Savings Account (TFSA) deposits	3,255,687	3,000,931
Call deposits	1,996,412	1,546,699
	<u>\$ 35,873,498</u>	<u>\$ 31,887,328</u>

14. MEMBERS' SHARES

	<u>Number of shares</u>	<u>December 31 2020</u>	<u>Number of shares</u>	<u>December 31 2019</u>
Balance - beginning of year	2,040	\$ 10,200	1,888	\$ 9,440
Shares issued, net of redemption	(1)	(5)	152	760
Balance - end of year	<u>2,039</u>	<u>\$ 10,195</u>	<u>2,040</u>	<u>\$ 10,200</u>

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

15. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 31.00% (2019 - 31.50%) to the income for the year and is reconciled as follows:

	2020	2019
Income before income taxes	<u>\$ 341,295</u>	<u>\$ 234,722</u>
Income tax expense at the combined basic federal and provincial tax rate:	\$ 105,801	\$ 73,937
Increase (decrease) resulting from:		
Small business deduction	(65,235)	(41,232)
Capital cost allowance claimed in excess of amortization	(144)	(3,265)
Non-deductible expenses	(1,210)	(1,439)
Tax reserves	(24,615)	1,196
Provision for loan loss reserve	27,900	7,194
Recovery of loans previously written off	86	1,081
Loans written off in the current period	(637)	(9,603)
Effective tax expense	<u>\$ 41,946</u>	<u>\$ 27,869</u>

The effective income tax rate is 12.29% (2019 -11.87%).

16. CASH FLOW SUPPLEMENTARY INFORMATION

	2020	2019
Interest received	\$ 1,544,236	\$ 1,381,782
Interest paid	390,708	370,806
Income taxes paid	27,876	22,260
Dividends paid	12,638	33,412

17. LINE OF CREDIT AVAILABILITY

The Credit Union has an approved line of credit with Atlantic Central Credit Union Limited of \$1,047,000, which is due for renewal on December 30, 2021, and was not utilized at the year end. The line of credit bears an interest rate of prime less 0.5% and is secured by a general security agreement.

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

18. 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 including only non-joint accounts are as follows:

	<u>2020</u>	<u>2019</u>
Short term employee benefits	\$ 245,762	\$ 187,513
Contributions to a retirement pension plan	13,196	10,120
Mortgages, loan balances, and lines of credit due from key management at December 31	269,311	-
Deposit balances due to key management at December 31	161,429	94,873

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.

19. 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.

(a) Credit risk

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

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

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Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

19. 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's policy is to pursue timely realization of the collateral in an orderly manner. The Credit Union does not generally use the non-cash collateral for its own operations. During the current and prior years, the Credit Union did not take possession of collateral held as security against loans and advances.

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.

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

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

	2020	2019
Cash and cash equivalents	\$ 8,405,847	\$ 1,700,730
Investments	7,080,218	12,523,684
Accounts receivable	286,905	305,736
Member loans and mortgages, net of provision	30,936,130	26,647,083
	<u>\$ 46,679,100</u>	<u>\$ 41,177,233</u>

(b) Liquidity risk

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

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Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

19. 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 as follows:

	Under 1 year	Over 1 to 5 years	Over 5 years	Total
2020	\$ 41,315,149	\$ 2,080,728	\$ -	\$ 43,395,877
2019	\$ 35,796,987	\$ 2,366,110	\$ -	\$ 38,163,097

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

The following is a maturity analysis of financial instruments on the statement of financial position that contain a current and non-current portion as of December 31, 2020:

	Under 1 year	Over 1 to 5 years	Over 5 years	Total
Investments	\$ 6,830,218	\$ 250,000	\$ -	\$ 7,080,218
Member loans and mortgages	\$ 5,325,415	\$ 21,682,614	\$ 3,928,101	\$ 30,936,130
Member deposits	\$ 33,792,770	\$ 2,080,728	\$ -	\$ 35,873,498

(c) 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. As of December 31, 2020, the Credit Union had cash and bank balances of \$322,224 USD (2019 - \$80,275 USD) and member accounts of \$304,531 USD (2019 - \$59,038 USD).

(d) 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.

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

Before tax impact on net interest income of:	2020	2019
1% increase in interest rates	\$ 276,920	\$ 7,968
1% decrease in interest rates	\$ (260,874)	\$ (197,987)

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

20. 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 values of cash and cash equivalents, investment in debentures and accounts receivable approximate their fair value as they are short term in nature or are receivable on demand.

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 through profit or loss. 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 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.

21. 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, 2020 amounted to \$31,147,091 (2019 - \$26,769,820).

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.

(continues)

Notes to the Financial Statements

MORELL CREDIT UNION
Year Ended December 31, 2020

21. CAPITAL MANAGEMENT (continued)

	<u>2020</u>	<u>2019</u>
Undistributed earnings	\$ 4,006,352	\$ 3,707,072
Members' shares	10,195	10,200
Total regulatory equity	<u>4,016,547</u>	3,717,272
Total assets	<u>47,412,424</u>	41,880,369
	<u>8.47 %</u>	8.88 %

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. Consistent with other Prince Edward Island Credit Unions, Morell Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain a minimum liquid asset level of 10% of total assets to ensure ongoing cash flow requirements are met.

