



**CREDIT
UNION**

MORELL

2021 ANNUAL REPORT



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2021 FINANCIAL HIGHLIGHTS

Assets
\$53M

UP

12.8%



10.3%

UP

Loans
\$34M



10.5%

UP

Deposit
\$49M



<1%

Delinquency

Less than 1%

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 Dyment



Randy Byrne



Allan Coffin



Kevin MacEwen



Keila Hebert




Lisa MacIntyre



Sheryll O'Hanley

PRESIDENT'S REPORT





Today I humbly submit my final President's report to the membership of the Morell Credit Union. Nine years ago, I received a phone from Claude Matheson Sr. asking if I would be interested in sitting on the Board of Morell Credit Union. I was told it would be one meeting a month and I would need to complete courses that I would take over the next year. What I didn't know at that time was how important my role on the Board would be to my Community and neighbours. Sitting on the Board has given me the opportunity to work with a group of individuals who care and support Community.

Financially, Morell Credit Union has seen growth even in these times of financial uncertainty. This year the Credit Union saw an asset base of \$53 million with loan growth totaling \$34 million. This success is due to our employees assisting our members in providing financial planning, financial advice, and successful loan campaigns. We are doing well. The CEO and staff are making wise financial decisions on your behalf.

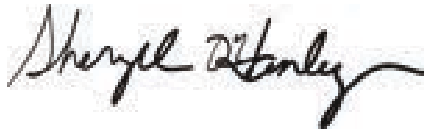
Each year the Board takes on a focus to make improvements to Morell Credit Union. In previous years we have seen the creation of financial literacy for your youth through the Star Savers Program and guest speaker roles at Morell High School. We have invested in our Community through volunteer work and financial donations. We focused on the increase growth in membership and assets. This year, the Board and staff evaluated and assessed our HR policies.

Our society has highlighted the stresses and difficulties that employees are facing in workplaces. Our employees are a valuable part of our team and we wanted to take a closer look at our HR Strategy, compensation, and overall workplace satisfaction. The Board hired Lynn Murphy to complete a HR analysis and Emily MacDonald from HR Atlantic to complete a workplace assessment. Both Lynn and Emily highlighted job satisfaction as high. The process reaffirmed that the Morell Credit Union has a positive work environment, comparable wages, and opportunity for growth. We are looking forward to creating opportunities so present employees can move further within our branch.

I would like to take this opportunity to thank the Sherri, all employees, the Board, and the membership for making this a very successful year for the Morell Credit Union. All of us have an important part to play in the success of OUR Credit Union. The youngest member with the starter account is just as important as any of us. You, the members, are entrusted with building the Credit Union by encouraging the future generation of members to join and take part. We need your support to make sure our Credit Union stays healthy for the years to come.

I would like to say a special thank you to John Sutherland. John is retiring from the Board this year after a long dedicated service to the Credit Union and Community. John has always been, and will continue to be, a strong supporter of the Cooperative values that the Morell Credit Union was built upon. I thank you John for your wisdom, your patience, and your dedication.

In conclusion, I would like to say what an honour it has been to sit on the Board for nine years. I encourage all of you to get involved in your Credit Union. It is a local, home grown business that believes in giving back to members and the Community. We need more of these values right now.




Sheryll O'Hanley
President



Sherri Clark

MANAGER'S REPORT





When I reflect on 2021, I am struck by how many significant changes took place in our lives and how many incredible successes were made despite our challenges.

The coronavirus pandemic dominated the news, and terminology like "social distancing," "personal protective equipment," and "self-isolate" became commonplace. Social gatherings were restricted, many businesses and households were financially impacted, and we saw increasing unemployment and overall our lives continued to be altered by COVID 19.

The introduction of vaccinations in the spring of 2021 ushered in a progressive reopening of the economy; however, new strains of the virus in the fall of 2021 continued to test our medical system and necessitated the reinstatement of restrictions, second doses, and booster shots of the vaccine as medical experts advise. Morell Credit Union followed all the CPHO guidelines and succeeded in remaining open throughout the pandemic. Our members adjusted by using self-serve channels like online and mobile banking to manage their financial affairs. Meanwhile, historically low-interest rates persisted throughout the year, putting downward pressure on financial margins and fueling a red-hot real estate market that saw record-high home prices in Prince Edward Island. It was a challenging year; however, it revealed that resilience and determination are invaluable characteristics both individually and as a society.

