VERMILION CREDIT UNION LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2023

Vermilion CREDIT UNION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation and presentation of the accompanying financial statements, including significant accounting judgments and estimates in accordance with International Financial Reporting Standards. The responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains the necessary accounting systems and related internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of the financial statements.

The elected Board of Directors of Vermilion Credit Union Limited are composed entirely of individuals who are neither management nor employees of the Credit Union. The Board of Directors have the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors are also responsible for the appointment of the Credit Union's external auditors.

Metrix Group LLP, an independent firm of Chartered Professional Accountants, is appointed by The Board of Directors to audit the financial statements and to report directly to them. The external auditors have full and free access to and meet periodically and separately with the internal audit staff, other management staff, and the Audit & Risk Committee of the Board and management to discuss their audit findings.

Vermilion, Alberta
January 24, 2024

DocuSigned by:
David Eremko
0FE7FF3C2A01406...

David Eremko
Chief Executive Officer

DocuSigned by:
Kelsey Rose
9FE8A533B36D420...

Kelsey Rose
Manager of Finance and Risk

INDEPENDENT AUDITORS' REPORT

To the Members of Vermilion Credit Union Limited

Opinion

We have audited the financial statements of Vermilion Credit Union Limited (the Credit Union), which comprise the statement of financial position as at October 31, 2023 and the statement of net income and comprehensive income, statement of changes in members' equity and statement of cash flows for the year then ended, and notes to 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 October 31, 2023, and its financial performance and its 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

(continues)

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

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

Auditors' Responsibility 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 auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.

- Evaluate the appropriateness of accounting policies 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 auditors' 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 auditors' 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.

METRIX GROUP LLP

Chartered Professional Accountants

Edmonton, Alberta
January 24, 2024

VERMILION CREDIT UNION LIMITED
Statement of Financial Position
As at October 31, 2023

	2023	2022
ASSETS		
Cash and cash equivalents *(Note 5)*	**$ 24,947,727**	$ 18,027,952
Investments *(Note 6)*	**39,143,594**	35,583,185
Derivative assets *(Note 20)*	**24,940**	62,251
Member loans *(Note 7)*	**182,435,447**	177,265,291
Other assets	**187,911**	201,214
Deferred income tax asset (Note 8)	**3,878**	-
Property and equipment *(Note 9)*	**1,722,177**	1,053,788
Intangible assets *(Note 10)*	**162,684**	183,887
	$248,628,358	$232,377,568
LIABILITIES		
Accounts payable and accrued liabilities	**$ 238,090**	$ 223,720
Deferred income tax liability *(Note 8)*	**-**	1,049
Derivative liabilities *(Note 20)*	**24,940**	62,251
Income taxes payable	**11,610**	166,864
Member deposits *(Note 12)*	**220,837,443**	206,479,254
Patronage allocation payable to members *(Note 14)*	**268,875**	176,850
	221,380,958	207,109,988
MEMBERS' EQUITY		
Allocation distributable *(Note 14)*	**539,250**	439,375
Member shares *(Note 15)*	**8,946,529**	8,769,205
Retained earnings	**17,761,621**	16,059,000
	27,247,400	25,267,580
	$248,628,358	$232,377,568

Commitments *(Note 17)*

ON BEHALF OF THE BOARD:

DocuSigned by:
CFAF880273FE46E...
Director

DocuSigned by:
Wayne R Wright
7E143D4399D0489...
Director

VERMILION CREDIT UNION LIMITED
Statement of Net Income and Comprehensive Income
For The Year Ended October 31, 2023

	2023	2022
Financial Income		
Interest from member loans	$ 8,157,927	$ 6,380,150
Investment income	2,136,631	677,886
	10,294,558	7,058,036
Financial Expense		
Interest on member deposits	3,826,653	1,501,142
Interest on financing	-	255
	3,826,653	1,501,397
Financial Margin Before Impairment Charges	6,467,905	5,556,639
Net Investment Impairment Charges (*Note 6*)	779	659
Net Member Loan Impairment Charges (*Note 7*)	102,080	55,199
Off Balance Sheet Impairment Charges	592	3,587
Financial Margin After Impairment Charges	6,364,454	5,497,194
Other Income	1,030,824	1,058,974
Gross Margin	7,395,278	6,556,168
Operating Expenses (Schedule 1)		
Personnel	2,687,043	2,457,893
Occupancy	198,210	151,937
Security	155,471	142,913
Organization	105,217	119,492
General	1,299,476	1,167,165
	4,445,417	4,039,400
Income Before Patronage Allocation and Income Taxes	2,949,861	2,516,768
Patronage Allocation (*Note 14*)	268,875	176,850
Income Before Income Taxes	2,680,986	2,339,918
Income Taxes (*Note 8*)		
Current	578,801	558,876
Deferred (recovery)	(4,927)	(16,480)
	573,874	542,396
Net Income and Comprehensive Income	$ 2,107,112	$ 1,797,522

VERMILION CREDIT UNION LIMITED
Statement of Changes in Members' Equity
For The Year Ended October 31, 2023

	Allocation Distributable	Member Shares	Retained Earnings	**Total**
Balance, October 31, 2021	**$ 335,800**	**$ 8,434,757**	**$ 14,614,158**	**$ 23,384,715**
Net income and comprehensive income	-	-	1,797,522	**1,797,522**
Dividends paid through issuance of member shares	(335,800)	354,449	(18,649)	**-**
Dividends accrued (Note 14)	439,375	-	(439,375)	**-**
Income tax recovery, dividends declared	-	-	105,344	**105,344**
Issuance of member shares	-	354,282	-	**354,282**
Redemption of member shares	-	(374,283)	-	**(374,283)**
Balance, October 31, 2022	**$ 439,375**	**$ 8,769,205**	**$ 16,059,000**	**$ 25,267,580**
Net income and comprehensive income	-	-	2,107,112	**2,107,112**
Dividends paid through issuance of member shares	(439,375)	425,438	13,937	**-**
Dividends accrued (Note 14)	539,250	-	(539,250)	**-**
Income tax recovery, dividends declared	-	-	120,822	**120,822**
Issuance of member shares	-	74,979	-	**74,979**
Redemption of member shares	-	(323,093)	-	**(323,093)**
Balance, October 31, 2023	**$ 539,250**	**$ 8,946,529**	**$ 17,761,621**	**$ 27,247,400**

