



ANNUAL REPORT

2022



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85TH ANNUAL MEETING

AGENDA

Tuesday April 25th, 2023

1. Call the Meeting to order and declaration of quorum
2. Welcome from President and Minute of Silence
3. Introduction of Guests
4. Reading of Minutes from 2022 Annual Meeting
5. Business from Minutes
6. President's Report
7. Manager's Report
8. Presentation of Financial Statements by MRSB
9. New Business
10. Election of Officers
11. Installation of Officers
12. Adjournment

MORELL CREDIT UNION LIMITED

83rd Annual Meeting Minutes

Wednesday April 27th, 2022, Morell Fire Hall, Morell PE

- The 83rd Annual Meeting of the Morell Credit Union Limited was called to order by Sheryll O'Hanley, President, at 6:00pm.
- Jennifer Handrahan gave the declaration of quorum, with 28 members and 2 guests 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 Morell and introduced our Representative Michelle Burge from MRSB and Rob MacBain, CEO from CUDIC.
- 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 2021 Annual Minutes as presented.

It was moved by Jennifer Handrahan, seconded by Randy Byrne, to accept the minutes as presented.

MOTION CARRIED

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

It was moved by Sue Weber to accept the adoption of the President's report.

MOTION CARRIED

- Sheryll O'Hanley resumed the Chair.
- Sherri Clark, General Manager, presented her report for the fiscal year ended December 31st, 2021

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

MOTION CARRIED

MORELL CREDIT UNION LIMITED

83rd Annual Meeting Minutes

Wednesday April 27th, 2022, Morell Fire Hall, Morell PE

- Michelle Burge from MRSB Chartered Accountants presented the 2021 Audited Financial Statements and addressed questions from the floor.

It was moved by Lisa MacIntyre, seconded by Sarah Dymont, that the Financial Statement be approved as presented.

MOTION CARRIED

It was moved by Catherine McDonald, seconded by Allan Coffin to appoint MRSB as the auditors for 2022.

MOTION CARRIED

NEW BUSINESS

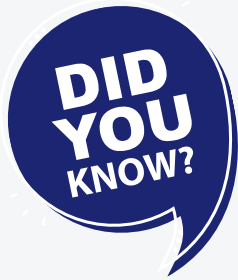
- Sherri Clark presented Sheryll O'Hanley with a gift from the Board and Staff in appreciation of all her hard work and guidance over the past 9 years and on the Board for Morell Credit Union Ltd.

ELECTION OF DIRECTORS

- Sheryll O'Hanley, representing the Nominating Committee, noted that Karen Milligan and Sarah Gaudet have accepted the request to replace the two board members coming off this year.
- Sheryll O'Hanley, President, carried out the Installation of Officers ceremony and read section 40 of the Credit Union Act.
- Sheryll O'Hanley, President, introduced the 2022 Board of Directors to members and guests present.
- Sheryll O'Hanley, President, asked for a motion to adjourn the meeting and Randy Byrne moved adjournment at 6:40pm.

Heather Sampson
Recorder

Happy Birthday Morell Credit Union!



