



88th AGM



Morell
CREDIT UNION

2025 ANNUAL REPORT



TABLE OF CONTENTS

- Agenda
- 2024 AGM Meeting Minutes
- 2025 Highlights
- Our Mission & Values
- Board of Directors
- President's Report
- Manager's Report
- Our Staff
- Cooperative & Social Responsibility
- Member Appreciation
- Community Engagement
- Hike the Hill
- Loyal2Local
- Auditor's Report
- Financial Statements
- Credit Union Deposit Insurance Corporation (CUDIC)

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
87th Annual General Meeting
April 3, 2025
Morell Fire Department, Morell

1.0 Welcome and Call to Order

- The 87th 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 33 members and two guests in attendance.
- Sheryll O’Hanley 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 Morell Credit Union members, the Board, and Staff and introduced Michelle Burge, the External Auditor from MRSB, and Rob MacBain, CEO of CUDIC.
- Sheryll O’Hanley asked if everyone would read over the minutes for any errors and/or omissions. With no comments or questions regarding the minutes, Sheryll O’Hanley requested a motion to adopt the 2023 minutes as presented.

It was moved by Anne Morrison, seconded by Lisa MacIntyre, to accept the minutes as presented.

MOTION CARRIED

2.0 President’s Report

- President Sheryll O’Hanley requested that Secretary Lisa MacIntyre accept the Chair while she presented the President’s Report.
- Sheryll O’Hanley presented her Report highlighting that, as Directors, the Board took great pride in safeguarding the interests of its members, ensuring the soundness of its financial practices, and charting a course for Morell Credit Union that reflects its cooperative values.

It was moved by Sarah Dymont, seconded to Alice Crane, to accept the adoption of the President’s report.

MOTION CARRIED

Sheryll O’Hanley resumed the Chair and thanked Lisa MacIntyre.

3.0 General Manager's Report

- Sherri Clark, General Manager, presented her report for the fiscal year ended December 31st, 2024.
- Sherri Clark highlighted the trust and commitment of our valued members, as well as the dedication of our passionate employees, as the underpinnings of the credit union's success.

It was moved by Cody McInnis, seconded by Kevin MacEwen, to accept the Manager's Report as presented.

MOTION CARRIED

4.0 2023 Annual Financial Statement and Auditors' Report

- Michelle Burge from MRSB Chartered Accountants presented the 2024 Audited Financial Statements and addressed questions from the floor.
- Michelle Burge stated that the Auditors at MRSB have included their independent opinion on the accompanying Consolidated Financial Statements, showing that the financial position of Morell Credit Union was presented fairly in all material respects.

It was moved by Karen Milligan, seconded by Peter MacAdam, that the Financial Statement be approved as presented.

MOTION CARRIED

4.1 Appointment of External Auditor

- Sheryll O'Hanley positioned the reappointment of MRSB as the External Auditors for the year 2025.

It was moved by Allan Coffin, seconded by Janice MacLean, to appoint MRSB as the auditors for 2025.

MOTION CARRIED

5.0 New Business

Approval of Bylaws

- Sheryll O’Hanley discussed the updates to the current bylaws to support the change in the Credit Union Act. Sheryll indicated that there was no member feedback regarding the bylaws to date.

It was moved by Anne Morrison, seconded by Lisa MacIntyre, to approve the bylaws.

MOTION CARRIED

Door Prize winners: 3rd place winner Anita Douglas; 2nd place winner Sheryll O’Hanley; 1st place winner Isabelle Coffin.

6.0 Nominating Committee

- Sheryll O’Hanley, representing the Committee, advised that two Director Terms were expiring in 2025 and that these directors were eligible for re-election. Karen Milligan was acclaimed to the position and will serve a three-year term. Sarah Gaudet chose not to run for re-election.
- For personal reasons and with regret, Director Keila Hebert has submitted her resignation to the President. Keila was thanked for all her contributions whilst on the Board.

6.1 Installation of Directors

- Sherri Clark, General Manager, conducted the Installation of Officers ceremony and read Section 40 of the Credit Union Act in the presence of the current board of directors.
- Sherri Clark introduced the 2025 Board of Directors to members and guests present.