Despite the challenges, financially, 2021 was another very successful year for the Credit Union as Morell surpassed our budgeted growth & income targets with over \$6 Million in Asset growth, both Loan and Deposit Portfolios growing by over 10%, and Member equity increased to \$4.3 Million. We achieved positive Membership growth again in 2021 and net income that exceeded our budgeted target. Member Dividends were once again declared.

In 2021, Morell Credit Union continued to support our local communities through programs and partnerships such as The Northside Communities Initiative, Southern Kings and Queens Foodbank Inc., Morell Credit Union Splash Park, Loyal-2-Local By Local Campaign, St. Peter's Wild Blueberry Festival, Morell Lions Club Ballfield, Annual Santa's Angels Toy Drive, Lions Club's of Morell and Mount Stewart Christmas Hamper Program, the Investing In You Woman's Conference, the Eastern PEI Chamber of Commerce, Women's Institute Roadside Cleanup and our ongoing commitment to Student Scholarships Additionally, and despite COVID restrictions we managed to facilitate several financial literacy sessions in our local schools as well as supporting two virtual financial literacy events open to all.

In 2021 our staff had a unified and unwavering focus on providing helpful advice and positive support to our members through all stages of their financial life cycle, offering exceptional service and competitive products. In 2021 we were excited to launch enhancements to our self-directed offerings with our new Account Origination System ASAPP™ allowing new members to open an account from anywhere.

In 2022, we are excited to launch new and enhanced security and self-serve features to our Online Banking – Member Direct™ and are now working on a new digital online and mobile banking platform for launch in 2024. Additionally, we are delighted to be launching our new Debit Mastercard, allowing you to make purchases at millions of outlets across the world, pay bills and make withdrawals from ATMs. The money gets directly debited from your account, so you can only use as much as you have at that given time. We will continue to work closely with our local small business owners, emphasizing understanding their businesses and providing the right support and financial advice to help them succeed. Our new Member Referral Program will launch in the fall of this year and provides rewards to those who make referrals to the Credit Union. We hope that you will 'support local' by referring your friends and family to Morell Credit Union so that we may continue to serve the community.

On behalf of the staff and Board of Directors, I would like to express our sincere appreciation for your trust in Morell Credit Union by allowing us to assist you with your financial needs! In 2022 we will continue to work closely with our community and industry partners to build a stronger Credit Union so that we may continue to serve the local markets for many years to come!

Thank you to all our members for another successful year in 2021. As members, you are the Credit Union, and we grow and succeed because of your loyalty and patronage. We look forward to working with you through another exciting year in 2022!



Sherri Clark
General Manager



STAFF



Sherri Clark



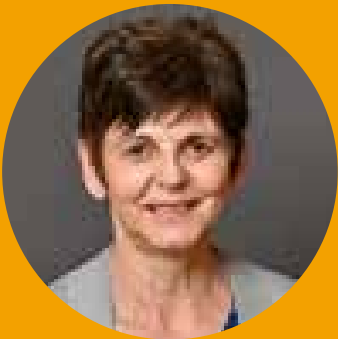
Sam Jenkins



Jennifer Handraha



Lynn Hunter Murphy



Frances Gallant



Heather Sampson



Tanner Smith



Sue Weber



Morgan Wheeler

COOPERATIVE & SOCIAL RESPONSIBILITY

INVESTING IN THE COMMUNITIES WE SERVE

Morell Credit Union in our 83rd remains strongly committed to the regions we serve through our community investment initiatives. By investing in the community, we provide support for local organizations to thrive and continue to provide services that benefit the community.

Community investment helps establish rewarding relationships with local partners, while contributing to the long-term improvements in the quality of life for residents of our communities. In 2021 through our CSR donation and sponsorship program, we were able to help fund several key initiatives in the King's County region, and we are proud to support local programs by:

- Investing in community projects
- Sponsoring various activities and events
- Participating in education programs aimed at fostering a better understanding of financial matters
- Promoting community economic development

HIGHLIGHTS OF OUR CSR FOR 2021



\$25K

**Over \$25K in
community investment**

**Our team of
8 employees
dedicated 175
Volunteers**



175



80

**80 Students trained in
Financial Management**

**25 non-profit
organizations supported**



25

THE 2021 SCHOLARSHIP AWARDS



Chandler Collings

University of Prince Edward Island,
Studying Business, Upon Graduating he
will be pursuing a career in the Account
field or Investment Banking.



