



2024
ANNUAL
REPORT



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AGENDA

1. Call the Meeting to order and declaration of quorum
2. Welcome from Board President and Minute of Silence
3. Introduction of Guests
4. Reading of the Minutes from 2024 Annual Meeting
5. Business from the 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
86th Annual General Meeting Minutes
April 15, 2024
Dr Roddie Centre, St Peters Bay

The 86th Annual Meeting of the Morell Credit Union Limited was called to order by Sheryll O'Hanley, President, at 6:00 p.m.

Samantha Jenkins gave the declaration of the quorum, with 29 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 St Peters Bay 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 any errors and/or omissions.

Sheryll O'Hanley asked for a motion to accept the 2023 minutes as presented.

It was moved by Anne Morrison, seconded by Karen Milligan to accept the minutes as presented.
MOTION CARRIED

No questions or new business arose from the minutes.

Sheryll O'Hanley requested that Vice President Peter MacAdam accept the Chair while she presented the President's Report.

It was moved by Sarah Dymment seconded to Lisa MacIntyre to accept the adoption of the President's report.
MOTION CARRIED

Sheryll O'Hanley resumed the Chair and thanked Peter MacAdam.

Sherri Clark, General Manager, presented her report for the fiscal year ended December 31st, 2023.

It was moved by Sherri Clark seconded by Kevin MacEwen to accept the Manager's Report as presented.
MOTION CARRIED

Morell Credit Union Limited
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Michelle Burge from MRSB Chartered Accountants presented the 2023 Audited Financial Statements and addressed questions from the floor.

It was moved by Peter MacAdam seconded by Keila Hebert that the Financial Statement be approved as presented. (same as below)
MOTION CARRIED

It was moved by Allan Coffin seconded by Sarah Gaudet to appoint MRSB as the auditors for 2025.
MOTION CARRIED

New Business

No new Business to discuss.

Door Prize winners: 3rd place winner Sarah Gaudet, 2nd place winner Sheryll O'Hanley, 1st place winner Bonnie McNally.

Nominating Committee:

Sheryll O'Hanley, representing the nominating committee, advised that 3 terms were expiring in 2024 and all directors were eligible for re-election. Kevin MacEwen, Keila Hebert and Lisa MacIntyre were acclaimed to the positions and will serve a 3 year term each.

Installation of Directors:

Sherri Clark, General Manager, carried out the Installation of Officers ceremony and read section 40 of the Credit Union Act with the current board of directors.

Sherri Clark, General Manager, introduced the 2024 Board of Directors to members and guests present.

Adjournment:

Sheryll O'Hanley asked for a motion to adjourn the meeting and Karen Milligan moved adjournment at 6:34pm.

Connie Girard (Corporate Secretary)
Recorder

2024 FINANCIAL HIGHLIGHTS



ASSETS

11.5% Growth



LOANS

4.6% Growth



DEPOSITS

15% Growth



DELINQUENCY

0.577%



OUR MISSION & OUR VALUES



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.

Honest

Simplistic

Spiritual

Passionate

Evolutionary

Inclusive

Holistic

Meet Our Executive Board of Directors



SHERYLL O'HANLEY
PRESIDENT



PETER MACADAM
VICE PRESIDENT



LISA MACINTYRE
SECRETARY

Meet Our Board of Directors



KEVIN MACEWEN



ALLAN COFFIN



SARAH DYMENT



KAREN MILLIGAN



SARAH GAUDET



KEILA HEBERT



Morell
CREDIT UNION

PRESIDENT'S REPORT



Sheryll O'Hanley



It has been an honour and pleasure serving as the Chair of the Morell Board of Directors for 2024. The Board is comprised of dedicated Community members who have made informed, member-focused decisions. This past year I have also served as the Prince Edward Island representative of Board Chairs for Atlantic Canada. This committee has allowed me to make connections with Chairs from our neighbouring provinces and the opportunity to learn more about the Credit Union system in our region.

Each year the Board and Staff participate in a Strategic Planning session for the coming year. In 2024, the Board made the decision to evaluate our Board meetings, training, and competencies. Each Board member sits on one of three sub-committees: Audit and Risk, Governance & HR, and Member and Community Relations. Directors went through a competency exercise which highlighted their strengths. This aided in the formation of the committees.

Our meetings have taken a more proactive, educational focus. Each meeting is now comprised of three categories 1) reporting, 2) strategy, and 3) Board education. Since implementing these changes, the Board has received training on the new HoneyBee Mission, Risk Management and Compliance, and the new Credit Union Act. Our Board meetings have become more interactive and focused on the future.

As we celebrate the successes of 2024, the Morell Credit Union Board are facing the financial concerns of 2025 with dedication and awareness. I would like to thank our Board of Directors for their support and dedication to Morell Credit Union. I would also like to say thank you to the staff and Management team of Morell Credit Union for their hard work. When we see the “Big Banks” moving further away from their clients, it is so nice to see our Credit Union still focusing on the Cooperative value of people.