	<u>2020</u>	<u>2019</u>
Total assets	\$ 47,412,424	\$ 41,880,369
Liquid assets	<u>15,772,969</u>	14,530,150
	<u>33.27 %</u>	34.69 %

22. SUBSEQUENT EVENTS

The recent outbreak of the Coronavirus Disease 2019, or COVID-19, has spread across the globe and is impacting worldwide economic activity. This global pandemic poses the risk that the Credit Union or its clients, employees, contractors, suppliers and other partners may be unable to conduct regular business activities for an indefinite period of time. While it is not possible at this time to estimate the impact that COVID-19 could have on the Credit Union's business, the continued spread of COVID-19 and the measures taken by the federal, provincial and municipal governments to contain its impact could adversely impact the Credit Union's business, financial condition or results of operations. The extent to which the COVID-19 outbreak impacts the Credit Union's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the spread of the virus and government actions.

Schedule to the Financial Statements

MORELL CREDIT UNION

(Schedule 1)

Statement of Property and Equipment Year Ended December 31, 2020

	Cost beginning of year	Additions	Disposals and write downs	Cost end of year	Accum amort beginning of year	Amort in the year	Disposals and write downs	Accum amort end of year	Net book value
2020									
Land	\$ 130,535	\$ -	\$ -	\$ 130,535	\$ -	\$ -	\$ -	\$ -	\$ 130,535
Building	856,691	-	-	856,691	367,122	19,582	-	386,704	469,987
Equipment	255,808	-	-	255,808	214,306	8,302	-	222,608	33,200
Pavement	-	16,675	-	16,675	-	-	-	445	16,230
Computer hardware	208,355	2,439	-	210,794	194,250	6,489	-	200,739	10,055
	<u>\$ 1,451,389</u>	<u>\$ 19,114</u>	<u>\$ -</u>	<u>\$ 1,470,503</u>	<u>\$ 775,678</u>	<u>\$ 34,373</u>	<u>\$ -</u>	<u>\$ 810,496</u>	<u>\$ 660,007</u>
2019									
Land	\$ 130,535	\$ -	\$ -	\$ 130,535	\$ -	\$ -	\$ -	\$ -	\$ 130,535
Building	856,691	-	-	856,691	346,724	20,398	-	367,122	489,569
Equipment	255,808	-	-	255,808	203,932	10,374	-	214,306	41,502
Computer hardware	191,966	16,389	-	208,355	189,774	4,476	-	194,250	14,105
	<u>\$ 1,435,000</u>	<u>\$ 16,389</u>	<u>\$ -</u>	<u>\$ 1,451,389</u>	<u>\$ 740,430</u>	<u>\$ 35,248</u>	<u>\$ -</u>	<u>\$ 775,678</u>	<u>\$ 675,711</u>

Notes 1 - 22 are an integral part of these financial statements

Schedule to the Financial Statements

MORELL CREDIT UNION

Interest Rate Sensitivity Year Ended December 31, 2020

(Schedule 2)

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	\$ 7,938,532	\$ -	\$ -	\$ 467,315	\$ 8,405,847
Effective interest rate	0.44 %	- %	- %	- %	
Investments	5,772,995	250,000	-	1,057,223	7,080,218
Effective interest rate	1.06 %	- %	- %	- %	
Accounts receivable	-	-	-	286,905	286,905
Member loans and mortgages	2,861,729	21,682,614	3,928,101	-	28,472,444
Effective interest rate	4.42 %	4.19 %	4.54 %	- %	
Lines of credit and overdrafts	2,463,686	-	-	-	2,463,686
Effective interest rate	5.88 %	- %	- %	- %	
Prepaid expense	-	-	-	42,883	42,883
Deferred income taxes	-	-	-	434	434
Property and equipment	-	-	-	660,007	660,007
	\$ 19,036,942	\$ 21,932,614	\$ 3,928,101	\$ 2,514,767	\$ 47,412,424
LIABILITIES AND MEMBERS' EQUITY					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 85,148	\$ 85,148
Employee benefits payable	-	-	-	29,109	29,109
Accrued interest payable	-	-	-	198,655	198,655
Income taxes payable	-	-	-	14,070	14,070
Member deposits	21,807,411	2,080,728	-	11,985,359	35,873,498
Effective interest rate	1.28 %	1.65 %	- %	- %	
Share deposits	7,195,397	-	-	-	7,195,397
Effective interest rate	0.20 %	- %	- %	- %	
Members' shares	10,195	-	-	-	10,195
Effective interest rate	0.20 %	- %	- %	- %	
Undistributed earnings	-	-	-	4,006,352	4,006,352
	\$ 29,013,003	\$ 2,080,728	\$ -	\$ 16,318,693	\$ 47,412,424

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, 2020, Morell Credit Union Limited's net interest spread was 2.36%. 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.

Notes 1 - 22 are an integral part of these financial statements



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