Christina O'Hanley

University of Waterloo,
Studying Kinesiology, Upon Graduating
she will be pursuing a career as a
Physiotherapist.

For over 25-years we have provided scholarships to students in the community as a sign of support for the achievement of their educational goals. Each year we proudly provide community scholarships for local high school students planning on attending a recognized University or College in the fall of the graduating year from high school. Our goal is to lessen the financial burden they may face and help students establish strong financial futures as they pursue their educational goals. Congratulations to the 2021 scholarship recipients, who exemplified a commitment to furthering their education and improving their communities. We are pleased to support their educational journey.

MORELL CREDIT UNION LIMITED

82ND ANNUAL MEETING

MONDAY, APRIL 12TH, 2021
ST. PETER'S BAY COMPLEX, ST. PETER'S BAY

- The 82nd Annual Meeting of the Morell Credit Union Limited was called to order by Sheryll O' Hanley, President, at 6:00 p.m.
- Heather Sampson gave the declaration of the quorum, with 25 members and 1 guest in attendance. Sheryll O' Hanley then called upon those present to observe a Minute of Silence in memory of those who had passed away since our last Annual Meeting.
- Sheryll O' Hanley welcomed everyone to St. Peter's and introduced our representative Michelle Burge from MRSB.
- Sheryll O' Hanley spoke briefly on how well Morell Credit Union is doing with Covid-19 and keeping everyone safe and making it easy for members to continue doing their banking in a safe environment.
- Sheryll O' Hanley asked if everyone would read over the minutes for errors and/or omissions.
- Sheryll O' Hanley asked for a motion to accept the 2020 minutes as presented.

It was moved by Sarah Dymont, seconded by Allan Coffin, to accept the minutes as presented.

MOTION CARRIED

- No questions or new business arose from the minutes.
- Sheryll O' Hanley requested that Director John Sutherland accept the Chair while she presented the President's Report.

It was moved by Jennifer Handrahan, seconded by Peter MacAdam, to accept the President's Report as presented.

MOTION CARRIED

- Sheryll O' Hanley resumed the Chair.
- Sherri Clark, Manager, presented her report for the fiscal year ended December 31st, 2020.

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

MOTION CARRIED

- Michelle Burge from MRSB Chartered Accountants presented the 2020 Audited Financial Statements and addressed questions from the floor.

It was moved by David Pearcey, seconded by Debby MacKinnon, that the Financial Statement be approved as presented.

MOTION CARRIED

It was moved by David Pearcey seconded by Lisa MacIntyre to appoint MRSB as the auditors for 2020.

MOTION CARRIED

NEW BUSINESS

- Sheryll O' Hanley presented Sherri Clark with a gift from Board in appreciation of all her hard work and guidance over the past 25 years working for Morell Credit Union Limited.

ELECTION OF DIRECTORS

- Sheryll O' Hanley, representing Lisa MacIntyre and Keila Hebert (Nominating Committee), noted that Kevin MacEwen, Lisa MacIntyre and Keila Hebert all have terms expiring and are eligible to re-offer.
- Nominations were called from the floor.
- With no further nominations, Kevin MacEwen, Lisa MacIntyre and Keila Hebert were all re-elected by acclamation.
- Sherri Clark, General Manager carried out the Installation of Officers ceremony and read section 40 of the Credit Union Act.
- Sherri Clark introduced the 2021 Board of Directors to members and guests present.
- Sheryll O' Hanley asked for a motion to adjourn the meeting and Allan Coffin moved adjournment at 6:30pm.

Heather Sampson
Recorder

MORELL CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2021



MORELL CREDIT UNION LIMITED
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2021



139 Queen Street
PO Box 2679
Charlottetown, PE
CIA 8C3
902-368-2643

500 Granville Street
Suite 2B
Summerside, PE
CIN 5Y1
902- 888-3897

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, 2021, 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, 2021, and the financial performance and cash flows 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 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 these 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 related 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.

(continues)

DECEMBER 31, 2021

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.