A handwritten signature in black ink that reads "Sheryll O'Hanley". The script is fluid and cursive, with the first letters of each word being capitalized and prominent.

Sheryll O'Hanley
Board President

GENERAL MANAGER'S REPORT



Sherri Clark



Welcome to the 86th Annual General Meeting of Morell Credit Union Limited. We are grateful to have you with us as we reflect on the achievements, challenges, and milestones of the past year. This meeting is an opportunity to review our financial performance and celebrate the collective efforts of our members, staff, and partners who contribute to the success and growth of our cooperative. As a community-focused institution, we are committed to ensuring that every member's voice is heard and valued.

Throughout this report, we will highlight our progress and look ahead to the opportunities that lie ahead. Together, we have built a solid foundation for the future, and we are excited to continue growing with you.

This year, we proudly report that our Credit Union has steadily grown in all business areas. The following highlights the key aspects of our performance:

- Asset growth: our Credit Union experienced an Asset Growth of 11.5%
- Loan growth: Even with higher interest rates in 2024, we were able to achieve 4.6% loan growth
- Deposit Growth amounted to 15%
- Expenses for the year were kept under the inflation rate and totalled an increase of 2.5% year over year
- Equity remains strong at 7.78%, well above the 5% required by CUDIC.

Overall, it was another strong year for our Credit Union. These results do not come without the hard work and commitment of our staff, the insight of our Board of Directors, and the loyal support of our membership.

Throughout the year, we focused on several strategic objectives to ensure both short-term and long-term success:

- Digital Transformation: One of our most significant projects that we began last year has been preparing for the successful launch of our new banking system, which will launch in April 2025. This project will also see updates to our website and mobile app. This major upgrade reflects our ongoing commitment to providing members with the latest technology and the best banking experience. Our new banking platform allows seamless transactions, real-time account management, and enhanced security features.
- Member Engagement: We launched new initiatives to enhance member engagement, such as educational workshops and tailored financial advising services. These efforts have strengthened our relationship with members and supported their financial well-being.

While our Credit Union has enjoyed significant progress, we acknowledge that there were several challenges in the past year that we had to navigate:

- Economic Uncertainty: Global economic volatility, particularly in the wake of inflationary pressures and geopolitical instability, affected our members' spending habits
- Regulatory Changes: The evolving regulatory environment, both locally and federally, presented increased oversight. Compliance with new regulations, particularly regarding digital banking and data security, required investments in technology upgrades and staff training. This included Strong Personal Access Code (PAC) and Two Step Verification (2SV) security enhancements.

- Technological Disruptions: The rapid advancement in financial technology (FinTech) has made staying ahead of industry innovations challenging. The rise of digital wallets and alternative lending models has pressured traditional financial cooperatives. We have responded by accelerating our tech-driven initiatives to stay competitive.

On a broader scale, our Credit Union has contributed positively to the local and, provincial economy. The following key outcomes were observed:

- Community Support: We continued to support local businesses and community projects. Over the year, we have supported over 60 local community initiatives and given over \$45,000.00 to support our local communities.
- Financial Inclusion: Our Credit Union remains committed to improving financial inclusion. Through various partnerships, we have extended our financial services to members and non-members through Financial Literacy Education to try to ensure that more people have access to responsible financial products and services.
- Bursaries: Your credit Union also provided \$8,000 in bursaries to Morell Regional High School last year.

Looking forward, the Credit Union remains optimistic about the future, with several strategic priorities on the horizon:

- Continued Digital Innovation: Building on the success of our new banking system, we will continue investing in technology to enhance our digital offerings and improve the member experience. New features like AI-powered financial advice and enhanced mobile banking functionality are being developed.
- Growth: We will explore opportunities for growth, especially in emerging markets, where our cooperative model could significantly impact financial inclusion and economic development.

Sustainability and Impact Investing: We will expand our sustainability initiatives, focusing on eco-friendly investments and socially responsible lending. We aim to increase the proportion of our loan portfolio dedicated to green and sustainable projects.

In conclusion, Morell Credit Union Ltd. has demonstrated resilience, adaptability, and growth this past year. While margin pressures and economic uncertainties remain challenges, our Credit Union has a strong foundation and an unwavering commitment to supporting our members and communities.

We look forward to another successful year, driven by innovation, sustainability, and a member-first philosophy. We sincerely thank our members, staff, and partners for their continued trust and support.

Respectfully submitted,

A handwritten signature in black ink that reads "Sherri Clark". The script is fluid and cursive, with the first letters of "Sherri" and "Clark" being capitalized and prominent.