VERMILION CREDIT UNION LIMITED
Statement of Cash Flows
For The Year Ended October 31, 2023

	2023	2022
Operating Activities		
Interest received from member loans	**$ 7,909,316**	$ 6,225,601
Interest received from investments	**1,664,441**	455,452
Dividends received	**36,250**	36,250
Other income received	**1,030,824**	1,058,974
Interest paid to members	**(2,745,303)**	(1,324,933)
Income taxes paid	**(613,233)**	(329,417)
Net operating expenses paid	**(4,346,203)**	(4,058,091)
Patronage allocation paid	**(176,850)**	(170,675)
Net change in member loans	**(4,998,258)**	(5,548,870)
Net change in member deposits	**13,276,837**	12,489,717
	11,037,821	8,834,008
Investing Activities		
Purchase of property and equipment	**(744,684)**	(15,367)
Net change in investments	**(3,125,248)**	(27,830,063)
	(3,869,932)	(27,845,430)
Financing Activities		
Issue of member shares	**500,417**	708,731
Redemption of member shares	**(323,093)**	(374,283)
Dividends on common shares	**(425,438)**	(354,449)
Interest paid on financing	**-**	(255)
	(248,114)	(20,256)
Net Increase (Decrease) in Cash and Cash Equivalents	**6,919,775**	(19,031,678)
Cash and Cash Equivalents, Beginning of Year	**18,027,952**	37,059,630
Cash and Cash Equivalents, End of Year	**$ 24,947,727**	$ 18,027,952

1. NATURE OF OPERATIONS

Vermilion Credit Union Limited (the "Credit Union") is incorporated under the *Credit Union Act* of Alberta (the "Province") on March 18, 1943. The Credit Union operates Credit Union branches in the Town of Vermilion and Village of Mannville, which provides loans and deposit services to its members.

The Credit Union Deposit Guarantee Corporation (the "Corporation"), a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Province will ensure that the Corporation carries out this obligation.

The Credit Union's registered office is located at 5019 - 50 Avenue, Vermilion, Alberta, T9X 1A7.

2. BASIS OF PRESENTATION

(a) *Statement of Compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations, issued by the International Accounting Standards Board ("IASB").

The financial statements have been approved and authorized for issue by the Board of Directors (the "Board") on January 24, 2024.

(b) *Basis of Measurement*

The financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments.

(c) *Use of Estimates and Judgments*

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Notes 3 and 4.

(d) *Functional Currency*

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are summarized below.

(a) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, ATM cash, foreign currency and operating accounts with Credit Union Central Alberta ("Central"), items in transit and money market term deposits. These items are highly liquid financial assets with maturities of three months or less from the acquisition date and are used by the Credit Union in the management of short-term commitments.

(b) *Investments*

Each Investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

(c) *Member Loans*

Member loans are measured initially at fair value plus transaction costs, and subsequently at amortized cost using the effective interest rate method less any impairment losses. All loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(d) *Financial Instruments*

(i) Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in net income and comprehensive income when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial instruments are classified as follows:

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 flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Financial Instruments (continued)*

Classification and subsequent measurement (Continued)

A financial asset is measured at FVOCI only 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 achieved by both collecting contractual cash flows and selling financial assets; 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.

On initial recognition of an equity instrument that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment by investment basis. All other financial assets are classified as measured at FVTPL.

For financial assets designated as measured at FVTPL, changes in fair value are recognized in the statement of net income and comprehensive income. For financial assets classified as measured at FVOCI or an irrevocable election has been made, changes in fair value are recognized in the statement of net income and comprehensive income. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense are calculated using the effective interest method and is recognized in the statement of net income and comprehensive income.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives and how performance of the portfolio is evaluated.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union’s claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies financial assets only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Financial Instruments (continued)*

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The date the Credit Union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Credit Union's accounting policies for impairment of financial assets.

For members' loans receivable and accrued interest the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for other receivables. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial asset is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets;
- For loan commitments and financial guarantee contracts, as a provision;
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision; and
- Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Financial Instruments (continued)*

Derecognition of financial assets

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

(ii) Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in net income and comprehensive income.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Financial Instruments (continued)*

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss. When the transfer of a financial asset does not qualify for derecognition because the Credit Union has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in net income and comprehensive income.

All financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits and accrued interest, trade payables and accrued liabilities and securitization debt.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in the statement of net income and comprehensive income while distributions to members of instruments classified as members' equity are recognized in members' equity.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

(e) *Derivatives and Hedge Accounting*

The Credit Union uses option contract derivatives to manage its exposure to Canadian equity indices. Derivatives are initially recognized at fair value at the date that the derivative contract is entered into and subsequently measured at fair value with changes in fair value recognized through profit and loss immediately, unless the derivative is designated in a qualifying hedging relationship.

The Credit Union designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Credit Union formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. Premiums paid to enter into these hedges are recorded in member deposits and are amortized over the contract life.

The Credit Union uses option contract derivatives to manage its exposure to Canadian equity indices. Derivatives are initially recognized at fair value at the date that the derivative contract is entered into and subsequently measured at fair value with changes in fair value recognized through profit and loss immediately, unless the derivative is designated in a qualifying hedging relationship.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) *Derivatives and Hedge Accounting (continued)*

The Credit Union designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Credit Union formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. Premiums paid to enter into these hedges are recorded in member deposits and are amortized over the contract life.

(f) *Assets Held For Sale*

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure on the loans that are in default. Foreclosed properties are classified as assets held-for-sale and are measured at the lower of the carrying amount and the fair value less costs to sell. Assets held for sale are not depreciated.

The Credit Union does not, as a rule, occupy repossessed property for its business use. These assets are normally sold in a manner that maximizes the benefit to the Credit Union, the member and the member’s other creditors and may involve the use of realtors and auctioneers.