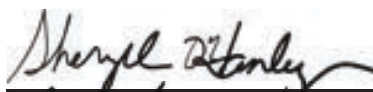
Charlottetown, PE
February 26, 2022

STATEMENT OF FINANCIAL POSITION

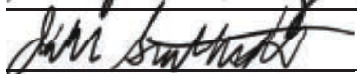
DECEMBER 31, 2021

	2021	2020
ASSETS		
Cash and cash equivalents (Note 6)	\$ 10,080,333	\$ 8,405,847
Investments (Note 7)	8,215,738	7,080,218
Accounts receivable (Note 8)	411,558	286,905
Income taxes recoverable	11,571	-
Member loans and mortgages (Note 9)	34,364,532	31,147,091
Provision for impaired loans (Note 10)	(279,637)	(210,961)
Prepaid expense	36,224	42,883
Deferred income taxes (Note 12)	-	434
Property and equipment (Schedule 1)	662,423	660,007
	\$ 53,502,742	\$ 47,412,424
LIABILITIES		
Accounts payable and accrued liabilities	\$ 93,259	\$ 85,147
Employee benefits payable	35,295	29,109
Accrued interest payable	145,982	198,656
Income taxes payable	-	14,070
Future income taxes (Note 12)	4,191	-
Member deposits (Note 13)	39,629,221	35,873,498
Share deposits	9,284,023	7,195,397
	49,191,971	43,395,877
MEMBERS' EQUITY		
Share capital (Statement 4)	10,290	10,195
Undistributed earnings (Statement 4)	4,300,481	4,006,352
	4,310,771	4,016,547
	\$ 53,502,742	\$ 47,412,424

On behalf of the Board



Director



Director

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

STATEMENT OF CHANGES IN MEMBERS' EQUITY

YEAR ENDED DECEMBER 31, 2021

	2021	2020
Members' shares (Note 14)		
Balance - beginning of year	\$ 10,195	\$ 10,200
Issuance of members' shares, net of redemption	95	(5)
Balance - end of year	<u>10,290</u>	<u>10,195</u>
Undistributed earnings		
Balance - beginning of year	4,006,352	3,707,072
Net income (Statement 5)	294,129	299,280
Balance - end of year	<u>4,300,481</u>	<u>4,006,352</u>
Members' equity	<u>\$ 4,310,771</u>	<u>\$ 4,016,547</u>

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

STATEMENT OF PROFIT OR LOSS

YEAR ENDED DECEMBER 31, 2021

	2021	2020
Income		
Interest and investment	\$ 1,535,714	\$ 1,544,158
Cost of capital and borrowing		
Interest and service charges	248,088	374,925
Share dividends	36,480	12,628
	284,568	387,553
Financial margin	1,251,146	1,156,605
Other		
Commissions	277,263	350,799
Miscellaneous	40,743	22,820
Government assistance	-	9,625
	318,006	383,244
	1,569,152	1,539,849
Expenses- by nature		
Advertising and promotions	30,042	41,874
Amortization of property and equipment	34,702	34,818
Automated teller machines	11,542	12,048
Data processing	155,280	145,473
Director	11,763	12,496
Dues and memberships	1,773	1,309
Insurance	69,324	71,355
Office	71,517	52,354
Premises	50,502	51,307
Professional fees	28,281	17,887
Provision for impaired loans	67,790	90,000
Service fees	171,255	139,317
Telephone	13,179	11,030
Travel	1,956	754
Wages and wage levies	517,615	516,532
	1,236,521	1,198,554
	332,631	341,295
Income before income taxes		
Income taxes		
Current (Note 15)	33,877	41,946
Deferred	4,625	69
	38,502	42,015
Net income	\$ 294,129	\$ 299,280

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

MORELL CREDIT UNION LIMITED
STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2021