Sherri Clark
General Manager

Meet Our Staff



Sherri Clark
General
Manager



Lynn Hunter-Murphy
Director of People
& Member Experience



Samantha Jenkins
Assistant Branch
Manager



Spencer Compton
Financial Services
Officer



Tanner Smith
Special Projects &
Administration
Coordinator



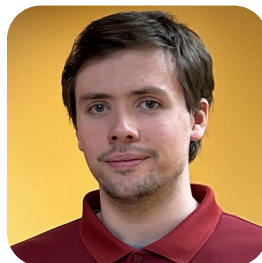
Frances Gallant
Senior Member Service
Representative



Cody McInnis
Member Service
Representative



Brodie Garnhum
Member Service
Representative



Logan O'Neill
Operations &
Administration
Coordinator



Katelyn Littlejohns
Member Service
Representative



Cooperative & Social Responsibility

Our Focus is on YOU

At the Morell Credit Union, our members are our top priority. When it comes to banking and managing your money, we are focused on you and your financial well-being. That means you can always expect sound advice from our financial experts, with no obligations and no strings.

Credit Unions are firmly rooted in their communities. In fact, every credit union's board of directors consists of members from their community. That's why we understand what's important to our members and how we keep our decisions based on local realities. You see it in the products and services we develop and the way we give back to our communities. It's a human approach and another reason how we're different.



Member Appreciation

Each year the Morell Credit Union hosts a Member Appreciation BBQ. Management, staff & board members come together to host this event in recognition of our loyal membership.



Community Engagement



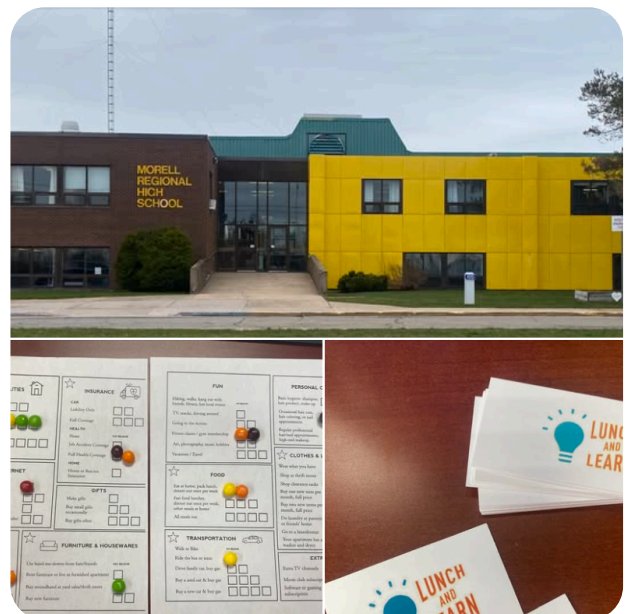
Morell Credit Union continued to support local businesses and community projects. Over the year, we have supported over 60 local community initiatives and given over \$45,000 to support our local communities.

Our Credit Union remains committed to improving financial inclusion. Through various partnerships, we have extended our financial services to members and non-members through Financial Literacy Education to try to ensure that more people have access to responsible financial products and services.



Your Credit Union has contributed positively to the
local and Provincial economy!

By supporting local community initiatives, Lion's
clubs & bursaries to Morell Regional High School



Hike the Hill

Our General Manager Sherri Clark had the opportunity to once again represent our Credit Union at the Government Relations forum and Hike the Hill in Ottawa. Every year in the fall, CCUA organizes this forum 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.





Morell Credit Union was very proud to be a part of 'THE BIG GIVE BACK' with the Big Brothers Big Sisters program of PEI!


All PEI Credit Unions were designated drop-off areas to collect items for Food Banks/Cupboards, homework supplies etc. that are in need.




Big Brothers Big Sisters OF PRINCE EDWARD ISLAND

THE BIG GIVE BACK





Items needed for the Food Banks/Community Fridges:

| | |
|---|-------------------|
|  KITBAGS | FRUIT CUPS |
| LUNCH BAGS | JUICE BOXES |
| WATER BOTTLES | CHEESE & CRACKERS |
| GRANOLA BARS | CEREAL |
| APPLE SAUCE | CRACKERS |



Homework supplies:
lined paper, pencils, pencil crayons, erasers, markers, rulers, pens, pencil sharpeners etc.

Drop off at the **BBBS Home** in the Canadian Tire parking lot or any **Provincial Credit Union** branch, **Summerside Consolidated Credit Union**, **Morell Credit Union** or **Souris Credit Union**.



Setting Day 2024



This is one of Prince Edward Island's most important economic drivers. Lobster fishers on PEI have been rising before dawn for well over 150 years, setting their traps, hauling in arguably some of the most delicious lobster in the world, and sharing it with lobster lovers around the globe!

Every year, Morell Credit Union visits our local harbours to offer complimentary beverages and baked goods to support the start of the season.





Loyal2Local

Every year for the Loyal2Local campaign, our staff and board members are given \$50 to spend at their favourite local business to help support local! This is a great way to bring awareness to our small local businesses.