(g) *Impairment of Non-Financial Assets*

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying value may not be recoverable. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and its value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income and comprehensive income.

(h) *Property and Equipment*

Land is measured at cost and is not depreciated. Other items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Depreciation of other items of property and equipment are calculated over their estimated useful life at the following annual rates and methods:

Building	2 - 4.30%	Straight-line
Parking lot	6.75%	Straight-line
Furniture and equipment	20 & 25%	Straight-line
Information technology	25 - 33%	Straight-line

Depreciation is recorded in the initial month of acquisition; no depreciation is recorded in the month of disposal. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Gains and losses on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net income within Other Income.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Intangible Assets*

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment (losses). Software is amortized on a straight-line basis over its estimated useful life of 10 years.

The useful lives of the intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in net income within Other Income.

(j) *Income Taxes*

Tax expense for the period is comprised of current and deferred income taxes.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences between the carrying amounts and the income tax basis of the Credit Union's member loans, property and equipment and intangible assets. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(k) *Pension Plan*

The Credit Union offers employees a defined contribution plan where contributions are made by both the Credit Union and the employee. Contributions are based on a percentage of salary and no further contributions are required once the employee retires or leaves the Credit Union. Obligations for contributions to defined benefit contribution plans are recognized in personnel expense in the statement of net income when they are due.

(l) *Dividends*

Dividends are accounted for when they have been approved by the Board of Directors.

(m) Patronage Allocation to Members

Patronage allocations to members are recognized in the consolidated statement of net income and comprehensive income when circumstances indicate that the Credit Union has an obligation where it has little or no discretion to deny payment and where it can make a reasonable estimate of the amount required to settle the obligation.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) *Member Shares*

Member shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability.

Common and surplus shares are accounted for in accordance with *IFRIC 2 - Members' Shares in Co-operative Entities and Similar Instruments* ("IFRIC 2"). Common and surplus shares that are available for redemption are classified as a liability. In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in equity, net of income tax benefits. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends, interest or otherwise.

(o) *Revenue Recognition*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(i) Interest income is recognized on the statement of net income and comprehensive income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. The amortized cost of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

(ii) Other income is recognized in the fiscal period in which the related service is provided, which includes fees, service charges and commission income.

(p) *Foreign Currency Translation*

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect exchange rates at the statement of financial position date. Translation gains and losses are included in other income.

(q) *Change in Accounting Policies*

The Credit Union adopted amendments to the following standards, effective November 1, 2020. Adoption of these amendments had no effect on the Credit Union's financial statements.

- *IFRS 3 Business Combinations*
- *IFRS 16 Leases*
- *IAS 1 Presentation of Financial Statements*
- *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Future Accounting Changes

At October 31, 2023 a number of standards, interpretations, and amendments have been issued by the IASB, which are not effective for these financial statements. The Credit Union does not expect there to be an impact on the consolidated financial statements.

4. USE OF ESTIMATES AND KEY JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses during the reporting year. Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. Revisions to accounting estimates are recognized in the year in which the estimate is revised if it affects only that period or in the period of revision and future periods if the revision affects both current and future years.

The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described as follows:

(a) Expected Credit Loss Allowance

The Credit Union measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for debt investment securities that are determined to have low credit risk at the reporting date and loans and advances where credit risk has not increased significantly since their initial recognition. In particular, management judgement is required in the estimate of whether credit risk of an instrument has increased significantly, inputs into the ECL quantitative model and in the use of forward-looking information.

The Credit Union incorporates forward-looking economic information in its measurement of ECL.

The Credit Union assesses whether credit risk on a financial asset has increased significantly considering reasonable and supportable information since initial recognition in order to determine whether a 12 month ECL or lifetime ECL should be recognized. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Credit Union’s historical experience and expert credit assessment.

See the impairment of loans and advances under the significant accounting policies contained in Note 3 for further discussion of allowance for credit losses.

(b) Fair Value of Financial Instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. These techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately. The methods and assumptions applied, and the valuation techniques used, are disclosed in Note 21.

(continues)

4. USE OF ESTIMATES AND KEY JUDGMENTS (CONTINUED)

(c) Property and Equipment

Depreciation methods, useful lives and residual values require estimation and are reviewed annually and adjusted if appropriate.

(d) Income Taxes

Management exercises judgment in estimating the provision for income taxes. The Credit Union is subject to income tax laws in the federal and provincial jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the Credit Union and the relevant tax authority. To the extent that the Credit Union's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Significant management judgment is also required to determine the deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized, based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable profits will exist in the future.

5. CASH AND CASH EQUIVALENTS

The Credit Union's cash and cash equivalents consist of cash on hand, ATM cash, foreign exchange cash, operating accounts with Central, items in transit and money market term deposits. The average yield on the operating accounts with Central at October 31, 2023 is 1.23% (2022 - 0.45%).

Included in cash and cash equivalents is $591,028 (2022 - $551,762) denominated in US dollars.

A total of $18,703,482 (2022 - $12,468,391) are held in terms with an original maturity of less than or equal to three months. These terms have interest rates ranging from 5.00% to 5.50% (2022 - 3.41% - 4.17%).

6. INVESTMENTS

	2023	2022
Measured at Amortized Cost		
Central - term deposits	**$ 26,000,000**	$ 26,750,000
Other term deposits	**9,800,000**	5,900,000
Accrued interest	**643,469**	207,529
	36,443,469	32,857,529
Measured at Fair Value Through Profit and Loss		
Credit Union Central of Alberta - shares	**2,500,000**	2,500,000
Equitable Bank - shares	**205,178**	229,930
	2,705,178	2,729,930
Allowance for impairment	**(5,053)**	(4,274)
	$ 39,143,594	$ 35,583,185

All term deposits mature between November 2023 and September 2025 (2022 - November 2022 and September 2025) with interest rates ranging from 0.75% to 5.70% (2022 - 0.44% - 4.51%). As required by the *Credit Union Act*, the Credit Union holds investments in Central to maintain its statutory liquidity requirements as described in Note 18.