Incorporated January 27, 1938; still in operation

In early 1993, we introduced an ATM machine at
the branch

In **1938**: 185 Members, \$2,076 in Assets

In **1960**: 380 Members, \$66,942 in Assets

In **2000**: 2144 Members, \$14.7M in Assets

In **2016**: 1768 Members, \$32.6M in Assets

In **2023**: 2104 Members, \$64.5M in Assets





**Morell Credit Union
2016**



**Mt Stewart Branch
1992-2013**



**Morell Credit Union
1990**



**Morell Credit Union
1940**

2022 FINANCIAL HIGHLIGHTS



Assets

\$60M

UP

Loans

\$41M

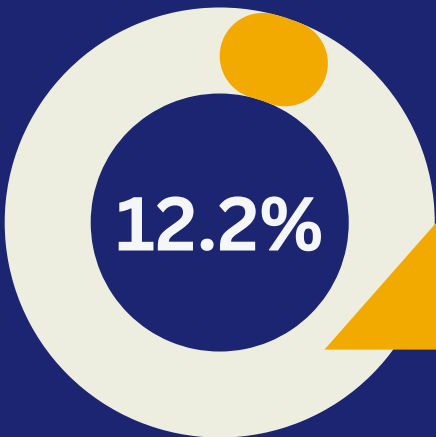
UP



Deposits

\$54M

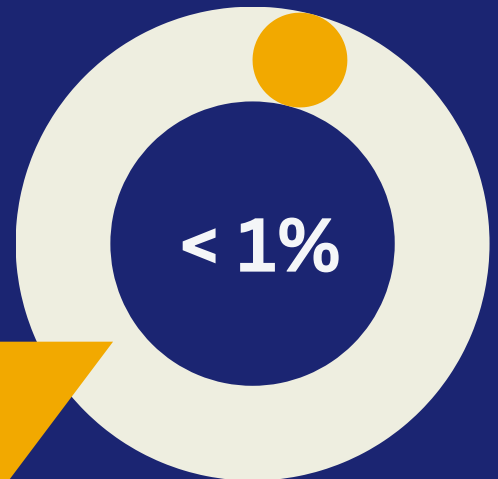
UP



Delinquency

Less than 1%

< 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



Randy Byrne
President



Peter MacAdam
Vice President



Lisa MacIntyre
Secretary



Allan Coffin



Kevin MacEwen



Keila Hebert



Sarah Dymont



Karen Milligan



Sarah Gaudet



Sheryll O'Hanley
Board Emeritus



Randy Byrne



PRESIDENT'S REPORT

Approximately nine years ago, I was approached by Sheryll O’Hanley about joining the Board of Directors of the Morell Credit Union. I remember that first Board meeting, when much of the discussion was Greek to me. Since then, through a great deal of training, and most gratifyingly, the forming of acquaintances and learning from many fantastic individuals involved with the Morell Credit Union, I can say I have enjoyed my experience immensely. I want to take this opportunity to thank all former and current Board members, general manager Sherri Clark, former employees, and the excellent staff at the Morell Credit Union – Lynn, Connie, Jennifer, Frances, Samantha, Sue, Spencer and Tanner – for your efforts to get the Credit Union to where it is today.

Despite the challenges of the ongoing Covid-19 pandemic, changing legislative requirements, and an unstable and uncertain economy, this past year has arguably been one of the finest in the 85-year history of the Morell Credit Union. As you will witness in our financial statements, the Morell Credit Union had our highest revenues on record at \$327,806, growth in assets of 12.2% and the highest loan growth to date at 21.9%. This is in large part a credit to the staff at the Morell Credit Union, who have gone above and beyond to provide brilliant customer service, sound financial advice and planning, and have launched very thoughtful and successful loan campaigns. This starts from the top with our general manager Sherri, who provides excellent leadership and sound decision-making. Also, the entire staff within the Morell Credit Union has grown in their skills and knowledge of their profession. All these factors have led to our Morell Credit Union becoming one of the most successful and efficient small Credit Unions within Atlantic Canada. ***That is something of which we all should be proud!***

While the financial report is terrific, what pleases me – maybe even more – is how the Morell Credit Union has remained committed to the cooperative principles in which this institution was founded in January of 1938. The Morell Credit Union has contributed to school breakfast programs, the new splash pad at Rossiter Park, sponsorship of the (newly-named) Morell Credit Union Rink, scholarships for graduating students, local baseball and hockey team sponsorship funding, community cupboard donations etc. This is how we differ from one of the “big” banks. Obviously, the Morell Credit Union has a major financial obligation to its membership. It also has a major responsibility to help and improve its member communities. I am proud in saying that Morell Credit Union has lived up to those expectations.

Despite the Morell Credit Union's success over the previous (few) years, we all know many vulnerable community members are suffering during these difficult times. The Morell Credit Union has and continues to work with these members to ensure they can persevere despite financial and economic difficulties. As well, the Morell Credit Union is planning on launching new initiatives to assist members who are struggling due to the difficult times in which we live. ***This is yet another example of the Morell Credit Union upholding the cooperative principles it was founded upon.***

It is important that we never get too high and never get too low, and maintain an even keel, especially as we embark upon an uncertain future. Yet, as I finish my term on the Board of Directors of the Morell Credit Union, I am totally convinced with the Credit Union's truly brilliant employees, management, and Board of Directors – who have the vital role of establishing policies to guide and oversee the Credit Union – there is no future challenge that they cannot overcome and ensure the Morell Credit Union remains a leading and successful financial institution. You should feel very reassured.