In 2024 we supported the following Local Businesses:

- In The Mix Bakery
- PIE OH MY Takeout
- DJs Dairy Bar
- Rachels Beauty Salon
- Nature Space Resort
- The Golden Dory
- Hive & Honeycomb
- Fryers Hut
- Dreadnaught Eatery
- Shea's Hair Studio
- Full Throttle Fitness
- Julio's Seafood Market
- Johnny's Service Centre
- Artisans by the Bay
- Bishop's Rest
- The Lazy Fish
- St Peters Bay Wild
Blueberry Festival



SHOP LOCAL SUPPORT LOCAL



2024 Financial Statements



139 Queen Street
PO Box 2679
Charlottetown, PE
C1A 8C3
902-368-2643

500 Granville Street
Suite 2B
Summerside, PE
C1N 5Y1
902- 888-3897



Morell
CREDIT UNION

MORELL CREDIT UNION LIMITED
Financial Statements
December 31, 2024

MORELL CREDIT UNION LIMITED

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December 31, 2024

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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, 2024, and the statements of profit or loss and cash flows for the year then ended, and notes and schedules 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, 2024, 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 24, 2025

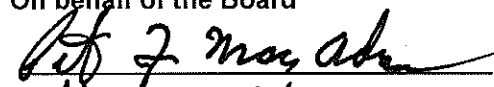
MORELL CREDIT UNION LIMITED


Statement of Financial Position

December 31, 2024

| | 2024 | 2023 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents (Note 6) | \$ 9,825,474 | \$ 3,111,932 |
| Investments (Note 7) | 8,003,304 | 9,862,915 |
| Accounts receivable (Note 8) | 394,005 | 402,409 |
| Income taxes recoverable | 700 | 46,962 |
| Member loans and mortgages (Note 9) | 49,328,826 | 47,140,513 |
| Provision for impaired loans (Note 10) | (400,056) | (384,416) |
| Prepaid expense | 503,545 | 567,133 |
| Deferred income taxes (Note 12) | 989 | - |
| Property and equipment (Schedule 1) | 593,355 | 632,996 |
| | <u>\$ 68,250,142</u> | <u>\$ 61,380,444</u> |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 95,306 | \$ 304,960 |
| Employee benefits payable | 62,137 | 62,923 |
| Accrued interest payable | 751,732 | 679,788 |
| Deferred income taxes (Note 12) | - | 272 |
| Member deposits (Note 13) | 55,788,594 | 48,519,239 |
| Share deposits | 6,247,282 | 6,831,261 |
| | <u>62,945,051</u> | <u>56,398,443</u> |
| MEMBERS' EQUITY | | |
| Share capital (Statement 4) | 10,270 | 10,205 |
| Undistributed earnings (Statement 4) | 5,294,821 | 4,971,796 |
| | <u>5,305,091</u> | <u>4,982,001</u> |
| | <u>\$ 68,250,142</u> | <u>\$ 61,380,444</u> |

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, 2024

| | 2024 | 2023 |
|--|---------------------|---------------------|
| Members' shares (Note 14) | | |
| Balance - beginning of year | \$ 10,205 | \$ 10,295 |
| Issuance of members' shares, net of redemption | <u>65</u> | <u>(90)</u> |
| Balance - end of year | <u>10,270</u> | <u>10,205</u> |
| Undistributed earnings | | |
| Balance - beginning of year | 4,971,796 | 4,628,287 |
| Net income (Statement 5) | <u>323,025</u> | <u>343,509</u> |
| Balance - end of year | <u>5,294,821</u> | <u>4,971,796</u> |
| Members' equity | <u>\$ 5,305,091</u> | <u>\$ 4,982,001</u> |

MORELL CREDIT UNION LIMITED**Statement of Profit or Loss
Year Ended December 31, 2024**

| | 2024 | 2023 |
|--|--------------|--------------|
| Income | | |
| Interest and investment | \$ 3,231,604 | \$ 2,840,735 |
| Cost of capital and borrowing | | |
| Interest and service charges | 1,395,521 | 1,003,651 |
| Share dividends | 46,404 | 86,885 |
| | 1,441,925 | 1,090,536 |
| Financial margin | 1,789,679 | 1,750,199 |
| Other | | |
| Commissions | 318,050 | 323,807 |
| Miscellaneous | 58,234 | 64,449 |
| | 376,284 | 388,256 |
| | 2,165,963 | 2,138,455 |
| Expenses - by nature | | |
| Advertising and promotions | 52,548 | 38,210 |
| Amortization of property and equipment | 44,115 | 43,484 |
| Automated teller machines | 12,534 | 12,391 |
| Data processing | 173,554 | 196,762 |
| Director | 13,916 | 19,100 |
| Dues and memberships | 2,141 | 1,859 |
| Insurance | 96,467 | 91,060 |
| Office | 67,967 | 53,227 |
| Premises | 63,678 | 60,837 |
| Professional fees | 40,821 | 30,360 |
| Provision for impaired loans | 56,769 | 45,834 |
| Service fees | 311,573 | 291,590 |
| Telephone | 8,420 | 13,678 |
| Travel | 16,833 | 14,069 |
| Wages and wage levies | 843,844 | 843,459 |
| | 1,805,180 | 1,755,920 |
| Income before income taxes | 360,783 | 382,535 |
| Income taxes | | |
| Current (Note 15) | 39,019 | 39,719 |
| Deferred | (1,261) | (693) |
| | 37,758 | 39,026 |
| Net income | \$ 323,025 | \$ 343,509 |