7. MEMBER LOANS

	Principal Performing	Principal Impaired	Allowance for Impaired Loans	2023 Net
Consumer	$ 6,803,423	$ 15,665	$ (106,112)	**$ 6,712,976**
Residential mortgages	65,507,752	446,960	(170,177)	**65,784,535**
Commercial	38,589,767	-	(77,858)	**38,511,909**
Agricultural	70,287,682	-	(41,967)	**70,245,715**
	181,188,624	462,625	(396,114)	**181,255,135**
Accrued interest	1,180,312	-	-	**1,180,312**
	$ 182,368,936	$ 462,625	$ (396,114)	**$ 182,435,447**

	Principal Performing	Principal Impaired	Allowance for Impaired Loans	2022 Net
Consumer	$ 7,000,837	$ 9,484	$ (94,462)	$ 6,915,859
Residential mortgages	64,817,219	181,307	(90,712)	64,907,814
Commercial	37,112,692	2,928	(90,397)	37,025,223
Agricultural	67,523,196	5,327	(43,829)	67,484,694
	176,453,944	199,046	(319,400)	176,333,590
Accrued interest	931,701	-	-	931,701
	$ 177,385,645	$ 199,046	$ (319,400)	$ 177,265,291

Loans Past Due but Not Impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year-end that are past due but not classified as impaired because they are either (i) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (ii) fully secured and collection efforts are reasonably expected to result in full repayment.

Loans that are past due but not impaired as at October 31, 2023 are as follows:

	30 to 59 days	60 to 89 days	Over 90 days	2023 Total
Residential mortgages	$ 500,850	$ 94,880	$ -	**$ 595,730**

	30 to 59 days	60 to 89 days	Over 90 days	2022 Total
Commercial	$ 159,640	$ -	$ -	$ 159,640

(continues)

7. MEMBER LOANS (continued)

Credit Quality of Loans

The Credit Union holds collateral against loans to customers in the form of interests over property, other securities over assets, and guarantees. It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

Reconciliation of Allowance for Expected Credit Loss

	12- Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	**2023**
Balance, beginning of year	203,440	73,615	42,345	**319,400**
Charges (recovery) of loan impairment	10,206	4,742	87,724	**102,672**
Loans written off	-	-	(25,958)	**(25,958)**
Balance, end of year	$ 213,646	$ 78,357	$ 104,111	**$ 396,114**

	12- Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	2022
Balance, beginning of year	164,054	90,639	5,921	260,614
Charges (recovery) of loan impairment	39,386	(17,024)	36,424	58,786
Balance, end of year	$ 203,440	$ 73,615	$ 42,345	$ 319,400

(continues)

7. MEMBER LOANS (continued)

Allowance for Expected Credit Loss by Portfolio

	12- Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	**2023 Allowance for Impaired Loans**
Consumer	$ 63,717	$ 23,509	$ 18,886	**$ 106,112**
Residential mortgages	34,711	50,277	85,189	**170,177**
Commercial	73,251	4,571	36	**77,858**
Agriculture	41,967	-	-	**41,967**
Balance, end of year	$ 213,646	$ 78,357	$ 104,111	**$ 396,114**

	12- Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	2022 Allowance for Impaired Loans
Consumer	$ 57,101	$ 29,617	$ 7,744	$ 94,462
Residential mortgages	29,935	43,540	17,237	90,712
Commercial	72,575	458	17,364	90,397
Agriculture	43,829	-	-	43,829
Balance, end of year	$ 203,440	$ 73,615	$ 42,345	$ 319,400

Concentration of Risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments.

There were no individuals or related groups of members for which loans exceeded 4.72% (2022 - 1.81%) of total assets at October 31, 2023.

The majority of loans to members are with members located in and around Vermilion, Alberta. A significant portion of the Credit Union's loan portfolio is secured by residential, commercial and agricultural property in and around Vermilion, Alberta. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio coverage should the oil and gas economy and property market be subject to decline. The risk of loss from loans undertaken is primarily reduced by the nature and quality of the security taken.

8. INCOME TAXES

Income Tax Expense

Reasons for the difference between income tax expense for the year and the expected income taxes based on the statutory rate of 21.19% (2022 - 23.00%) are as follows:

	2023	2022
Net income before income taxes	$ 2,680,986	$ 2,339,918
Expected provision for income taxes at statutory rates	$ 616,627	$ 538,181
Origination and reversal of timing differences	(1,763)	579
Non-deductible expenses and other	(40,990)	3,636
Total provision for income taxes	$ 573,874	$ 542,396

Deferred Income Taxes

The deferred income tax liability (asset) is comprised of temporary taxable (deductible) differences between the tax bases and carrying values in the following accounts:

	2023	2022
Property and equipment	$ 45,593	$ 32,217
Intangible assets	34,478	42,294
Allowance for loan impairment	(83,949)	(73,462)
	$ (3,878)	$ 1,049

9. PROPERTY AND EQUIPMENT

	Land	Building	Parking Lot	Furniture and Equipment	Information Technology	Total
COST:						
Balance at October 31, 2022	$ 229,800	$ 1,534,617	$ 82,080	$ 195,243	$ 41,364	$ 2,083,104
Additions	-	503,186	-	208,222	33,276	744,684
Disposals	-	(4,539)	-	(22,456)	(8,286)	(35,281)
Balance at October 31, 2023	$ 229,800	$ 2,033,264	$ 82,080	$ 381,009	$ 66,354	$ 2,792,507
ACCUMULATED DEPRECIATION:						
Balance at October 31, 2022	$ -	$ 756,702	$ 68,171	$ 182,570	$ 21,873	$ 1,029,316
Depreciation expense	-	39,781	5,540	16,241	14,733	76,295
Disposals	-	(4,539)	-	(22,456)	(8,286)	(35,281)
Balance at October 31, 2023	$ -	$ 791,944	$ 73,711	$ 176,355	$ 28,320	$ 1,070,330
NET BOOK VALUE:						
October 31, 2022	$ 229,800	$ 777,915	$ 13,909	$ 12,673	$ 19,491	$ 1,053,788
October 31, 2023	**$ 229,800**	**$ 1,241,320**	**$ 8,369**	**$ 204,654**	**$ 38,034**	**$ 1,722,177**

10. INTANGIBLE ASSETS

COST:	
Balance at October 31, 2022	$ 697,982
Disposals	(8,104)
Balance at October 31, 2023	**$ 689,878**
ACCUMULATED AMORTIZATION:	
Balance at October 31, 2022	$ 514,095
Amortization expense	21,203
Disposals	(8,104)
Balance at October 31, 2023	**$ 527,194**
NET BOOK VALUE:	
October 31, 2022	$ 183,887
October 31, 2023	**$ 162,684**

11. OPERATING DEMAND LOAN

The Credit Union has an approved $6,700,000 (2022 - $6,700,000) revolving operating demand facility with Credit Union Central Alberta Limited ("Central") which is secured by a general assignment of book debts, investments and deposits held at Central. Interest is payable at Central's prime rate less 0.5%. No amount was drawn at October 31, 2023 (2022 - $NIL).