In closing, it has been an honour to represent the membership of the Morell Credit Union as a member of the Board of Directors over the past nine years, and as the president over the past year. There would be no Morell Credit Union without its members. I thank you for your membership and ask you to continue to remain committed to the Morell Credit Union and the cooperative values it upholds. It's more important than ever that we remain focused on those cooperative values, for the betterment of the entire community. The communities within the service area of the Morell Credit Union have consistently embodied those cooperative values, and I have little doubt that will remain the case.

Humbly and respectfully,

A handwritten signature in cursive script that reads "Randy Byrne". The signature is written in black ink and is positioned above the printed name.

Randy Byrne

MANAGER'S REPORT



Sherri Clark

"There is a soul in a credit union that you cannot see on the balance sheet. Without the soul, the faith in each other, the union of honesty and trust, the credit union is not going to be the power in the community it might be."

- Angus B. MacDonald, General Secretary of the Co-operative Union of Canada

It is my pleasure to welcome you all here this evening to our 85th Annual General Meeting. On January 27, 1938, our Credit Union was formed in Green Meadows. The philosophy and co-operative approach developed at the time; still holds true today. 85 years later, we are still acting on the principle of neighbours helping neighbours, and people first! These are two of the great foundations we use to advance our business model.

I am pleased to report that 2022 represents another terrific year for our Credit Union. We once again have achieved record growth in all areas of our business. Assets at year-end amounted to just over \$60 million or 12.2% growth. Loan growth increased by 21.9% and deposits increased by 12.2%. Our delinquency is below industry standards, while profits were at a record high level. Our equity position is strong at 7.73%.

These results do not come without strategic guidance from your Board of Directors, a wonderful group of dedicated individuals who volunteer countless hours to ensure the best outcomes for our Credit Union. Our growth over the last number of years has enabled our Credit Union to increase its number of Full-Time Employees to 9. That represents 3 new full-time positions over the last 24 months.

Along with all Credit Unions in Atlantic Canada, we have embarked on a sizeable project that will see a new banking platform in place for our Credit Union by August of 2024. The magnitude of the project is huge in scale and the project itself will take significant time and resources to ensure that it is successful. We are committed to the success of the project and look forward to the outcome.

Corporate and Social Responsibility remain an important part of our business model. Over the last year, staff have invested over **275 volunteer hours** in our communities, and we continue to support initiatives in our communities, last year we gave back over **\$30,000 to our local communities**.

As we look at 2023 and beyond, the future is full of promise and change. We expect the unpredictable interest rate environment to have an impact on our balance sheet, the broader community, and will present challenges for many. We also predict business to remain steady as we continue to grow in the upcoming year.

In closing, I wish to thank the Board of Directors for their ongoing support and dedication to our members and the communities we serve. Thank you to Randy Byrne who is retiring from our Board this evening after 9 years of dedicated service. Also, a huge thank you to our Staff. They are the heartbeat of our Credit Union. **Their strong commitment and dedication to our organization is evident in our outstanding results of the last year.**

Respectfully,



Sherri Clark
General Manager

STAFF



Connie Girard
*Corporate Secretary
& Member Support Rep.*



Frances Gallant
*Senior Member Service
Representative*



Jennifer Handrahan
*Manager of Audit
& Administration*



Lynn Hunter-Murphy
*Director of People
& Member Experience*



Samantha Jenkins
*Senior Financial
Services Officer*



Sherri Clark
General Manager



Spencer Compton
*Financial Services
Officer*



Sue Weber
*Member Service
Representative*



Tanner Smith
Summer Student

Cooperative & Social Responsibility

INVESTING IN THE COMMUNITIES WE SERVE

Credit Unions are unique from other Financial Institutions in that they are not owned by shareholders; they're owned by YOU. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.



In 2022, through our CSR donation and sponsorship program, we were able to help fund several initiatives within the community by:

- Investing in Community projects
- Sponsoring various activities and events
- Participating in Education Programs
- Donations to local community cupboards