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

MORELL CREDIT UNION LIMITED

Statement of Cash Flows
Year Ended December 31, 2024

| | 2024 | 2023 |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Net income | \$ 323,025 | \$ 343,509 |
| Items not affecting cash: | | |
| Amortization of property and equipment | 44,115 | 43,484 |
| Deferred income taxes | (1,261) | (693) |
| | <u>365,879</u> | <u>386,300</u> |
| Changes in non-cash working capital: | | |
| Investments | 1,859,611 | (383,222) |
| Accounts receivable | 8,404 | (66,596) |
| Prepaid expense | 63,588 | (303,054) |
| Accounts payable and accrued liabilities | (209,655) | 77,515 |
| Employee benefits payable | (786) | 12,076 |
| Accrued interest payable | 71,945 | 407,963 |
| Income taxes payable | 46,262 | (99,754) |
| | <u>1,839,369</u> | <u>(355,072)</u> |
| | <u>2,205,248</u> | <u>31,228</u> |
| Cash flows from investing activities | | |
| Increase in member loans and mortgages, net of provision | (2,172,674) | (5,217,475) |
| Purchase of property and equipment | (4,473) | (15,529) |
| | <u>(2,177,147)</u> | <u>(5,233,004)</u> |
| Cash flows from financing activities | | |
| Increase in member deposits | 7,269,355 | 4,035,753 |
| Decrease in share deposits | (583,914) | (3,455,950) |
| | <u>6,685,441</u> | <u>579,803</u> |
| Increase (decrease) in cash and cash equivalents | <u>6,713,542</u> | <u>(4,621,973)</u> |
| Cash and cash equivalents - beginning of year | <u>3,111,932</u> | <u>7,733,905</u> |
| Cash and cash equivalents - end of year | <u>\$ 9,825,474</u> | <u>\$ 3,111,932</u> |
| 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, 2024

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 24, 2025. 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, 2024

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, 2024

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, 2024

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.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2024

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 \$32,062 (2023 - \$33,637).

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 2024 was 0.75% (2023 - 1.25%) 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.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2024

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 against the expense. During the year, the Credit Union received \$Nil (2023 - \$13,090) from Skills PEI for wage subsidies included in wages expense.

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.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2024

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 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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MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2024

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, 2024 and have not been adopted by the Credit Union in preparing these financial statements.

IFRS 18 - Presentation and Disclosure in Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements and applies for annual reporting periods beginning on or after January 1, 2027. The new standard introduces the following key new requirements:

- Present specified categories and defined subtotals in the statement of profit or loss
- Provide disclosures on management-defined performance measures (MPMs) in the notes to the financial statements
- Improve aggregation and disaggregation.

The Credit Union is still in the process of assessing the impact of the new standard on its financial statements.

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.

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MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2024

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

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

| | 2024 | 2023 |
|--------------------------------|---------------------|---------------------|
| Term deposit investments | \$ 7,750,000 | \$ 1,000,000 |
| Cash in financial institutions | 1,740,783 | 1,686,759 |
| Cash on hand | 334,691 | 425,173 |
| | <u>\$ 9,825,474</u> | <u>\$ 3,111,932</u> |

MORELL CREDIT UNION LIMITED**Notes to Financial Statements****Year Ended December 31, 2024****7. INVESTMENTS**

| | <u>2024</u> | <u>2023</u> |
|--|---------------------|---------------------|
| Shares | | |
| Atlantic Central Credit Union Limited - common shares | \$ 487,339 | \$ 559,690 |
| Atlantic Central Credit Union Limited - Class LSM preferred shares | 169,068 | 169,068 |
| League Data Limited - 12,210 Class B preferred shares | 122,101 | 15,511 |
| Atlantic Central Credit Union Limited - Class B preferred shares | 91,500 | 91,500 |
| Morell Consumers Co-operative Association, Ltd. | 2,125 | 2,038 |
| Atlantic Central Credit Union Limited - Class PEI shares | 800 | 800 |
| Concentra Financial Services Association - 20,000 Class A preferred shares | - | 500,000 |
| | <u>872,933</u> | <u>1,338,607</u> |
| Debentures | | |
| Atlantic Central Credit Union Limited liquidity deposit | 4,130,371 | 3,747,126 |
| Concentra term deposits | 2,500,000 | 2,750,000 |
| Atlantic Central Credit Union Limited term deposits | 500,000 | 1,027,182 |
| League Savings and Mortgage term deposits | - | 1,000,000 |
| | <u>7,130,371</u> | <u>8,524,308</u> |
| | <u>\$ 8,003,304</u> | <u>\$ 9,862,915</u> |