7.0 Adjournment

- Before adjournment, Member Ann Morrison thanked the Board of Directors and staff of Morell Credit Union Limited for the work that had been completed for the members and the Credit Union and how fortunate the membership is to have this service within the community.
- Sheryll O’Hanley, President, requested a motion to adjourn the meeting, and Kevin MacEwen moved for adjournment at 6:40 p.m.

Tanner Smith (Special Projects and Administration Officer)
Recorder

**2025
Credit Union
HIGHLIGHTS**



**Training &
Development**

300 Hours



Volunteering

370 Hours



**Donations &
Sponsorships**

Over 30K



**Share Rebate to
Members**

Over 32K



OUR MISSION & OUR VALUES



The mission of Morell Credit Union highlights our commitment to offering competitive financial services that are specifically designed to meet the unique needs of our owners and the broader community. With a focus on equality, we ensure that all services are accessible and fair, reflecting their dedication to inclusivity. As a community-focused cooperative, Morell Credit Union takes pride in actively contributing to the development and prosperity of the areas we serve. This is achieved through strong community involvement, effective leadership, and the strategic retention of financial resources to support local growth and sustainability. By prioritizing these values, Morell Credit Union fosters a supportive and thriving environment for both individuals and businesses within their community.

Honest

Spiritual

Simplistic

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



ALLAN COFFIN



SARAH DYMENT



KAREN MILLIGAN



KEVIN MACEWEN



Morell
CREDIT UNION

PRESIDENT'S REPORT



Sheryll O'Hanley



Morell
CREDIT UNION

Welcome to the 88th Annual General Meeting for the Morell Credit Union. The AGM is a wonderful opportunity for our Members to come together with the Board, Staff, and Management Team to celebrate the successes of the past year, and we have had many successes.

This past year the Credit Union faced some unpredictable scenarios. Our members had to deal with the abnormally warmer weather affecting our seasonal industry of farming, the unknowns with trading partners in the seafood industry, and the changes with our trade partners to the south led to cautious decision making. Having a Credit Union in our community allowed for open dialogue with Members to deal with challenges in a collaborative partnership. Being able to pick up a phone and talk to someone who understands your financial needs is the best asset we have at Morell Credit Union.

This year saw the implementation of a new banking system. Changes to systems can be frustrating for Members and Staff. The Staff spent numerous hours preparing for the transition and for most of the conversion things went very well. With all changes, there have been a few bumps in the road, but the staff continues to work hard with Members to make sure your needs are met. On behalf of the Board, I would like to thank Sherri and her team for the extensive training, preparation, long hours, numerous phone calls, and patience. Your hard work has not gone unnoticed. Thank you!

The Board has spent many hours on our own professional learning. Board Members completed 52 hours of Level C course training in the areas of The Role of the Audit Committee, Governing Credit Risk, Understanding Business for Directors, and Effective Board of Directors. As a Board, we have reorganized our Board meetings to include a presentation to expand our knowledge. This year we had presentations about The Honey Bee Mission, FINTRAC, and numerous policy reviews.

I would like to thank the Board for their dedication to Morell Credit Union. All Directors engage in our monthly meetings and have a genuine interest in ensuring Morell Credit Union is successful. I would like to formally thank Allan Coffin, Sarah Dymont, and Peter MacAdam who are leaving the Board this year. The strengths that each of you have brought to the table were numerous and appreciated. You will be missed.

I want to thank Sherri Clark. This past year Sherri celebrated 30 years with Morell Credit Union. Sherri is not a manager that just 'sits' in her office. Sherri is hands-on in all aspects of Morell Credit Union. She is a perfect example of what a Credit Union can do for a community. Sherri started in an entry level position and worked her way to become Manager. She is well respected across Atlantic Canada and represents our concerns at the different levels in our system, thank you Sherri.

Lastly, you, the members. Our Credit Union would not be the success it is without you. In the world today, we need more systems like the Credit Union. You can walk into the Credit Union and know the people who are waiting on you and they know you. They will work with you in tough times and celebrate your milestones. Thank you for supporting a community financial institution that spends money in your communities, and is always willing to support you.