12. MEMBER DEPOSITS

	2023	2022
Demand deposits	**$114,598,906**	$118,736,066
Term deposits	**66,859,470**	52,890,118
Tax-Free Savings Accounts ("TFSA")	**17,915,769**	15,881,867
Registered Retirement Savings Plans ("RRSP")	**13,224,631**	12,522,198
Registered Retirement Income Funds ("RRIF")	**6,490,285**	5,781,973
	219,089,061	205,812,222
Accrued interest payable	**1,748,382**	667,032
	$220,837,443	$206,479,254

The repayment of all member deposits, including accrued interest, is guaranteed by Credit Union Deposit Guarantee Corporation for which the Credit Union pays a deposit guarantee assessment fee.

Wyth Financial is the trustee of the RRSPs, RRIFs, and TFSAs offered to members. Under an agreement with Wyth Financial, member contributions to the plans, as well as income earned, are deposited in the Credit Union.

Concentration of Risk

The Credit Union has exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments. The majority of member deposits are with members located in and around Vermilion, Alberta.

There were no individuals or related groups of members for which deposits exceeded 1.47% (2022 - 1.26%) of total deposits at October 31, 2023.

13. PENSION PLAN

The Credit Union has a defined contribution pension plan for qualifying employees. The expense and payments for the year ended October 31, 2023 were $120,323 (2022 - $110,848). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members. The Credit Union matches contributions from employees based off of years of employment at the percentage of salary summarized below:

1 - 5 years	5.00%
6 - 10 years	5.50%
11 - 15 years	6.00%
16 - 20 years	6.50%
21 - 25 years	7.00%
26+ years	8.00%

14. ALLOCATION DISTRIBUTABLE

The Board of Directors' intention is to pay a dividend on common shares equal to the average five-year term deposit rate for that fiscal year plus 1.5%. Their objective is to return approximately 30% of the Credit Union's profits to the membership each year by way of dividends on common shares (paid in member shares) and patronage rebates (paid in cash).

	2023	2022
Income before patronage allocation and income taxes	**$ 2,949,861**	$ 2,516,768
Less: Income taxes	**573,874**	542,396
Income tax recovery, dividends declared	**(120,822)**	(105,344)
	453,052	437,052
Income after income taxes and before patronage allocation	**$ 2,496,809**	$ 2,079,716
Patronage allocation distributable:		
Dividend on common shares	**$ 539,250**	$ 439,375
Patronage rebate	**268,875**	176,850
	$ 808,125	$ 616,225

The dividend on common shares is 6.00% (2022 - 5.00%) which is calculated on the minimum monthly balance. The patronage rebate is 3.00% (2022 - 3.00%) on the total loan interest paid; 5.00% (2022 - 5.00%) on the service charges, and 1.50% (2022 - NIL) on the deposit interest received.

15. MEMBER SHARES

Authorized

The *Credit Union Act* of Alberta identifies a class of equity shares, known as common shares, having the following characteristics:

i) an unlimited number may be issued;
ii) a par value of $1, but fractional shares may be issued;
iii) transferable only in restricted circumstances;
iv) non-assessable; and
v) redemption of common shares is at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the *Credit Union Act* and *Regulations*, including limitations to 10% of outstanding balances.

Credit Union policy requires all members to make a minimum investment based upon the following criteria:

Regular member account	$25
Children's member account (under 16 years)	$5
Trust account	
- Beneficiary	$5
- Trustees	$25
Business account	$25
Not-for-profit organization	NIL
Members are allowed to hold a maximum of	Unlimited

The Corporation does not guarantee common shares which represent "at risk" capital.

16. RELATED PARTY TRANSACTIONS

(a) Member Loans

Directors and management of the Credit Union have loans totaling $5,238,228 (2022 - $4,512,476) which is 2.89% (2022 - 2.56%) of total loans. The aggregate value of loans disbursed to directors and management is $84,000 (2022 - $113,616). The aggregate value of unadvanced loans to directors and management is $910,164 (2022 - $866,197). The Credit Union, in accordance with its policy, grants loans to its management and staff at rates from 0% to 2% below member rates. Directors pay regular member rates on loans. All loans are in good standing. Interest and other revenue earned on these related party loans is $154,617 (2022 - $116,995).

(b) Member Deposits

Directors and management of the Credit Union have deposits totaling $2,765,854 (2022 - $3,409,912) which is 1.26% (2022 - 1.66%) of total deposits. Interest paid on these related party member deposits was $27,544 (2022 - $11,439).

(c) Directors' Fees

Directors' remuneration was $24,850 (2022 - $20,300) and expenses reimbursed to Directors were $4,469 (2022 - $2,481). Remuneration paid to Directors ranges from $2,100 to $3,150 (2022 - $2,000 to $3,775) with an average of $2,761 (2022 - $2,581). The Credit Union retained nine (2022 - nine) directors for the year.

(d) Compensation of Key Management Personnel

Key management personnel are defined under the standards as persons having authority and responsibility for planning, directing, and controlling the activities of the Credit Union, directly or indirectly. The key management personnel of the Credit Union includes executive management.

	2023	2022
Salaries and short-term benefits	**$ 982,508**	$ 971,615

There was no compensation for post employment benefits, long-term benefits, termination benefits or share-based compensation during 2023 or 2022. The Credit Union management is comprised of eight (2022 - eight) employees for the year.