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

8. ACCOUNTS RECEIVABLE

| | <u>2024</u> | <u>2023</u> |
|--|-------------------|-------------------|
| Accrued interest - loans and mortgages | \$ 310,395 | \$ 273,902 |
| Accrued interest - investments | 68,700 | 63,517 |
| Other receivables | 14,910 | 64,990 |
| | <u>\$ 394,005</u> | <u>\$ 402,409</u> |

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2024

9. MEMBER LOANS AND MORTGAGES

| | Total loans | Loan allowance | Net loans |
|--------------------------------|----------------------|---------------------|----------------------|
| 2024 | | | |
| Personal and business | \$ 15,568,155 | \$ (197,005) | \$ 15,371,150 |
| Lines of credit and overdrafts | 5,670,338 | (158,623) | 5,511,715 |
| Mortgages | 27,661,300 | (44,428) | 27,616,872 |
| LS&M reverse mortgages | 429,033 | - | 429,033 |
| | <u>\$ 49,328,826</u> | <u>\$ (400,056)</u> | <u>\$ 48,928,770</u> |
| 2023 | | | |
| Personal and business | \$ 14,489,380 | \$ (186,881) | \$ 14,302,499 |
| Lines of credit and overdrafts | 5,451,456 | (152,641) | 5,298,815 |
| Mortgages | 26,726,735 | (44,894) | 26,681,841 |
| LS&M reverse mortgages | 472,942 | - | 472,942 |
| | <u>\$ 47,140,513</u> | <u>\$ (384,416)</u> | <u>\$ 46,756,097</u> |

10. PROVISION FOR IMPAIRED LOANS

| | 2024 | 2023 |
|--|-------------------|-------------------|
| Provision for impaired loans - beginning of year | \$ 384,416 | \$ 339,637 |
| Provision for impaired loans | 56,769 | 45,834 |
| Recovery of loans written off | 858 | 1,695 |
| Loans written off - current year | (41,987) | (2,750) |
| Provision for impaired loans - end of year | <u>\$ 400,056</u> | <u>\$ 384,416</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:

| | 2024 | 2023 |
|----------------|-------------------|-------------------|
| 0 to 30 days | \$ 124,962 | \$ 77,886 |
| 91 to 180 days | 129,944 | 40,472 |
| Over 180 days | - | 29,944 |
| | <u>\$ 254,906</u> | <u>\$ 148,302</u> |

MORELL CREDIT UNION LIMITED**Notes to Financial Statements****Year Ended December 31, 2024****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>2024</u> | <u>2023</u> |
|------------------------|---------------|-----------------|
| Property and equipment | \$ 989 | \$ (272) |

13. MEMBER DEPOSITS

| | <u>2024</u> | <u>2023</u> |
|--|-----------------------------|-----------------------------|
| Personal chequing accounts | \$ 20,163,070 | \$ 16,142,560 |
| Term deposits | 14,420,370 | 13,796,568 |
| Tax Free Savings Account (TFSA) deposits | 9,638,218 | 6,765,273 |
| Registered Retirement Savings Plan (RRSP) deposits | 5,548,672 | 5,659,497 |
| Registered Retirement Income Fund (RRIF) deposits | 4,208,721 | 3,837,124 |
| Call deposits | 1,809,543 | 2,318,217 |
| | <u>\$ 55,788,594</u> | <u>\$ 48,519,239</u> |

14. MEMBERS' SHARES

| | <u>Number of shares</u> | <u>December 31 2024</u> | <u>Number of shares</u> | <u>December 31 2023</u> |
|----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Balance - beginning of year | 2,041 | \$ 10,205 | 2,059 | \$ 10,295 |
| Shares issued, net of redemption | 13 | 65 | (18) | (90) |
| Balance - end of year | <u>2,054</u> | <u>\$ 10,270</u> | <u>2,041</u> | <u>\$ 10,205</u> |

MORELL CREDIT UNION LIMITED**Notes to Financial Statements****Year Ended December 31, 2024****15. INCOME TAXES**

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 29.17% (2023 - 28.96%) to the income for the year and is reconciled as follows:

| | <u>2024</u> | <u>2023</u> |
|--|-------------------|-------------------|
| Income before income taxes | <u>\$ 360,783</u> | <u>\$ 382,535</u> |
| Income tax expense at the combined basic federal and provincial tax rate | \$ 105,240 | \$ 110,782 |
| Increase (decrease) resulting from: | | |
| Small business deduction | (74,136) | (75,465) |
| Capital cost allowance claimed in excess of amortization | 3,107 | 801 |
| Non-deductible expenses | 4,339 | 2,258 |
| Tax reserves | (4,223) | (12,091) |
| Provision for loan loss reserve | 17,031 | 13,750 |
| Recovery of loans previously written off | 257 | 509 |
| Loans written off in the current period | (12,596) | (825) |
| Effective tax expense | <u>\$ 39,019</u> | <u>\$ 39,719</u> |

The effective income tax rate is 10.82% (2023 - 10.38%).