Thank you for allowing me to be your Board Chair this past year. I am a proud Credit Union Member. All the best for the year ahead.

Sheryll O'Hanley

Sheryll O'Hanley
Board President

GENERAL MANAGER'S REPORT



Sherri Clark



Morell
CREDIT UNION

Dear Valued Members,

As we gather for our Annual General Meeting, I am filled with gratitude and pride as I reflect on our Credit Union's achievements over the past year. Your unwavering support and commitment have been instrumental in driving our success, and for that, I extend my heartfelt thanks.

This year has been marked by several significant accomplishments that have strengthened our community and enhanced the services we provide:

- **Financial Stability:** Our Credit Union continues to demonstrate robust financial health, with a notable increase in loans and a strong equity ratio, ensuring we remain a trusted and reliable institution.
- **Innovative Services:** We've introduced a new digital banking platform, enhancing accessibility and convenience for our members. Our mobile app now includes more user-friendly options, allowing you to manage your finances with ease, with additional enhancements coming later in the year and into 2027.
- **Community Engagement:** Our commitment to giving back to the communities we serve remains unwavering. We have supported various local initiatives, contributing over \$30,000 to community projects and charities. Additionally, we facilitated numerous financial literacy sessions for Island newcomers and students, and our team completed over 370 volunteer hours in 2025.
- **Employee Commitment:** Our team of nine employees collectively completed over 300 hours of learning and development in 2025, all with the singular aim of enhancing the service and experience we provide to you, our esteemed members.

Looking forward, investments in technology will play a pivotal role in our overarching strategy at the credit union, ensuring that we have best-in-class technology to meet the evolving needs of our members. By prioritizing state-of-the-art digital platforms and cybersecurity measures, we aim to enhance member experience, streamline operations, and safeguard sensitive information. This forward-thinking approach not only positions us to adapt to industry changes but also empowers us to offer innovative financial solutions. Our commitment to technological advancement will drive efficiency, foster member engagement, and ultimately support our mission to provide exceptional financial services to our community.

As a member-owned institution, our success is interlinked with yours. Unlike traditional banks, credit unions operate on a cooperative model, meaning we exist to serve you, our members, not to generate profit. When you choose to deposit your funds with us, those deposits become the lifeblood of our community.

By making our credit union your primary financial institution, you are investing not only in your financial future but also in the well-being of our entire community.

Your Credit Union is governed by a strong group of dedicated volunteers. This year, we have 3 board members completing their 9 years terms. Sarah, Alan, and Peter. Their dedication, leadership, and many contributions over the years have been instrumental in shaping the direction of our organization. We are deeply grateful for their service and commitment to our success.

I would like to extend sincere thanks to all staff for your hard work, dedication, and ongoing commitment. Your efforts make a meaningful difference every day and contribute greatly to the success of our organization. Your professionalism, teamwork, and perseverance are truly appreciated.

Thank you for being a part of our credit union family. We are grateful for your trust and support, and we are here to serve you with excellence and dedication. Together, we are building a brighter financial future for all our members.

Warm Regards,

A handwritten signature in black ink that reads "Sherri Clark". The signature is written in a cursive, flowing style.

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
Branch Operations and
Accounting Supervisor



Allie Kane
Special Projects &
Administration
Coordinator



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 dedication to putting members first sets us apart in the banking industry. We understand that managing finances is a deeply personal journey, which is why our team of financial experts is committed to providing personalized, obligation-free advice tailored to your unique needs.

Rooted in the heart of the community, our Board of Directors is composed of local members who truly grasp the values and priorities of the people we serve. This community-centric approach informs every decision we make, from the development of our products and services to our active involvement in community initiatives.

Our human-centered philosophy ensures that you receive the care and attention you deserve, reinforcing our commitment to being more than just a financial institution—we are your trusted partner in achieving financial well-being.



