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**Khalsa Credit Union (Alberta) Ltd.**

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# Notice for Annual General Meeting
## 2023-2024

This is to inform you that the Annual General Meeting of the Khalsa Credit Union (Alberta) limited for the Year ending October 31, 2023, is scheduled as under:

**Place**: RIO BANQUET,
2850 Hopewell Place NE. Calgary, Alberta T1Y 7J7

**DATE**: MARCH 31, 2024
**TIME**: 10.00AM-12.10PM

The order of Business at the Annual General Meeting will be:
ARDAS (Prayer)

a) Approval of minutes
b) Business arising out of minutes.
c) Reports of the Directors.
d) Report of the General Manager
e) Report of the Auditor
f) Report of the Credit Committee
g) Report of the Audit and Finance Committee
h) Approvals of the Financial Statements
i) Elections and/or Appointments of Directors, if any.
j) Appointments of External Auditors
k) Unfinished Business
l) New Business
m) Adjournment

Bir Singh Chouhan
President and Chairman
Khalsa Credit Union (Alberta) ltd.

March 19, 2024

# Khalsa Credit Union (Alberta) Limited

## Financial Statements

For the year ended October 31, 2023

## Contents

*For the year ended October 31, 2023*

To the Members of Khalsa Credit Union (Alberta) Limited:

## Opinion

We have audited the financial statements of Khalsa Credit Union (Alberta) Limited (the "Credit Union"), which comprise the statement of financial position as at October 31, 2023, and the statements of income and other comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at 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 Auditor's 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 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.

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.

Calgary, Alberta

January 30, 2024

MNP LLP

Chartered Professional Accountants

## Khalsa Credit Union (Alberta) Limited
## Statement of Financial Position
*As at October 31, 2023*

| | Notes | 2023 $ | 2022 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | **5,434,965** | 1,241,729 |
| Investments and accrued interest | 6 | **3,659,761** | 8,487,401 |
| Loans to members and accrued interest | 7 | **21,698,492** | 17,918,227 |
| Other assets | 8 | **12,463** | 75,034 |
| Derivative asset | 13 | **89,170** | 195,074 |
| Deferred tax asset | 12 | **4,385** | 4,385 |
| Property and equipment | 9 | **273,226** | 265,885 |
| Intangible assets | 10 | **-** | 13,564 |
| **Total assets** | | **31,172,462** | 28,201,299 |
| **LIABILITIES AND MEMBERS' EQUITY** | | | |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | | **100,540** | 38,396 |
| Member deposits and accrued interest | 11 | **29,012,815** | 26,258,840 |
| Derivative liability | 13 | **89,170** | 195,074 |
| Provision for undrawn commitments | 7 | **1,952** | 1,952 |
| | | **29,204,477** | 26,494,262 |
| **Members' equity** | | | |
| Member shares | 14 | **1,275,221** | 1,277,607 |
| Retained earnings | | **692,764** | 429,430 |
| | | **1,967,985** | 1,707,037 |
| **Total liabilities and members' equity** | | **31,172,462** | 28,201,299 |

Approved on behalf of the Board of Directors

(Signed) "Bir Singh Chouhan"
Director

(Signed) "Santokh Singh"
Director

The accompanying notes are an integral part of these financial statements.

# Khalsa Credit Union (Alberta) Limited
## Statement of Income and Other Comprehensive Income
*For the year ended October 31, 2023*

| | Notes | 2023 $ | 2022 $ |
|---|---|---|---|
| **Financial income** | | | |
| Interest on member loans | | 745,677 | 410,215 |
| Interest on investments | | 196,844 | 100,339 |
| | | 942,521 | 510,554 |
| **Financial expense** | | | |
| Interest on member deposits | | 303,861 | 102,285 |
| **Financial margin** | | 638,660 | 408,269 |
| Other income | | 384,360 | 419,745 |
| | | 1,023,020 | 828,014 |
| **Operating expenses** | | | |
| Depreciation | 9, 10 | 44,068 | 32,916 |
| General | | 248,694 | 195,538 |
| Member security | | 45,096 | 42,297 |
| Occupancy | | 16,046 | 14,707 |
| Organization | | 28,329 | 16,763 |
| Personnel | | 342,458 | 250,527 |
| | | 724,691 | 552,748 |
| **Income before provision for income taxes** | | 298,329 | 275,266 |
| **Provision for income taxes** | | | |
| Tax expense | 12 | (34,995) | (29,970) |
| **Income and other comprehensive income for the year** | | 263,334 | 245,296 |

The accompanying notes are an integral part of these financial statements.

# Khalsa Credit Union (Alberta) Limited
## Statement of Changes in Members' Equity
*For the year ended October 31, 2023*

| | Notes | Member shares $ | Retained earnings $ | Total $ |
|---|---|---|---|---|
| Balance at October 31, 2021 | | 1,131,788 | 184,134 | 1,315,922 |
| Issuance of member shares for cash | 14 | 147,370 | - | 147,370 |
| Redemption of member shares | 14 | (1,551) | - | (1,551) |
| Income and other comprehensive income for the year | | - | 245,296 | 245,296 |
| Balance at October 31, 2022 | | 1,277,607 | 429,430 | 1,707,037 |
| Issuance of member shares for cash | 14 | **42,200** | **-** | **42,200** |
| Redemption of member shares | 14 | **(44,586)** | **-** | **(44,586)** |
| Income and other comprehensive income for the year | | **-** | **263,334** | **263,334** |
| **Balance at October 31, 2023** | | **1,275,221** | **692,764** | **1,967,985** |

The accompanying notes are an integral part of these financial statements.