HIGHLIGHTS OF OUR CSR FOR 2022

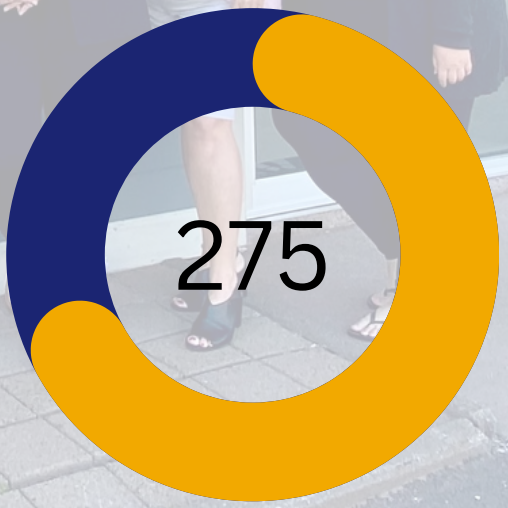


\$30K

**Over \$30K in
Community
Investment**



**Our Staff dedicated
275 Volunteer Hours**



275

#Loyal2Local



Random Acts of Kindness



CSR In our Community



CSR in our Community



CSR in our Community



GOVERNMENT RELATIONS FORUM & HIKE THE HILL

Every year in the fall, CCUA organizes a Government Relations Forum and Hike the Hill in Ottawa, to bring together credit union sector employees and government officials from across the country.

The forum allows legislators to become informed about the sector, their role in communities and the challenges faced in delivering products and services to their members.

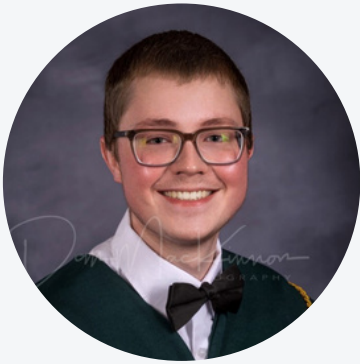
Since 2009, Hike the Hill has been a very successful advocacy and engagement event. It is now a staple for credit unions and one which garners much attention from the sector. We look forward to continuing to support this event in collaboration with credit unions.

In November 2022, our General Manager, Sherri Clark, had the opportunity to represent our Credit Union at this event! PEI Credit Unions were invited to meet with senator Percy Downe to discuss pressing issues of the day.



Pictured above L to R: Senator Percy Downe, Shannon Kennedy; Marketing Coordinator Consolidated Credit Union, Sarah Miller; CEO Consolidated Credit Union and Paul MacNeil; General Manager Souris Credit Union

THE 2022 SCHOLARSHIP AWARDS



Kason MacAulay

Holland College,
Charlottetown
Business Administration
Program



Emma Jay

St. Thomas University
Fredericton, NB
Psychology &
Criminology



Dominic Oomen

Holland College,
Summerside
Industrial Electrical



Drew Laybolt

UPEI, Charlottetown
Bachelor of Arts,
Major of Psychology
Program

For over 26 years we have established a Scholarship Program to encourage and assist young people in furthering their education through post-secondary studies in University or College. This Scholarship is just one way that we give back to the communities we serve. Scholarships are awarded to High School Seniors who are members in good standing of the Credit Union. 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 2022 Scholarship recipients, who exemplified to furthering their education and improving their communities. We are pleased to support their Educational journey.

4



\$8,000



MORELL

2022 Financial Statements

M | R | S | B

Accounting Tax Consulting Valuation Bookkeeping

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

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, 2022, and the statements of profit or loss and cash flows 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, 2022, 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.

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.

(continues)

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.

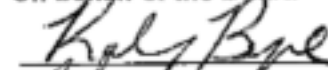
Charlottetown, PE

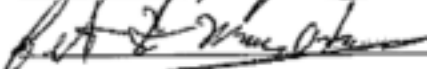
February 13, 2023

MORELL CREDIT UNION LIMITED
Statement of Financial Position
December 31, 2022

	2022	2021
ASSETS		
Cash and cash equivalents (Note 6)	\$ 7,733,905	\$ 10,080,333
Investments (Note 7)	9,479,693	8,215,738
Accounts receivable (Note 8)	335,813	411,558
Income taxes recoverable	-	11,571
Member loans and mortgages (Note 9)	41,878,258	34,364,532
Provision for impaired loans (Note 10)	(339,637)	(279,637)
Prepaid expense	264,079	36,224
Property and equipment (Schedule 1)	660,952	662,423
	\$ 60,013,063	\$ 53,502,742
LIABILITIES		
Accounts payable and accrued liabilities	\$ 227,447	\$ 93,259
Employee benefits payable	50,847	35,295
Accrued interest payable	271,823	145,982
Income taxes payable	52,792	-
Deferred income taxes (Note 12)	965	4,191
Member deposits (Note 13)	44,483,486	39,629,221
Share deposits	10,287,121	9,284,023
	55,374,481	49,191,971
MEMBERS' EQUITY		
Share capital (Statement 4)	10,295	10,290
Undistributed earnings (Statement 4)	4,628,287	4,300,481
	4,638,582	4,310,771
	\$ 60,013,063	\$ 53,502,742