17. COMMITMENTS

(a) Retail Banking Services Agreement

The Credit Union recently entered into an amended *eroWORKS* Retail Banking Services Agreement with Celero Solutions Inc. The Agreement is effective for a ten year term commenced on January 1, 2016. Under the terms of this Agreement the Credit Union is committed to annual operating fees of approximately $200,000.

(b) Deposit Agreements

The Credit Union has $322,453 (2022 - $371,327) of index-linked deposits outstanding to its members at October 31, 2023. These deposits mature between 2024 and 2027 and pay bonus interest to the depositors, at the end of the term, based upon the performance of the related index. The Credit Union has entered into deposit agreements with Central to offset the exposure on these deposits related to the performance of the underlying index. Consequently, at the end of the term, the Credit Union will receive payments from Central which will offset the amounts that will be paid to the depositors based on the performance of the underlying index.

The deposit agreements with Central are recorded in member deposits at cost less accumulated depreciation at October 31, 2023 of $6,452 (2022 - $12,086). Depreciation is calculated on a straight-line basis over the term of the deposits and amounted to $8,323 (2022 - $10,519).

(c) Credit Commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts for these commitments as set out below represent the maximum exposure to the Credit Union should the contracts be fully drawn and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements. Such commitments, which are not included on the statement of financial position, include:

Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

	2023	2022
Guarantees and stand-by letters of credit	**$ 177,250**	$ 197,250
Commitments to extend credit:		
Original term to maturity of one year or less	**9,827,932**	9,695,270
Original term to maturity of more than one year	**42,744,170**	39,064,389
	$ 52,749,352	$ 48,956,909

18. RISK MANAGEMENT

The Credit Union's risk management policies are designed to identify and analyze risks, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of profitability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets and products.

Risk management is carried out by management who reports to the Board. The Board provides written principles for risk tolerance and overall risk management. Management reports to the Board on compliance with the risk management policies of the Credit Union.

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and floating rates for various periods. The Credit Union seeks to earn an interest rate margin by investing these funds in high quality financial instruments – principally commercial and consumer loans, lines of credit, and commercial and residential mortgages. The primary types of financial risk that arise from this activity are credit risk, liquidity risk and market risk which is comprised of interest rate risk.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the types of methods used in managing those risks.

Activity	Risks	Method of managing risks
Investments, cash and cash equivalents	Sensitivity to changes in interest rates, liquidity and credit risk, and foreign exchange rate	Asset-liability matching; monitoring of investment restrictions and monitoring of counterparty risk
Member loans	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching and monitoring of counterparty risk
Member deposits	Sensitivity to changes in interest rates and foreign exchange rates	Asset-liability matching and periodic use of derivatives
Equity-linked derivative contracts	Sensitivity to changes in Canadian equity indices	Options

(a) Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in prevailing market interest rates. Financial margin reported in the statement of net income and comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by management and reported to the Board.

(continues)

18. RISK MANAGEMENT (continued)

(a) Interest Rate Risk (continued)

To manage the re-pricing of asset and liability mismatch opportunities the Credit Union will undertake campaigns to procure deposits or loans that reprice/mature within a specific time period, buy/sell assets that reprice/mature within a specific time period and may purchase derivative instruments. These decisions are based on economic conditions, member behaviour, capital and liquidity levels and compliance with Credit Union policy.

Other types of interest rate risk may involve basis risk, the risk of loss from changes in the relationship of interest rates which may not have identical characteristics (for example the difference between prime rate and variable rate loans and variable rate deposits) and prepayment risk (the risk of loss of interest income arising from early repayment of fixed rate mortgages and loans). These risks are also monitored on a regular basis and reported to the Board.

Interest rate risk is measured by:

i) Static gap analysis which aggregates cash flows into repricing periods based on the maturity dates of the assets and liabilities.
ii) Income simulation models that use current interest revenue, current interest expense and market values. These models incorporate assumptions about pricing strategies, growth, volume, new business and interest rates.
iii) Market value of portfolio equity determines the present value of all assets and liabilities. This provides an estimate of the equity value of the Credit Union.

(continues)

18. RISK MANAGEMENT (continued)

a) Interest Rate Risk (continued)

The following schedule shows the Credit Union's sensitivity to interest rate changes as at October 31, 2023. Fixed rate assets and fixed rate liabilities are reported based on scheduled repayments. Variable rate assets and liabilities that are linked to prime rate are reported in the floating rate category. Non-interest bearing assets and non-interest bearing liabilities are reported in the non-rate sensitive category.

As at October 31, 2023

	Floating Rate	Within 1 Year	1 to 5 Years	Non-Rate Sensitive	Total
Assets					
Cash	$ 6,490,356	$ 18,703,482	$ -	$ (246,111)	**$ 24,947,727**
Effective Yield	*1.85%*	*4.78%*	*0.00%*	*0.00%*	***4.06%***
Investments	-	28,538,416	7,900,000	2,705,178	**39,143,594**
Effective Yield	*-%*	*4.78%*	*3.82%*	*0.00%*	***4.25%***
Member loans	27,099,270	34,970,965	120,365,212	-	**182,435,447**
Effective Yield	*8.25%*	*4.61%*	*4.21%*	*0.00%*	***4.89%***
Other	-	-	-	2,101,590	**2,101,590**
	33,589,626	82,212,863	128,265,212	4,560,657	**248,628,358**
Liabilities					
Deposits	74,248,636	43,919,407	59,010,092	43,659,308	**220,837,443**
Effective Yield	*0.92%*	*2.89%*	*4.22%*	*0.00%*	***2.00%***
Equity	-	-	-	27,247,400	**27,247,400**
Other	-	-	-	543,515	**543,515**
	74,248,636	43,919,407	59,010,092	71,450,223	**248,628,358**
Net gap	$ (40,659,010)	$ 38,293,456	$ 69,255,120	$ (66,889,566)	**$ -**

As at October 31, 2022

Net gap	$ (46,340,053)	$ 41,018,461	$ 68,225,547	$ (62,903,955)	$ -

The following table provides the potential before-tax impact of a 1% increase or decrease in the Credit Union's financial margin before provision for loan impairment. These measures are based on assumptions made by management and validated by experience. All interest rate risk measures are based upon interest rate exposures at specific time continuously changing as a result of business activities and management's risk initiatives.