16. CASH FLOW SUPPLEMENTARY INFORMATION

| | <u>2024</u> | <u>2023</u> |
|-------------------|--------------|--------------|
| Interest received | \$ 3,195,111 | \$ 2,788,111 |
| Interest paid | 1,283,330 | 613,669 |
| Income taxes paid | 39,719 | 86,681 |

17. LINE OF CREDIT AVAILABILITY

The Credit Union has an approved line of credit with Atlantic Central Credit Union Limited of \$1,532,000, 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 rate and is secured by a general security agreement.

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2024

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:

| | 2024 | 2023 |
|--|------------|------------|
| Short term employee benefits | \$ 435,686 | \$ 401,512 |
| Contributions to a retirement pension plan | 22,877 | 20,923 |
| Mortgages, loan balances, and lines of credit due from key management at December 31 | 32,293 | 43,805 |
| Deposit balances due to key management at December 31 | 263,996 | 196,160 |

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, 2024

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:

| | 2024 | 2023 |
|--|----------------------|----------------------|
| Cash and cash equivalents | \$ 9,825,474 | \$ 3,111,932 |
| Investments | 8,003,304 | 9,862,915 |
| Accounts receivable | 394,005 | 402,409 |
| Member loans and mortgages, net of provision | 48,928,770 | 46,756,097 |
| | <u>\$ 67,151,553</u> | <u>\$ 60,133,353</u> |

(b) Liquidity risk

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

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2024

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 |
|------|---------------|-------------------|--------------|---------------|
| 2024 | \$ 32,046,087 | \$ 30,899,234 | \$ - | \$ 62,945,321 |
| 2023 | \$ 50,567,152 | \$ 5,831,291 | \$ - | \$ 56,398,443 |

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, 2024:

| | Under 1 year | Over 1 to 5 years | Over 5 years | Total |
|----------------------------|---------------|-------------------|--------------|---------------|
| Investments | \$ 8,003,304 | \$ - | \$ - | \$ 8,003,304 |
| Member loans and mortgages | \$ 5,872,878 | \$ 40,784,723 | \$ 2,271,170 | \$ 48,928,770 |
| Member deposits | \$ 24,889,360 | \$ 30,899,234 | \$ - | \$ 55,788,594 |

(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, 2024, the Credit Union had cash and bank balances of \$80,340 USD (2023 - \$152,407 USD) and member accounts of \$3,885 USD (2023 - \$3,597 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: | 2024 | 2023 |
|--|--------------|--------------|
| 1% increase in interest rates | \$ 276,366 | \$ 440,050 |
| 1% decrease in interest rates | \$ (295,257) | \$ (468,421) |

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2024

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, 2024 amounted to \$49,328,826 (2023 - \$47,140,513).

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, 2024****21. CAPITAL MANAGEMENT (continued)**

| | <u>2024</u> | <u>2023</u> |
|-------------------------|-------------------|-------------------|
| Undistributed earnings | \$ 5,294,821 | \$ 4,971,796 |
| Members' shares | <u>10,270</u> | <u>10,205</u> |
| Total regulatory equity | 5,305,091 | 4,982,001 |
| Total assets | <u>68,250,142</u> | <u>61,380,444</u> |
| | <u>7.77 %</u> | <u>8.12 %</u> |

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

| | <u>2024</u> | <u>2023</u> |
|---------------|-------------------|-------------------|
| Total assets | \$ 68,250,142 | \$ 61,380,444 |
| Liquid assets | <u>18,222,782</u> | <u>13,377,256</u> |
| | <u>26.70 %</u> | <u>21.79 %</u> |

MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Statement of Property and Equipment
Year Ended December 31, 2024