On behalf of the Board


 _____ Director


 _____ Director

Notes 1 - 21 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED
Statement of Changes in Members' Equity
Year Ended December 31, 2022

	2022	2021
Members' shares (Note 14)		
Balance - beginning of year	\$ 10,290	\$ 10,195
Issuance of members' shares, net of redemption	<u>5</u>	<u>95</u>
Balance - end of year	<u>10,295</u>	<u>10,290</u>
Undistributed earnings		
Balance - beginning of year	4,300,481	4,006,352
Net income (Statement 5)	<u>327,806</u>	<u>294,129</u>
Balance - end of year	<u>4,628,287</u>	<u>4,300,481</u>
Members' equity	<u>\$ 4,638,582</u>	<u>\$ 4,310,771</u>

MORELL CREDIT UNION LIMITED
Statement of Profit or Loss
Year Ended December 31, 2022

	2022	2021
Income		
Interest and investment	\$ 1,991,064	\$ 1,535,714
Cost of capital and borrowing		
Interest and service charges	314,986	248,088
Share dividends	68,915	36,480
	<u>383,901</u>	<u>284,568</u>
Financial margin	<u>1,607,163</u>	<u>1,251,146</u>
Other		
Commissions	295,223	277,263
Miscellaneous	40,667	40,743
	<u>335,890</u>	<u>318,006</u>
	<u>1,943,053</u>	<u>1,569,152</u>
Expenses - by nature		
Advertising and promotions	40,682	30,042
Amortization of property and equipment	38,084	34,702
Automated teller machines	11,326	11,542
Data processing	164,976	155,280
Director	11,818	11,763
Dues and memberships	319	1,773
Insurance	74,551	69,324
Office	59,229	71,517
Premises	55,369	50,502
Professional fees	34,737	28,281
Provision for impaired loans	78,566	67,790
Service fees	238,668	171,255
Telephone	13,707	13,179
Travel	5,862	1,956
Wages and wage levies	703,916	517,615
	<u>1,531,810</u>	<u>1,236,521</u>
Income before income taxes	<u>411,243</u>	<u>332,631</u>
Income taxes		
Current (Note 15)	86,663	33,877
Deferred	(3,226)	4,625
	<u>83,437</u>	<u>38,502</u>
Net income	<u>\$ 327,806</u>	<u>\$ 294,129</u>

MORELL CREDIT UNION LIMITED
Statement of Cash Flows
Year Ended December 31, 2022

	2022	2021
Cash flows from operating activities		
Net income	\$ 327,806	\$ 294,129
Items not affecting cash:		
Amortization of property and equipment	38,084	34,702
Deferred income taxes	(3,226)	4,625
	<u>362,664</u>	<u>333,456</u>
Changes in non-cash working capital:		
Investments	(1,263,955)	(1,135,520)
Accounts receivable	75,745	(124,653)
Prepaid expense	(227,855)	6,659
Accounts payable and accrued liabilities	134,188	8,112
Employee benefits payable	15,552	6,186
Accrued interest payable	125,842	(52,674)
Income taxes payable	64,363	(25,641)
	<u>(1,076,120)</u>	<u>(1,317,531)</u>
	<u>(713,456)</u>	<u>(984,075)</u>
Cash flows from investing activities		
Increase in member loans and mortgages, net of provision	(7,453,727)	(3,148,764)
Purchase of property and equipment	(36,613)	(37,119)
	<u>(7,490,340)</u>	<u>(3,185,883)</u>
Cash flows from financing activities		
Increase in member deposits	4,854,265	3,755,723
Increase in share deposits	1,003,103	2,088,721
	<u>5,857,368</u>	<u>5,844,444</u>
Increase in cash and cash equivalents	(2,346,428)	1,674,486
Cash and cash equivalents - beginning of year	10,080,333	8,405,847
Cash and cash equivalents - end of year	\$ 7,733,905	\$ 10,080,333
Cash flows supplementary information (Note 16)		

Notes 1 - 21 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

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 13, 2023. 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)

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

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, 2022

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, 2022

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.

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MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

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 \$30,978 (2021 - \$22,403).