Member Appreciation

Morell Credit Union's annual Member Appreciation BBQ is a cherished tradition that brings Management, Staff, and Board Members together to thank our members. This event is not just an opportunity for the Credit Union to acknowledge the continuous support and trust of its members, but also a chance to strengthen community bonds in a relaxed and enjoyable setting. It's a celebration of community, collaboration, and the valued relationships that have been nurtured over the years.

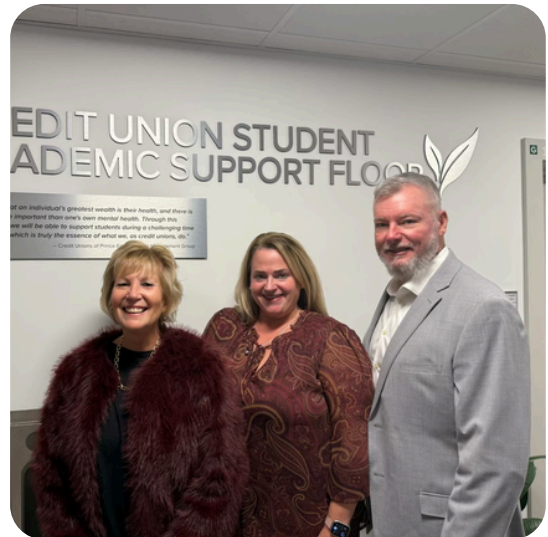


Community Engagement



Morell Credit Union continued to support local businesses and community projects. Over the past year, we supported over 60 local community initiatives and gave over \$30,000 to support our local communities.

Our Credit Union is committed to financial inclusion by partnering with diverse organizations to expand access to essential services. We equip individuals with the knowledge to make informed decisions through our Financial Literacy Education programs, empowering them to manage finances and access responsible products. We aim for a more equitable financial landscape where everyone can achieve their goals.



Your Credit Union has contributed positively to the local and provincial economy by supporting local community initiatives, Lions clubs & bursaries to Morell Regional High School!

2025 Morell Regional High School Bursary Recipients

AILAH MACDONALD



Ailah has been accepted to UPEI and will begin working towards obtaining a Bachelor of Science in Nursing.

CHELSEY DECOURCEY



Chelsey will be attending UPEI in the fall of 2025 and working towards obtaining a Bachelor of Science in Nursing.

LILY JAY



Lily will be attending UPEI in fall of 2025 to study Environmental Science with a specialization in Environmental Thought and Practice.

SAM HANDRAHAN



Sam has been accepted to UPEI in the Bachelor of Arts program and is planning on pursuing this education to become a teacher.

Hike the Hill

Our General Manager, Sherri Clark, had the esteemed opportunity to once again represent our Credit Union at the Government Relations Forum and Hike the Hill event held in Ottawa.

Organized annually in the fall by the Canadian Credit Union Association (CCUA), this forum serves as a vital platform for credit union sector employees and government officials from across the nation to converge. It provides an invaluable opportunity for legislators to gain deeper insights into the credit union sector, its pivotal role in communities, and the various challenges faced in delivering products and services to members. Since its inception in 2009, Hike the Hill has emerged as a cornerstone advocacy and engagement event, capturing significant attention within the sector. We are enthusiastic about continuing our support for this impactful event, in collaboration with credit unions nationwide, to further strengthen our collective voice and influence.





We LOVE to Support 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 2025 we supported the following local businesses:

- The Golden Dory
- Johnny's Service Centre
- Miss Honey's Cottage
- Betty's Homestyle Take Out
- Dreadnaught Eatery
- Morell Co-op
- In The Mix Bakery
- Artisans By The Bay
- PIE OH MY Takeout
- Julio's Seafood Market
- The Seafood Shack
- Rachel's Beauty Salon
- DJ's Dairy Bar





SHOP
LOCAL
SUPPORT
LOCAL



2025

Financial Statements

M | R | S | B
Accounting Tax Consulting Valuation Bookkeeping

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, 2025

MORELL CREDIT UNION LIMITED

Index to Financial Statements

December 31, 2025

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Changes in Members' Equity	4
Statement of Profit or Loss	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 24
Schedules to Financial Statements	25 - 26

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, 2025, 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, 2025, 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.