(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 |
|-------------------|------------------------------|-----------------|---------------------------------|------------------------|--|-------------------------|---------------------------------|----------------------------------|----------------------|
| 2024 | | | | | | | | | |
| Land | \$ 130,535 | \$ - | \$ - | \$ 130,535 | \$ - | \$ - | \$ - | \$ - | \$ 130,535 |
| Building | 856,691 | - | - | 856,691 | 440,878 | 16,632 | - | 457,510 | 399,181 |
| Equipment | 330,899 | - | - | 330,899 | 264,159 | 19,233 | - | 283,391 | 47,509 |
| Pavement | 16,675 | - | - | 16,675 | 4,037 | 1,011 | - | 5,048 | 11,627 |
| Computer hardware | 68,090 | 4,473 | - | 72,563 | 60,821 | 7,239 | - | 68,060 | 4,503 |
| | \$ 1,402,890 | \$ 4,473 | \$ - | \$ 1,407,363 | \$ 769,895 | \$ 44,115 | \$ - | \$ 814,009 | \$ 593,355 |

| | 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 |
|-------------------|------------------------------|------------------|---------------------------------|------------------------|--|-------------------------|---------------------------------|----------------------------------|----------------------|
| 2023 | | | | | | | | | |
| Land | \$ 130,535 | \$ - | \$ - | \$ 130,535 | \$ - | \$ - | \$ - | \$ - | \$ 130,535 |
| Building | 856,691 | - | - | 856,691 | 423,552 | 17,326 | - | 440,878 | 415,813 |
| Equipment | 320,578 | 10,321 | - | 330,899 | 246,307 | 17,852 | - | 264,159 | 66,741 |
| Pavement | 16,675 | - | - | 16,675 | 2,938 | 1,099 | - | 4,037 | 12,638 |
| Computer hardware | 62,884 | 5,206 | - | 68,090 | 53,614 | 7,207 | - | 60,821 | 7,269 |
| | \$ 1,387,363 | \$ 15,527 | \$ - | \$ 1,402,890 | \$ 726,411 | \$ 43,484 | \$ - | \$ 769,895 | \$ 632,996 |

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, 2024

(Schedule 2)

| | Under 1 year | Over 1 to 5 years | Over 5 years | Not interest rate sensitive | Total |
|--|----------------------|----------------------|---------------------|--------------------------------|----------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 9,055,599 | \$ - | \$ - | \$ 769,875 | \$ 9,825,474 |
| Effective interest rate | 3.64 % | - | - | - | |
| Investments | 7,130,371 | - | - | 872,933 | 8,003,304 |
| Effective interest rate | 3.77 % | - | - | - | |
| Accounts receivable | - | - | - | 394,005 | 394,005 |
| Member loans and mortgages | 361,163 | 40,784,723 | 2,271,169 | - | 43,417,055 |
| Effective interest rate | 4.36 % | 5.41 % | 5.68 % | - | |
| Lines of credit and overdrafts | 5,511,715 | - | - | - | 5,511,715 |
| Effective interest rate | 7.16 % | - | - | - | |
| Income taxes recoverable | - | - | - | 700 | 700 |
| Prepaid expense | - | - | - | 503,545 | 503,545 |
| Future income taxes | - | - | - | 989 | 989 |
| Property and equipment | - | - | - | 593,355 | 593,355 |
| | <u>\$ 22,058,848</u> | <u>\$ 40,784,723</u> | <u>\$ 2,271,169</u> | <u>\$ 3,135,402</u> | <u>\$ 68,250,142</u> |
| LIABILITIES AND MEMBERS' EQUITY | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ - | \$ 95,306 | \$ 95,306 |
| Employee benefits payable | - | - | - | 62,137 | 62,137 |
| Accrued interest payable | - | - | - | 751,732 | 751,732 |
| Member deposits | 4,731,879 | 30,899,234 | - | 20,157,481 | 55,788,594 |
| Effective interest rate | 0.69 % | 4.40 % | - | - | |
| Share deposits | 6,247,282 | - | - | - | 6,247,282 |
| Effective interest rate | 0.75 % | - | - | - | |
| Members' shares | 10,270 | - | - | - | 10,270 |
| Effective interest rate | 0.75 % | - | - | - | |
| Undistributed earnings | - | - | - | 5,294,821 | 5,294,821 |
| | <u>\$ 10,989,431</u> | <u>\$ 30,899,234</u> | <u>\$ -</u> | <u>\$ 26,361,477</u> | <u>\$ 68,250,142</u> |

The above table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the Credit Union's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, loans and mortgages are shown at contractual maturity but certain could prepay earlier.

As at December 31, 2024, Morell Credit Union Limited's net interest spread was 1.68%. 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 \$250,000 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), Registered Education Savings Plans (RESPs), Registered Disability Savings Plans (RDSPs), Tax-Free Savings Accounts (TFSA), and First Home Savings Accounts (FHSA). 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, foreign currency savings accounts and chequing accounts, membership share accounts, Canadian and foreign term deposits, and drafts issued by the Credit Union.
- Separate insurance, to the \$250,000 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 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 the Prince Edward Island Credit Unions Act.

63 FITZROY STREET
charlottetown, PE
C1A 1R4

For more information on Credit Union Deposit Insurance
Phone (902) 628-6280 or contact your Credit Union.

Thank You

for choosing Morell Credit Union



Morell
CREDIT UNION



902-961-2735



info@morell.creditu.net



morellcredit.com/Home