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 2022 was 0.75% (2021 - 0.50%) 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, 2022

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.

(continues)

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

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 were 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 a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize 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

(continues)

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

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. Income 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 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, 2022 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.

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.

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MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(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

	2022	2021
Term deposit investments	\$ 5,000,000	\$ 5,250,000
Cash in financial institutions	2,385,598	4,281,688
Cash on hand	348,307	548,645
	\$ 7,733,905	\$ 10,080,333

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

7. INVESTMENTS

	2022	2021
Shares		
Atlantic Central Credit Union Limited - common shares	\$ 528,410	\$ 516,480
Concentra Financial Services Association - 20,000 Class A preferred shares	500,000	500,000
Atlantic Central Credit Union Limited - Class LSM preferred shares	169,068	161,525
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
	1,307,190	1,287,717
Debentures		
Atlantic Central Credit Union Limited liquidity deposit	3,797,003	3,078,021
Atlantic Central Credit Union Limited term deposits	2,263,500	2,250,000
League Savings and Mortgage term deposits	1,112,000	1,100,000
Concentra term deposits	1,000,000	500,000
	8,172,503	6,928,021
	\$ 9,479,693	\$ 8,215,738

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

	2022	2021
Accrued interest - loans and mortgages	\$ 221,279	\$ 156,361
Accrued interest - investments	94,430	23,478
Other receivables	20,104	231,719
	\$ 335,813	\$ 411,558

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

9. MEMBER LOANS AND MORTGAGES

	Total loans	Loan allowance	Net loans
2022			
Personal and business	\$ 13,814,535	\$ (182,580)	\$ 13,631,955
Lines of credit and overdrafts	3,343,793	(107,001)	3,236,792
Mortgages	24,222,000	(50,056)	24,171,944
LS&M reverse mortgages	497,930	-	497,930
	<u>\$ 41,878,258</u>	<u>\$ (339,637)</u>	<u>\$ 41,538,621</u>
2021			
Personal and business	\$ 11,296,720	\$ (181,000)	\$ 11,115,720
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	555,958	-	555,958
	<u>\$ 34,364,532</u>	<u>\$ (279,637)</u>	<u>\$ 34,084,895</u>

10. PROVISION FOR IMPAIRED LOANS

	2022	2021
Provision for impaired loans - beginning of year	\$ 279,637	\$ 210,961
Provision for impaired loans	78,566	67,790
Recovery of loans written off	5,092	3,633
Loans written off - current year	<u>(23,658)</u>	<u>(2,747)</u>
Provision for impaired loans - end of year	<u>\$ 339,637</u>	<u>\$ 279,637</u>

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

11. LOANS IN ARREARS

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

	2022	2021
0 to 30 days	\$ 85,903	\$ 134,128
31 to 60 days	<u>13,008</u>	<u>-</u>
	<u>\$ 98,911</u>	<u>\$ 134,128</u>

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

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:

	<u>2022</u>	<u>2021</u>
Property and equipment	<u>\$ (965)</u>	<u>\$ (4,191)</u>

13. MEMBER DEPOSITS

	<u>2022</u>	<u>2021</u>
Personal chequing accounts	<u>\$ 17,580,943</u>	<u>\$ 15,789,182</u>
Term deposits	<u>10,680,675</u>	<u>8,681,003</u>
Registered Retirement Savings Plan (RRSP) deposits	<u>5,863,279</u>	<u>5,603,335</u>
Tax Free Savings Account (TFSA) deposits	<u>4,372,736</u>	<u>3,689,616</u>
Registered Retirement Income Fund (RRIF) deposits	<u>3,415,722</u>	<u>3,615,241</u>
Call deposits	<u>2,570,131</u>	<u>2,250,844</u>
	<u>\$ 44,483,486</u>	<u>\$ 39,629,221</u>

14. MEMBERS' SHARES

	<u>Number of shares</u>	<u>December 31 2022</u>	<u>Number of shares</u>	<u>December 31 2021</u>
Balance - beginning of year	2,058	\$ 10,290	2,039	\$ 10,195
Shares issued, net of redemption	1	5	19	95
Balance - end of year	<u>2,059</u>	<u>\$ 10,295</u>	<u>2,058</u>	<u>\$ 10,290</u>

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

15. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 30.13% (2021 - 30.00%) to the income for the year and is reconciled as follows:

	2022	2021
Income before income taxes	\$ 411,243	\$ 332,631
Income tax expense at the combined basic federal and provincial tax rate:	\$ 123,908	\$ 99,789
Increase (decrease) resulting from:		
Small business deduction	(32,368)	(58,514)
Capital cost allowance claimed in excess of amortization	(3,661)	864
Non-deductible expenses	(3,017)	(10,322)
Tax reserves	(16,200)	(18,543)
Provision for loan loss reserve	23,570	20,337
Recovery of loans previously written off	1,528	1,090
Loans written off in the current period	(7,097)	(824)
Effective tax expense	\$ 86,663	\$ 33,877

The effective income tax rate is 21.07% (2021 -10.18%).

16. CASH FLOW SUPPLEMENTARY INFORMATION

	2022	2021
Interest received	\$ 1,926,146	\$ 1,537,350
Interest paid	221,574	324,609
Income taxes paid	33,871	45,448

17. LINE OF CREDIT AVAILABILITY

The Credit Union has an approved line of credit with Atlantic Central Credit Union Limited of \$1,339,000, 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.

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

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>2022</u>	<u>2021</u>
Short term employee benefits	\$ 346,959	\$ 190,868
Contributions to a retirement pension plan	18,346	11,401
Mortgages, loan balances, and lines of credit due from key management at December 31	60,859	3,761
Deposit balances due to key management at December 31	149,818	146,728

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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MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

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:

	2022	2021
Cash and cash equivalents	\$ 7,733,905	\$ 10,080,333
Investments	9,479,693	8,215,738
Accounts receivable	335,813	411,558
Member loans and mortgages, net of provision	41,538,621	34,084,895
	\$ 59,088,032	\$ 52,792,524

(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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MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

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:

	<u>Under 1 year</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
2022	\$ 52,518,433	\$ 2,856,048	\$ -	\$ 55,374,481
2021	\$ 47,028,954	\$ 2,163,017	\$ -	\$ 49,191,971

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, 2022:

	<u>Under 1 year</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Investments	\$ 7,282,215	\$ 1,000,000	\$ 1,197,478	\$ 9,479,693
Member loans and mortgages	\$ 10,496,427	\$ 28,340,044	\$ 2,702,150	\$ 41,538,621
Member deposits	\$ 41,627,438	\$ 2,856,048	\$ -	\$ 44,483,486

(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, 2022, the Credit Union had cash and bank balances of \$191,962 USD (2021 - \$161,093 USD) and member accounts of \$41,366 USD (2021 - \$8,883 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:	2022	2021
1% increase in interest rates	\$ 227,375	\$ (586,791)
1% decrease in interest rates	\$ (297,895)	\$ (303,081)

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

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, 2022 amounted to \$41,878,258 (2021 - \$34,364,532).

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)

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2022

21. CAPITAL MANAGEMENT (continued)

	2022	2021
Undistributed earnings	\$ 4,628,287	\$ 4,300,481
Members' shares	10,295	10,290
Total regulatory equity	4,638,582	4,310,771
Total assets	60,013,063	53,502,742
	7.73 %	8.06 %

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.

	2022	2021
Total assets	\$ 60,013,063	\$ 53,502,742
Liquid assets	17,549,411	18,707,629
	29.24 %	34.97 %

MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Statement of Property and Equipment
Year Ended December 31, 2022

(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
2022									
Land	\$ 130,535	\$ -	\$ -	\$ 130,535	\$ -	\$ -	\$ -	\$ -	\$ 130,535
Building	856,691	-	-	856,691	405,505	18,047	-	423,552	433,139
Equipment	289,464	31,113	-	320,578	231,629	14,678	-	246,307	74,271
Pavement	16,675	-	-	16,675	1,743	1,195	-	2,938	13,737
Computer hardware	57,384	5,500	-	62,884	49,450	4,164	-	53,614	9,270
	\$ 1,350,749	\$ 36,613	\$ -	\$ 1,387,363	\$ 688,327	\$ 38,084	\$ -	\$ 726,411	\$ 660,952
2021									
Land	\$ 130,535	\$ -	\$ -	\$ 130,535	\$ -	\$ -	\$ -	\$ -	\$ 130,535
Building	856,691	-	-	856,691	386,705	18,800	-	405,505	451,186
Equipment	255,809	33,656	-	289,465	222,609	9,020	-	231,629	57,836
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
	\$ 1,470,504	\$ 37,119	\$ (156,873)	\$ 1,350,750	\$ 810,498	\$ 34,702	\$ (156,873)	\$ 688,327	\$ 662,423