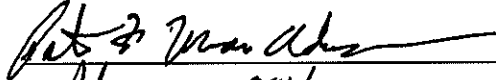
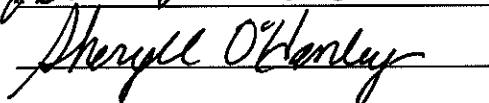
Charlottetown, PE

March 2, 2026

MORELL CREDIT UNION LIMITED
Statement of Financial Position
December 31, 2025

	2025	2024
ASSETS		
Cash and cash equivalents (Note 6)	\$ 5,708,099	\$ 9,825,474
Investments (Note 7)	5,097,076	8,003,304
Accounts receivable (Note 8)	430,974	394,005
Income taxes recoverable	14,144	700
Member loans and mortgages (Note 9)	56,558,901	49,328,826
Provision for impaired loans (Note 10)	(440,128)	(400,056)
Prepaid expense	444,064	503,545
Deferred income taxes (Note 12)	1,091	989
Property and equipment (Schedule 1)	564,035	593,355
	\$ 68,378,256	\$ 68,250,142
LIABILITIES		
Accounts payable and accrued liabilities	\$ 110,427	\$ 95,306
Employee benefits payable	64,124	62,137
Accrued interest payable	645,588	751,732
Member deposits (Note 13)	55,101,547	55,788,594
Share deposits	6,863,498	6,247,282
	62,785,184	62,945,051
MEMBERS' EQUITY		
Share capital (Statement 4)	10,345	10,270
Undistributed earnings (Statement 4)	5,582,727	5,294,821
	5,593,072	5,305,091
	\$ 68,378,256	\$ 68,250,142

On behalf of the Board

 Director
 Director

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

MORELL CREDIT UNION LIMITED
Statement of Changes in Members' Equity
Year Ended December 31, 2025

	2025	2024
Members' shares (Note 14)		
Balance - beginning of year	\$ 10,270	\$ 10,205
Issuance of members' shares, net of redemption	<u>75</u>	<u>65</u>
Balance - end of year	<u>10,345</u>	<u>10,270</u>
Undistributed earnings		
Balance - beginning of year	5,294,821	4,971,796
Net income (Statement 5)	<u>287,906</u>	<u>323,025</u>
Balance - end of year	<u>5,582,727</u>	<u>5,294,821</u>
Members' equity	<u>\$ 5,593,072</u>	<u>\$ 5,305,091</u>

MORELL CREDIT UNION LIMITED**Statement of Profit or Loss****Year Ended December 31, 2025**

	2025	2024
Income		
Interest and investment	\$ 3,252,160	\$ 3,231,604
Cost of capital and borrowing		
Interest and service charges	1,227,872	1,395,521
Share dividends	32,294	46,404
	<u>1,260,166</u>	<u>1,441,925</u>
Financial margin	<u>1,991,994</u>	<u>1,789,679</u>
Other		
Commissions	326,346	318,050
Miscellaneous	63,392	58,234
	<u>389,738</u>	<u>376,284</u>
	<u>2,381,732</u>	<u>2,165,963</u>
Expenses - by nature		
Advertising and promotions	36,701	52,548
Amortization of property and equipment	29,319	44,115
Data processing	589,436	385,783
Director	16,200	13,916
Dues and memberships	4,109	2,141
Insurance	102,626	96,467
Office	74,287	68,146
Premises	53,283	63,678
Professional fees	42,516	40,821
Provision for impaired loans	60,000	56,769
Service fees	130,805	111,699
Telephone	8,544	8,420
Travel	11,260	16,833
Wages and wage levies	909,967	843,844
	<u>2,069,053</u>	<u>1,805,180</u>
Income before income taxes	<u>312,679</u>	<u>360,783</u>
Income taxes		
Current (Note 15)	24,875	39,019
Deferred	(102)	(1,261)
	<u>24,773</u>	<u>37,758</u>
Net income	<u>\$ 287,906</u>	<u>\$ 323,025</u>

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

MORELL CREDIT UNION LIMITED**Statement of Cash Flows****Year Ended December 31, 2025**