	2021	2020
Cash flows from operating activities		
Net income	\$ 294,129	\$ 299,280
Items not affecting cash:		
Amortization of property and equipment	34,702	34,818
Deferred income taxes	4,625	69
	<u>333,456</u>	<u>334,167</u>
Changes in non-cash working capital:		
Investments	(1,135,520)	5,443,466
Accounts receivable	(124,653)	18,831
Accounts payable and accrued liabilities	8,112	(18,226)
Prepaid expense	6,659	(15,961)
Employee benefits payable	6,186	(2,647)
Accrued interest payable	(52,674)	(36,561)
Income taxes payable	(25,641)	8,461
	<u>(1,317,531)</u>	<u>5,397,363</u>
	<u>(984,075)</u>	<u>5,731,530</u>
Cash flows from investing activities		
Increase in member loans and mortgages, net of provision	(3,148,764)	(4,289,047)
Purchase of property and equipment	(37,119)	(19,114)
	<u>(3,185,883)</u>	<u>(4,308,161)</u>
Cash flows from financing activities		
Increase in member deposits	3,755,723	3,986,170
Increase in share deposits	2,088,721	1,295,578
	<u>5,844,444</u>	<u>5,281,748</u>
Increase in cash and cash equivalents	<u>1,674,486</u>	<u>6,705,117</u>
Cash and cash equivalents - beginning of year	<u>8,405,847</u>	<u>1,700,730</u>
Cash and cash equivalents - end of year	<u>\$ 10,080,333</u>	<u>\$ 8,405,847</u>
Cash flows supplementary information (Note 16)		

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

MORELL CREDIT UNION LIMITED
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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 26, 2022. 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.

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MORELL CREDIT UNION LIMITED
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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.

(continues)

MORELL CREDIT UNION LIMITED
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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)

MORELL CREDIT UNION LIMITED
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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%
Pavement	8%
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.

Property and equipment acquired during the year but not placed into use are not amortized until they are placed into use. During the year, equipment of \$33,656 was acquired but not yet placed into use.

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MORELL CREDIT UNION LIMITED
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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 \$22,403 (2020 - \$22,086).

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 2021 was 0.50% (2020 - 0.20%) 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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MORELL CREDIT UNION LIMITED
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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 \$nil (2020 - \$9,625) 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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MORELL CREDIT UNION LIMITED
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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

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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.

Changes in accounting standardsFuture accounting developments

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended December 31, 2021 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, 73, 74 and 76 with additional added paragraphs 72A, 75A, 76A and 76B 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.

Disclosure of Accounting Policies, issued in February 2021, amended paragraphs 7, 10, 114, 117 and 122, added paragraphs 117A-117E and deleted paragraphs 118, 119 and 121. It also amended IFRS Practice Statement 2 Making Materiality Judgements. An entity shall apply the amendments to IAS 1 for annual reporting periods beginning on or after January 1, 2023.

MORELL CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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

	2021	2020
Term deposit investments	\$ 5,250,000	\$ 6,000,000
Cash in financial institutions	4,281,688	1,948,645
Cash on hand	548,645	457,202
	<u>\$ 10,080,333</u>	<u>\$ 8,405,847</u>

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

7. INVESTMENTS

	2021	2020
Shares		
Concentra Financial Services Association - 20,000 Class A preferred shares		
	\$ 500,000	\$ 500,000
Atlantic Central Credit Union Limited - common shares		
	516,480	375,640
Atlantic Central Credit Union Limited - Class LSM preferred shares		
	161,525	71,871
Atlantic Central Credit Union Limited - Class B preferred shares		
	91,500	91,500
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
	1,287,717	1,057,223
Debentures		
Atlantic Central Credit Union Limited liquidity deposit, 0.55% interest		
	3,078,021	2,772,995
Atlantic Central Credit Union Limited term deposits		
	2,250,000	2,000,000
League Savings and Mortgage term deposits		
	1,100,000	1,000,000
Concentra term deposits		
	500,000	250,000
	6,928,021	6,022,995
Grand total	\$ 8,215,738	\$ 7,080,218

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

	2021	2020
Other receivables	\$ 231,720	\$ 111,917
Accrued interest - loans and mortgages	156,360	157,996
Accrued interest - investments	23,478	16,992
	411,558	286,905

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

9. MEMBER LOANS AND MORTGAGES

2021	Total loans	Loan allowance	Net loans
Personal and business	\$ 11,296,719	\$ (181,000)	\$ 11,115,719
Lines of credit and overdrafts	\$2,709,395	(65,025)	2,644,370
Mortgages	19,802,459	(33,612)	19,768,847
LS&M reverse mortgages	555,959	- 555,959	555,959
	\$ 34,364,532	\$ (279,637)	\$ 34,084,895
<hr/>			
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
	\$ 34,364,532	\$ (279,637)	\$ 30,936,130