Impact on financial margin before taxes and provision for loan impairment of:

	2023	2022
1% increase in rates	**$ (30,000)**	$ (10,000)
1% decrease in rates	**$ (600,000)**	$ (730,000)

(continues)

18. RISK MANAGEMENT (continued)

(b) Credit Risk

Credit risk is the risk that financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union arising from member loans, investments, securities and derivative instruments with positive market values. The primary credit risk arising from loans is the possibility that members will be unable or unwilling to repay some or all of the principal and interest on their loans. Allowances for credit losses are made for potential losses that have been identified at the statement of financial position date.

Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in member loans and advances and treasury activities that result in investments in cash resources. The overall management of credit risk is centralized in the Audit and Risk, and Finance Committees, which reports to the Board.

Concentration of loans is managed by the implementation of sector and member specific limits.

The Credit committee is responsible for approving and monitoring the Credit Union's tolerance for credit exposures. It accomplishes this through review and approval of the Credit Union's lending policies and through setting of limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits, and prior to advancing funds to a member, an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and establishes that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The credit quality of the commercial loan portfolio and agricultural loan portfolio for those loans that are neither past due nor impaired can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the quality of loans using an internal rating tool. This rating tool takes into consideration a number of factors, such as the security, the borrower's management performance, current and projected financial results and industry statistics related to the borrower's industry and utilizes the experience and judgment of the Credit department. The current risk rating format consists of seven categories reflecting various degrees of risk and the availability of collateral.

(continues)

18. RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

The following information represents the maximum exposure to credit risk before taking into consideration any collateral. For financial assets recognized on the statement of financial position, the exposure to credit risk is their stated carrying amount. For off balance sheet items, the maximum exposure is the full amount of the undrawn facilities or loan commitment.

	2023	2022
On balance sheet exposure		
Cash and cash equivalents	**$ 24,947,727**	$ 18,027,952
Investments	**39,143,594**	35,583,185
Member loans	**182,435,447**	177,265,291
	$246,526,768	$230,876,428
Off balance sheet exposure		
Guarantees and stand-by letters of credit	**$ 177,250**	$ 197,250
Commitments to extend credit		
Original term to maturity of one year or less	**9,827,932**	9,695,270
Original term to maturity of more than one year	**42,744,170**	39,064,389
	$ 52,749,352	$ 48,956,909

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicates the sensitivity of the Credit Union to developments affecting a particular segment of borrowers or geographic region.

Geographic credit risk exists for the Credit Union due to its primary service area being in Vermilion, Mannville and surrounding areas.

For the retail loan portfolio (residential and consumer loans), the Credit Union's underwriting methodologies and risk modelling are member-based rather than product-based. The Credit Union reviews the member's capacity to repay the residential mortgages which are fully secured by residential property with 9.55% (2022 - 10.94%) in mortgages insured by Canada Mortgage and Housing Corporation and other mortgage insurance providers and 26.77% (2022 - 25.83%) in conventional mortgages with an ongoing maximum advance ratio to 80% of the appraised value.

(c) Market Risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

(d) Fair Value Risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its member loans, investments and member deposits. The Credit Union does hedge its fair value risk regarding its equity linked derivatives. For further information on fair value of financial instruments see Note 21.

(continues)

18. RISK MANAGEMENT (continued)

(e) Liquidity Risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity at all times as described in Note 19. The Credit Union has established policies which include minimum liquidity requirements, eligibility requirements for liquid assets, investments with counterparties, deposit concentration and diversification limits. The Credit Union monitors expected cash inflows and outflows on a daily, cyclical and long-term basis. The Credit Union's preferred source of funding is member deposits; however, borrowing from Central is permitted during periods where loan demand exceeds deposit growth. Other sources of funding such as sale of assets, deposits from other credit unions and wholesale deposits are acceptable.

On a periodic basis management ensures that it has adhered to the regulatory requirement of the *Credit Union Act* of Alberta's minimum liquidity ratio of 6% of total assets. The Credit Union's liquidity ratio was 8.25% at October 31, 2023 (2022 – 8.18%).

Management reviews its compliance with these policies and reports its statutory liquidity position to the Board on an exception basis. It reports the operating liquidity to the Board on a monthly basis. The Audit, Risk and Finance Committee ensures that a periodic review/audit is performed to verify compliance with policy and procedures (no less than annually).

(f) Foreign Exchange Risk

Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financed investments for an extended period.

19. CAPITAL MANAGEMENT

The Credit Union's objectives when managing capital are:

(a) To ensure the long term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses.

(b) To comply at all times with the capital requirements set out in the *Credit Union Act*.

The Credit Union measures the adequacy of capital using two methods:

i) Total capital as a percentage of total assets; and

ii) Total capital as a percentage of risk weighted assets. Under this method the Credit Union reviews its loan portfolio and other assets and assigns a risk weighting using definitions and formulas set out in the *Credit Union Act*. The more risk associated with an asset, a higher weighting is assigned. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

Credit Union management ensures compliance with capital adequacy through the following:

(a) Setting policies for capital management, monitoring and reporting;

(b) Setting policies for related areas such as asset liability management;

(c) Reporting to the Board of Directors or its committees regarding financial results and capital adequacy;

(d) Reporting to the Corporation on its capital adequacy; and

(e) Setting budgets and reporting variances to those budgets.

The Credit Union is required under the *Credit Union Act* to have a capital balance that is equal to or exceeds the greater of:

i) 4% of total assets; and
ii) 8% of risk weighted assets.

As of October 31, 2023 the Credit Union's available capital as a percentage of total assets was 11.01% (2022 - 10.73%) and the available capital as a percent of risk weighted assets was 16.57% (2022 - 15.96%). Therefore, the Credit Union has exceeded its minimum capital requirement at October 31, 2023.

Furthermore, the Corporation requires an additional regulatory capital buffer of 2.5% of total risk weighted assets.