	2025	2024
Cash flows from operating activities		
Net income	\$ 287,906	\$ 323,025
Items not affecting cash:		
Amortization of property and equipment	29,319	44,115
Deferred income taxes	(102)	(1,261)
	<u>317,123</u>	<u>365,879</u>
 Changes in non-cash working capital:		
Investments	2,906,228	1,859,611
Accounts receivable	(36,969)	8,404
Prepaid expense	59,481	63,588
Accounts payable and accrued liabilities	15,119	(209,655)
Employee benefits payable	1,987	(786)
Accrued interest payable	(106,141)	71,945
Income taxes payable	(13,444)	46,262
	<u>2,826,261</u>	<u>1,839,369</u>
	<u>3,143,384</u>	<u>2,205,248</u>
 Cash flows from investing activities		
Increase in member loans and mortgages, net of provision	(7,190,003)	(2,172,674)
Purchase of property and equipment	-	(4,473)
	<u>(7,190,003)</u>	<u>(2,177,147)</u>
 Cash flows from financing activities		
Increase (decrease) in member deposits	(687,047)	7,269,355
Increase (decrease) in share deposits	616,291	(583,914)
	<u>(70,756)</u>	<u>6,685,441</u>
 Increase (decrease) in cash and cash equivalents	(4,117,375)	6,713,542
Cash and cash equivalents - beginning of year	<u>9,825,474</u>	<u>3,111,932</u>
Cash and cash equivalents - end of year	<u>\$ 5,708,099</u>	<u>\$ 9,825,474</u>
 Cash flows supplementary information (Note 16)		

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

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2025

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 March 2, 2026. 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, 2025

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, 2025

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, 2025

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	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.

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MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2025

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 \$33,493 (2024 - \$32,062).

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 2025 was 0.50% (2024 - 0.75%) and was based on the average of the lowest monthly share balances.

Share deposits

The Credit Union has authorized an unlimited number of voting equity shares, with a value of \$5 per share. The shares are non-transferable, redeemable by the Credit Union, retractable by members subject to the Credit Union's right to suspend redemption, if the redemption would impair the financial stability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Insurance Corporation.

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MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2025

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, 2025

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets and financial liabilities

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

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

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

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

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

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union currently has 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, 2025

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, 2025 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.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2025

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

	<u>2025</u>	<u>2024</u>
Cash in financial institutions	\$ 3,848,115	\$ 1,740,783
Term deposit investments	1,500,000	7,750,000
Cash on hand	359,984	334,691
	<u>\$ 5,708,099</u>	<u>\$ 9,825,474</u>

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2025

7. INVESTMENTS

	<u>2025</u>	<u>2024</u>
Shares		
Atlantic Central Credit Union Limited - common shares	\$ 487,339	\$ 487,339
Atlantic Central Credit Union Limited - Class LSM preferred shares	169,068	169,068
League Data Limited - 12,210 Class B preferred shares	122,100	122,101
Atlantic Central Credit Union Limited - Class B preferred shares	91,500	91,500
Morell Consumers Co-operative Association, Ltd.	2,196	2,125
Atlantic Central Credit Union Limited - Class PEI shares	800	800
	<u>873,003</u>	<u>872,933</u>
Debentures		
Atlantic Central Credit Union Limited liquidity deposit	4,224,073	4,130,371
Concentra term deposits	-	2,500,000
Atlantic Central Credit Union Limited term deposits	-	500,000
	<u>4,224,073</u>	<u>7,130,371</u>
	<u>\$ 5,097,076</u>	<u>\$ 8,003,304</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>2025</u>	<u>2024</u>
Accrued interest - loans and mortgages	\$ 395,029	\$ 310,395
Other receivables	34,762	14,910
Accrued interest - investments	1,183	68,700
	<u>\$ 430,974</u>	<u>\$ 394,005</u>

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2025

9. MEMBER LOANS AND MORTGAGES

	Total loans	Loan allowance	Net loans
2025			
Personal and business	\$ 21,545,412	\$ (221,694)	\$ 21,323,718
Lines of credit and overdrafts	5,849,670	(163,561)	5,686,109
Mortgages	28,751,826	(54,873)	28,696,953
LS&M reverse mortgages	411,993	-	411,993
	\$ 56,558,901	\$ (440,128)	\$ 56,118,773
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
	\$ 49,328,826	\$ (400,056)	\$ 48,928,770