Notes 1 - 21 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Interest Rate Sensitivity
Year Ended December 31, 2022

(Schedule 2)

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	\$ 6,718,242	\$ -	\$ -	\$ 1,015,663	\$ 7,733,905
Effective interest rate	1.39 %	-	-	-	-
Investments	7,172,503	1,000,000	1,197,478	109,712	9,479,693
Effective interest rate	2.73 %	4.30 %	3.13 %	-	-
Accounts receivable	-	-	-	335,813	335,813
Member loans and mortgages	7,259,635	28,340,044	2,702,151	-	38,301,830
Effective interest rate	3.60 %	4.44 %	4.37 %	-	-
Lines of credit and overdrafts	3,236,791	-	-	-	3,236,791
Effective interest rate	5.31 %	-	-	-	-
Prepaid expense	-	-	-	264,079	264,079
Property and equipment	-	-	-	660,952	660,952
	\$ 24,387,171	\$ 29,340,044	\$ 3,899,629	\$ 2,386,219	\$ 60,013,063

LIABILITIES AND MEMBERS' EQUITY

Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 227,447	\$ 227,447
Employee benefits payable	-	-	-	50,847	50,847
Accrued interest payable	-	-	-	271,823	271,823
Income taxes payable	-	-	-	52,792	52,792
Future income taxes	-	-	-	965	965
Member deposits	24,102,718	2,856,049	-	17,524,719	44,483,486
Effective interest rate	1.99 %	2.59 %	-	-	-
Share deposits	10,287,121	-	-	-	10,287,121
Effective interest rate	0.75 %	-	-	-	-
Members' shares	10,295	-	-	-	10,295
Effective interest rate	0.75 %	-	-	-	-
Undistributed earnings	-	-	-	4,628,287	4,628,287
	\$ 34,400,134	\$ 2,856,049	\$ -	\$ 22,756,880	\$ 60,013,063

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, 2022, Morell Credit Union Limited's net interest spread was 2.55%. 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.

MEMBERSHIP & INFORMATION

CUDIC

CREDIT UNION
DEPOSIT INSURANCE
CORPORATION



- The Credit Union Deposit Insurance Corporation (CUDIC) guarantees the repayment of deposits with Prince Edward Island credit unions, in accordance with the relevant provisions of the Credit Unions Act. Subsection 173 (9) of Credit Unions Act Legislation provides that the Government of Prince Edward Island will ensure that this obligation of the Corporation is carried out.

A brief summary of the deposit insurance coverage offered by CUDIC is set out below.

- Membership is limited to Credit Unions incorporated under the laws of Prince Edward Island. All Island Credit Unions are required to be members of CUDIC.
- The maximum deposit insurance is \$125,000 per person in each Credit Union. Where a Credit Union operates a branch office, deposits are not insured separately in such branch offices.
- CUDIC insures 100% of insurable deposits held in registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), tax free savings accounts (TFSA) and registered disability savings plans (RDSPs). These are separately insured from other deposits a person may have with the same Credit Union.
- Deposits in each Credit Union are separate and distinct and the limits apply to each Credit Union separately. Eligible deposits in one Credit Union do not affect the limits for eligible deposits in another Credit Union.
- A depositor may be an individual, an association of individuals, a corporation, an association of corporations or a government.
- Insurable deposits include Canadian currency savings and chequing accounts, membership share amounts, term deposits, investment certificates, travellers cheques, drafts and money orders issued by the Credit Union.
- Separate insurance, to the \$125,000 maximum, applies to joint accounts and trust deposits.
- Credit Union Deposit Insurance Corporation (CUDIC) does not insure all deposits and investments offered by the Credit Union.
- CUDIC does not insure foreign currency savings and chequing deposits, debentures issued by a Credit Union, bonds or debentures issued by government or corporations, treasury bills and investments in mortgages, stocks, and mutual funds.

This information is presented in a non-technical way and is not intended to be a legal explanation of CUDIC's Act and by-laws.

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CHARLOTTETOWN
PRINCE EDWARD ISLAND
C1A 5P0

For more information on Credit Union Deposit Insurance
Phone 628-6280 or contact your Credit Union.



MORELL

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<https://www.morellcreditunion.com/Home/>