The Corporation also expects the Credit Union to hold an additional internal capital buffer equal to a minimum of 2% of total risk weighted assets.

20. DERIVATIVES

Equity-linked options are used to fix costs on term deposit products which pay a return to the deposit holder based on the change in equity market indexes. The embedded derivative in the term deposit product as well as the option derivatives is marked to market through interest income investments. The fair value of the equity linked derivative contract is separately presented as part of derivative instrument assets.

The fair value of the equity-linked option contract is $24,940 (2022 - $62,251). The fair value of the embedded derivative is $24,940 (2022 - $62,251). Both items are marked to market through income. This had no effect on income for the year ended October 31, 2023.

The notional amounts of equity-linked derivative contracts maturing at various times are as follows:

	2023	2022
Within 1 year	**$ 179,332**	$ 48,874
Within 2 years	**91,397**	179,332
Within 3 years	**-**	91,397
Within 4 years	**51,724**	-
Within 5 years	**-**	51,724
	$ 322,453	$ 371,327

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged.

21. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. The Credit Union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent the Credit Union's best estimates based on a range of methods and assumptions. Since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instrument. Interest rate changes are the main cause of changes in the fair value of the Credit Union's financial instruments.

The following methods and assumptions are used to estimate the fair market value:

i) The fair values of cash, demand deposits, certain other assets and certain other liabilities approximate their carrying values, due to their short-term nature.

ii) The estimated fair values of floating-rate investments, member loans and member deposits are assumed to equal carrying value as the interest rates automatically reprice to market.

iii) The estimated fair values of fixed-rate investments, member loans and member deposits are determined by discounting the expected future cash flows of these items at current market rates for products with similar terms and credit risks.

The most significant assumption relates to the discount rates utilized. If the forward yield curve of such instruments would increase by 10 basis points then the fair value of financial assets would decrease by $3,383,812 (2022 - $286,251) and the fair value of financial liabilities would decrease by $1,481,440 (2022 - $133,659). A corresponding decrease of 10 basis points in the forward yield curve would result in a $3,383,812 (2022 - $286,251) increase in the fair value of financial assets and a $1,481,440 (2022 - $133,659) increase in the fair value of financial liabilities.

The total value of loans determined using the above assumptions is reduced by the allowance for impaired loans.

	2023			2022		
	Fair Value (FV)	**Carrying Value (CV)**	**Change**	Fair Value (FV)	Carrying Value (CV)	Change
Assets						
Cash and cash equivalents	**$ 24,947,727**	**$ 24,947,727**	$ -	$ 18,027,952	$ 18,027,952	$ -
Investments	**39,104,594**	**39,143,594**	**(39,000)**	35,384,185	35,583,185	(199,000)
Member loans	**180,496,447**	**182,435,447**	**(1,939,000)**	173,082,291	177,265,291	(4,183,000)
Other	**28,818**	**28,818**	**-**	62,251	62,251	-
	$ 244,577,586	**$ 246,555,586**	**$ (1,978,000)**	$ 226,556,679	$ 230,938,679	$ (4,382,000)
Liabilities						
Member deposits	**$ 223,567,443**	**$ 220,837,443**	**$ 2,730,000**	$ 207,378,254	$ 206,479,254	$ 899,000
Other liabilities	**543,515**	**543,515**	**-**	629,686	629,686	-
	$ 224,110,958	**$ 221,380,958**	**$ 2,730,000**	$ 208,007,940	$ 207,108,940	$ 899,000
Equity	**$ 20,466,628**	**$ 25,174,628**	**$ (4,708,000)**	$ 18,548,739	$ 23,829,739	$ (5,281,000)

(continues)

21. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (continued)

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lower priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1: Unadjusted quoted prices in an active market for identical assets or liabilities.

Assets measured at fair value and classified as Level 1 include cash and cash equivalents and derivatives.

- Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 2 inputs include quoted prices for assets in markets that are considered less active. There are no assets measured at fair value and classified as Level 2.

- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.

Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

Assets measured at fair value and classified as Level 3 include Central shares and Concentra shares.

There were no transfers between fair value hierarchy levels for the years ended October 31, 2023 and 2022.

22. GOVERNMENT OF CANADA LOANS

For the year ended October 31, 2023; on behalf of the Government of Canada, the Credit Union has 146 (2022 - 164) Canada Emergency Business Account ("CEBA") interest free loans outstanding between $29,338 to $60,000 per loan each totaling $8,438,338 (2022 - $9,545,338). These loans are not loans issued from the Credit Union, and as such, are not included in the member loans balances on the Statement of Financial Position.

VERMILION CREDIT UNION LIMITED
Schedule of Operating Expenses **Schedule 1**
For The Year Ended October 31, 2023

	2023	2022
Personnel		
Salaries	**$ 2,223,757**	$ 2,033,005
Benefits	**358,739**	303,816
Training and other	**104,547**	121,072
	2,687,043	2,457,893
Occupancy		
Repairs and maintenance	**76,449**	39,321
Depreciation	**45,321**	39,561
Utilities	**40,246**	40,866
Property taxes	**36,194**	32,189
	198,210	151,937
Security		
Deposit guarantee assessment	**106,848**	101,490
Bonding	**47,202**	39,646
Insurance	**1,421**	1,777
	155,471	142,913
Organization		
Central dues	**53,982**	51,880
Directors' fees	**24,850**	20,300
Other	**21,916**	15,413
Directors' expenses	**4,469**	31,899
	105,217	119,492
General		
Computer, cash and service charges	**712,538**	656,044
Office	**161,192**	120,061
Office equipment, rental and maintenance	**125,248**	92,796
Professional fees	**64,900**	61,900
Advertising and community support	**55,611**	74,389
Courier and postage	**32,466**	32,288
Depreciation	**30,975**	21,454
Telephone	**27,040**	25,255
Insurance	**25,723**	21,316
Loan associated expenses	**25,501**	28,543
Depreciation of intangible assets	**21,203**	23,029
Travel	**17,079**	10,090
	1,299,476	1,167,165
	$ 4,445,417	$ 4,039,400