10. PROVISION FOR IMPAIRED LOANS

	2025	2024
Provision for impaired loans - beginning of year	\$ 400,056	\$ 384,416
Provision for impaired loans	60,000	56,769
Recovery of loans written off	-	858
Loans written off - current year	(19,928)	(41,987)
	\$ 440,128	\$ 400,056

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:

	2025	2024
0 to 30 days	\$ 1,029	\$ 124,962
91 to 180 days	-	129,944
Over 180 days	140,108	-
	\$ 141,137	\$ 254,906

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2025

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>2025</u>	<u>2024</u>
Property and equipment	\$ 1,091	\$ 989

13. MEMBER DEPOSITS

	<u>2025</u>	<u>2024</u>
Personal chequing accounts	\$ 17,709,163	\$ 20,163,070
Term deposits	14,050,048	14,420,370
Tax Free Savings Account (TFSA) deposits	10,760,321	9,638,218
Registered Retirement Savings Plan (RRSP) deposits	5,453,592	5,548,672
Registered Retirement Income Fund (RRIF) deposits	4,405,368	4,208,721
Call deposits	2,723,055	1,809,543
	<u>\$ 55,101,547</u>	<u>\$ 55,788,594</u>

14. MEMBERS' SHARES

	<u>Number of</u>	<u>December 31</u>	<u>Number of</u>	<u>December 31</u>
	<u>shares</u>	<u>2025</u>	<u>shares</u>	<u>2024</u>
Balance - beginning of year	2,054	\$ 10,270	2,041	\$ 10,205
Shares issued, net of redemption	15	75	13	65
Balance - end of year	<u>2,069</u>	<u>\$ 10,345</u>	<u>2,054</u>	<u>\$ 10,270</u>

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2025

15. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 29.37% (2024 - 29.17%) to the income for the year and is reconciled as follows:

	<u>2025</u>	<u>2024</u>
Income before income taxes	\$ 312,679	\$ 360,783
Income tax expense at the combined basic federal and provincial tax rate	\$ 91,834	\$ 105,240
Increase (decrease) resulting from:		
Small business deduction	(47,263)	(74,136)
Capital cost allowance claimed in excess of amortization	205	3,107
Non-deductible expenses	(21,103)	4,339
Tax reserves	(10,820)	(4,223)
Provision for loan loss reserve	18,000	17,031
Recovery of loans previously written off	-	257
Loans written off in the current period	(5,978)	(12,596)
Effective tax expense	\$ 24,875	\$ 39,019

The effective income tax rate is 7.96% (2024 - 10.82%).

16. CASH FLOW SUPPLEMENTARY INFORMATION

	<u>2025</u>	<u>2024</u>
Interest received	\$ 3,198,909	\$ 3,195,111
Interest paid	1,319,697	1,283,330
Income taxes paid	39,019	39,719

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 has no renewal date, 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, 2025

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>2025</u>	<u>2024</u>
Short term employee benefits	\$ 415,126	\$ 435,686
Contributions to a retirement pension plan	21,962	22,877
Mortgages, loan balances, and lines of credit due from key management at December 31	20,152	32,293
Deposit balances due to key management at December 31	268,153	263,996

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, 2025

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:

	2025	2024
Cash and cash equivalents	\$ 5,708,099	\$ 9,825,474
Investments	5,097,076	8,003,304
Accounts receivable	430,974	394,005
Member loans and mortgages, net of provision	56,118,773	48,928,770
	<u>\$ 67,354,922</u>	<u>\$ 67,151,553</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, 2025

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>
2025	\$ 37,442,175	\$ 7,656,430	\$ -	\$ 45,098,065
2024	\$ 32,046,087	\$ 30,899,234	\$ -	\$ 62,945,321

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, 2025:

	<u>Under 1 year</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Investments	\$ 5,097,076	\$ -	\$ -	\$ 5,097,076
Member loans and mortgages	\$ 8,271,730	\$ 45,982,957	\$ 1,864,086	\$ 56,118,773
Member deposits	\$ 47,445,117	\$ 7,656,430	\$ -	\$ 55,101,547

(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, 2025, the Credit Union had cash and bank balances of \$294,827 USD (2024 - \$80,340 USD) and member accounts of \$14,353 USD (2024 - \$3,885 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:	2025	2024
1% increase in interest rates	\$ 316,530	\$ 276,366
1% decrease in interest rates	\$ (327,169)	\$ (295,257)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2025

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, 2025 amounted to \$56,558,901 (2024 - \$49,328,826).

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, 2025

21. CAPITAL MANAGEMENT (continued)

	2025	2024
Undistributed earnings	\$ 5,582,727	\$ 5,294,821
Members' shares	10,345	10,270
	5,593,072	5,305,091
Total regulatory equity	68,378,256	68,250,142
Total assets	8.18 %	7.77 %

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.

	2025	2024
Total assets	\$ 68,378,256	\$ 68,250,142
Liquid assets	11,236,149	18,222,782
	16.43 %	26.70 %

22. COMPARATIVE FIGURES

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

MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Statement of Property and Equipment
Year Ended December 31, 2025

(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
2025									
Land	\$ 130,535	-	-	\$ 130,535	-	-	-	-	\$ 130,535
Building	856,691	-	-	856,691	457,510	15,967	-	473,477	383,214
Equipment	330,899	-	-	330,899	283,391	9,502	-	292,892	38,006
Pavement	16,675	-	-	16,675	5,048	930	-	5,978	10,697
Computer hardware	72,563	-	-	72,563	68,060	2,920	-	70,980	1,583
	\$ 1,407,363	-	-	\$ 1,407,363	\$ 814,009	\$ 29,319	-	\$ 843,327	\$ 564,035
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	19,232	-	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	\$ 44,114	-	\$ 814,009	\$ 593,355

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

MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Interest Rate Sensitivity
Year Ended December 31, 2025

(Schedule 2)

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	\$ 4,375,000	\$ -	\$ -	\$ 1,333,099	\$ 5,708,099
Effective interest rate	2.28 %	-	-	-	
Investments	4,224,073	-	-	873,003	5,097,076
Effective interest rate	2.21 %	-	-	-	
Accounts receivable	-	-	-	430,974	430,974
Member loans and mortgages	2,585,110	45,982,957	1,864,087	-	50,432,154
Effective interest rate	5.47 %	6.92 %	6.07 %	-	
Lines of credit and overdrafts	5,686,619	-	-	-	5,686,619
Effective interest rate	6.59 %	-	-	-	
Income taxes recoverable	-	-	-	14,144	14,144
Prepaid expense	-	-	-	444,064	444,064
Future income taxes	-	-	-	1,091	1,091
Property and equipment	-	-	-	564,035	564,035
	<u>\$ 16,870,802</u>	<u>\$ 45,982,957</u>	<u>\$ 1,864,087</u>	<u>\$ 3,660,410</u>	<u>\$ 68,378,256</u>
LIABILITIES AND MEMBERS' EQUITY					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 110,427	\$ 110,427
Employee benefits payable	-	-	-	64,124	64,124
Accrued interest payable	-	-	-	645,588	645,588
Member deposits	29,758,536	7,656,430	-	17,686,581	55,101,547
Effective interest rate	3.95 %	3.23 %	-	-	
Share deposits	6,863,498	-	-	-	6,863,498
Effective interest rate	0.50 %	-	-	-	
Members' shares	10,345	-	-	-	10,345
Effective interest rate	0.50 %	-	-	-	
Undistributed earnings	-	-	-	5,582,727	5,582,727
	<u>\$ 36,632,379</u>	<u>\$ 7,656,430</u>	<u>\$ -</u>	<u>\$ 24,089,447</u>	<u>\$ 68,378,256</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, 2025, Morell Credit Union Limited's net interest spread was 1.98%. 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 (FHSAs). 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
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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



morellcreditunion.com/Home