10. PROVISION FOR IMPAIRED LOANS

	2021	2020
Provision for impaired loans - beginning of year	\$ 210,961	\$ 122,737
Provision for impaired loans	67,790	90,000
Recovery of loans written off	3,633	279
Loans written off - current year	-2,747	(2,055)
	\$ 279,637	\$ 210,961

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:

	2021	2020
0 to 30 days	\$ 134,128	\$ 136,998

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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 (liability) are as follows:

	2021	2020
Property and equipment	\$ (4,191)	\$ 434

13. MEMBER DEPOSITS

	2021	2020
Personal chequing accounts	\$ 15,789,182	\$ 12,373,088
Term deposits	8,681,003	8,410,018
Registered Retirement Savings Plan (RRSP) deposits	5,603,335	6,522,493
Registered Retirement Income Fund (RRIF) deposits	3,615,241	3,315,800
Free Savings Account (TFSA) deposits	3,689,616	3,255,687
Call deposits	2,250,844	1,996,412
	\$ 39,629,221	\$ 35,873,498

14. MEMBERS' SHARES

	Number of shares	December 31 2021	Number of shares	December 31 2020
Balance - beginning of year	2,039	\$ 10,195	2,040	\$ 10,200
Shares issued, net of redemption	19	95	(1)	(5)
Balance - end of year	2,058	\$ 10,290	2,039	\$ 10,195

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

15. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 30.00% (2020 - 31.00%) to the income for the year and is reconciled as follows:

	2021	2021
Income before income taxes	\$ 332,631	\$ 341,295
Income tax expense at the combined basic federal and provincial tax rate:	\$ 99,789	\$ 105,801
Increase (decrease) resulting from:		
Small business deduction	(58,514)	(65,235)
Capital cost allowance claimed in excess of amortization	864	(144)
Non-deductible expenses	(10,322)	(1,210)
Tax reserves	(18,543)	(24,615)
Provision for loan loss reserve	20,337	27,900
Recovery of loans previously written off	1,090	86
Loans written off in the current period	(824)	(637)
Effective tax expense	\$ 33,877	\$ 41,946
The effective income tax rate is 10.18% (2020 -12.29%).		

16. CASH FLOW SUPPLEMENTARY INFORMATION

	2021	2021
Interest received	\$ 1,537,350	\$ 1,544,236
Interest paid	324,609	390,708
Income taxes paid	45,448	27,876

17. LINE OF CREDIT AVAILABILITY

The Credit Union has an approved line of credit with Atlantic Central Credit Union Limited of \$1,196,000, which is due for renewal on December 31, 2025, 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.

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:

	2021	2021
Short term employee benefits	\$ 190,868	\$ 245,762
Contributions to a retirement pension plan	11,401	13,196
Mortgages, loan balances, and lines of credit due from key management at December 31	3,761	269,311
Deposit balances due to key management at December 31	146,728	161,429

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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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:

	2021	2020
Cash and cash equivalents	\$ 10,080,333	\$ 8,405,847
Investments	8,215,738	7,080,218
Accounts receivable	411,558	286,905
Member loans and mortgages, net of provision	34,084,895	30,936,130
	\$ 52,792,524	\$ 46,709,100

(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 FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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
2021	\$ 47,028,954	2,163,020	-	\$ 49,191,974
2020	\$ 41,315,149	2,080,728	-	\$ 43,395,877

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, 2021:

	Under 1 year	Over 1 to 5 years	Over 5 years	Total
Investments	\$ 5,537,733	1,500,000	1,178,005	\$ 8,215,738
Member loans and mortgages	\$ 6,367,543	24,212,584	3,504,768	\$ 34,284,895
Member deposits	\$ 46,750,224	2,163,020	-	\$ 48,913,244

(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, 2021, the Credit Union had cash and bank balances of \$161,093 USD (2020 - \$322,224 USD) and member accounts of \$8,883 USD (2020 - \$304,531 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.

	2021	2020
Before tax impact on net interest income of:		
1% increase in interest rates	\$ 586,791	\$ 276,920
1% decrease in interest rates	\$ (303,081)	(260,874)

MORELL CREDIT UNION LIMITED
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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, 2021 amounted to \$34,364,532 (2020 - \$31,147,091).

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 FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

21. CAPITAL MANAGEMENT *(continued)*

	2021	2020
Undistributed earnings	\$ 4,300,481	\$ 4,006,352
Members' shares	10,290	10,195
Total regulatory equity	4,310,771	4,016,547
Total assets	53,502,742	47,412,424
	8.06 %	8.47 %

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.

	2021	2020
Total assets	\$ 53,502,742	\$ 47,412,424
Liquid assets	18,707,629	15,772,969
	34.97 %	33.27 %

22. SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national and global economies.

The overall effect of these events on the Credit Union and its operations is too uncertain to be estimated at this time. The impacts will be accounted for when they are known and may be assessed.

SCHEDULES TO FINANCIAL STATEMENTS STATEMENT OF PROPERTY AND EQUIPMENT

YEAR ENDED DECEMBER 31, 2021

(Schedule 1)

	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
2021									
Land	\$ 130,535	\$ -	\$ -	\$ 130,535	\$ -	\$ -	\$ -	\$ -	\$ 130,535
Building	856,691	-	-	856,691	386,705	18,799	-	405,504	451,187
Equipment	255,808	33,656	-	289,464	222,607	9,021	-	231,629	57,835
Pavement	16,675	-	-	16,675	445	1,298	-	1,743	14,932
Computer hardware	210,794	3,463	(156,873)	57,384	200,739	5,584	(156,873)	49,450	7,934
	\$ 1,470,503	\$ 37,119	\$ (156,873)	\$ 1,350,749	\$ 810,496	\$ 34,702	\$ (156,873)	\$ 688,326	\$ 662,423
2020									
Land	\$ 130,535	\$ -	\$ -	\$ 130,535	\$ -	\$ -	\$ -	\$ -	\$ 130,535
Building	856,691	-	-	856,691	367,122	19,583	-	386,705	469,986
Equipment	255,808	-	-	255,808	214,307	8,301	-	222,607	33,201
Pavement	-	16,675	-	16,675	-	445	-	445	16,230
Computer hardware	208,355	2,439	-	210,794	194,250	6,489	-	200,739	10,055
	\$ 1,451,389	\$ 19,114	\$ -	\$ 1,470,503	\$ 775,679	\$ 34,818	\$ -	\$ 810,496	\$ 660,007

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

SCHEDULES TO FINANCIAL STATEMENTS

INTEREST RATE SENSITIVITY

YEAR ENDED DECEMBER 31, 2021

(Schedule 2)

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	\$ 9,456,423	\$ -	\$ -	\$ 623,910	\$ 10,080,333
Effective interest rate	0.35 %	- %	- %	- %	
Investments	5,428,021	1,500,000	1,178,005	109,712	8,215,738
Effective interest rate	0.73 %	1.13 %	2.65 %	- %	
Accounts receivable	-	-	-	411,558	411,558
Member loans and mortgages	3,723,173	24,212,584	3,504,768	-	31,440,525
Effective interest rate	3.86 %	4.01 %	4.45 %	- %	
Lines of credit and overdrafts	2,644,370	-	-	-	2,644,370
Effective interest rate	5.21 %	- %	- %	- %	
Income taxes recoverable	-	-	-	11,571	11,571
Prepaid expense	-	-	-	36,224	36,224
Property and equipment	-	-	-	662,423	662,423
	\$ 21,251,987	\$ 25,712,584	\$ 4,682,773	\$ 1,855,398	\$ 53,502,742
LIABILITIES AND MEMBERS' EQUITY					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 93,259	\$ 93,259
Employee benefits payable	-	-	-	35,295	35,295
Accrued interest payable	-	-	-	145,982	145,982
Future income taxes	-	-	-	4,191	4,191
Member deposits	21,688,384	2,163,020	-	15,777,817	39,629,221
Effective interest rate	0.80 %	1.42 %	- %	- %	
Share deposits	9,284,023	-	-	-	9,284,023
Effective interest rate	0.50 %	- %	- %	- %	
Members' shares	10,290	-	-	-	10,290
Effective interest rate	0.50 %	- %	-	- %	
Undistributed earnings	-	-	-	4,300,481	4,300,481
	\$ 30,982,697	\$ 2,163,020	\$ -	\$ 20,357,025	\$ 20,357,025

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, 2021, 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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