## Khalsa Credit Union (Alberta) Limited
## Statement of Cash Flows
*For the year ended October 31, 2023*

| | Notes | 2023 $ | 2022 $ |
|---|---|---|---|
| **Cash provided by (used in) the following activities** | | | |
| **Operating activities** | | | |
| Interest received on loans to members | | 733,315 | 419,513 |
| Interest received from investments | | 174,483 | 93,245 |
| Other income received | | 384,360 | 419.745 |
| Interest paid to members | | (205,452) | (98,669) |
| Net change in member deposits | | 2,655,567 | 3,515,356 |
| Net change in loans to members | | (3,767,903) | (6,837,799) |
| Operating expenses paid | | (555,908) | (539,654) |
| Income taxes paid | | (34,995) | (38,516) |
| **Net cash flows used in operating activities** | | (616,533) | (3,066,779) |
| **Investing activities** | | | |
| Additions to property and equipment | | (37,845) | (4,813) |
| Net change in investments | | 4,850,000 | 375,000 |
| **Net cash flows from investing activities** | | 4,812,155 | 370,187 |
| **Financing activities** | | | |
| Issuance of member shares | 14 | 42,200 | 147,370 |
| Redemption of member shares | 14 | (44,586) | (1,551) |
| **Net cash flows (used in) from financing activities** | | (2,386) | 145,819 |
| Net increase (decrease) in cash and cash equivalents | | 4,193,236 | (2,550,773) |
| Cash and cash equivalents, beginning of the year | | 1,241,729 | 3,792,502 |
| **Cash and cash equivalents, end of the year** | | 5,434,965 | 1,241,729 |
| **Cash and cash equivalents are composed of:** | | | |
| Cash with Credit Union Central of Alberta Limited | | 5,298,866 | 1,059,601 |
| Cash on hand | | 136,099 | 182,128 |
| | | 5,434,965 | 1,241,729 |

The accompanying notes are an integral part of these financial statements.

## 1. Incorporation and operations

Khalsa Credit Union (Alberta) Limited (the "Credit Union") is incorporated under the Credit Union Act of the Province of Alberta ("the Act") on March 9, 1995 and operates as a single credit union branch in Calgary.

The Credit Union's principal place of business and registered office is located is 604 - 4656 Westwinds Dr NE. Calgary, AB T3J 3Z5.

The Credit Union is a closed bond credit union that serves members of the Sikh community who have purchased equity within the Credit Union. The Credit Union operates through one branch and operates principally in personal and commercial banking serving 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 Act provides that the Province of Alberta will ensure that the Corporation carries out this obligation.

## 2. Basis of preparation

### Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements of the Credit Union were authorized for issue in accordance with a resolution of the Board of Directors on January 30, 2024.

### Basis of measurement

These financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair value as described in the notes.

### Functional and presentation currency

These financial statements are presented in Canadian dollars ("$"), which is also the Credit Union's functional currency.

## 3. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

While management makes its best estimates and assumptions, actual results could differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

### Valuation of financial instruments

The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include consideration of liquidity, and other risks affecting the specific instrument.

## 3. Significant accounting judgements, estimates and assumptions *(continued)*

### Allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops assumptions about factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates, interest rates
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses. In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money
- The effects of economic changes, such as inflation and rising interest rates

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to value ratios
- Housing price indices

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

In determining the 12-month and lifetime expected credit losses, management has considered material deterioration of macroeconomic conditions in its evaluation of forward-looking information that is incorporated in the estimation of expected credit loss allowances. See "credit risk" in note 15 for details.

**3. Significant accounting judgements, estimates and assumptions (continued)**

**Fair value of unquoted equity instruments**

The Credit Union has assessed that the fair values of its unquoted equity instruments approximate its cost based on the terms that the equity investments can not be transferred, the shares can not be sold and new shares are issued at par value of all currently held shares.

**4. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**a) Cash and cash equivalents**

Cash and cash equivalents are comprised of cash on hand, the current account with Credit Union Central of Alberta Limited ("Central").

**b) Financial instruments – recognition and measurement**

**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 profit or loss when incurred.

*Classification and measurement of financial instruments*

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. The Credit Union has classified the following financial assets as at amortized cost: loans to members and accrued interest and term deposits with Central and accrued interest.
- FVOCI - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.

**4. Summary of significant accounting policies** *(continued)*

**b) Financial instruments – recognition and measurement** *(continued)*

**Financial assets** *(continued)*

*Classification and measurement of financial instruments*

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Credit Union has classified the following financial assets as FVTPL: cash and cash equivalents and shares in Central.

**Impairment of financial assets**

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. 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. For member loans receivable 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 assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through 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.

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

*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.

**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 profit or loss.

*Classification and measurement of financial instruments*

Subsequent to initial recognition, all financial liabilities excluding derivative financial liabilities, are measured at amortized cost using the effective interest rate method. Interest, gains or losses relating to a financial liability are recognized in profit or loss.

4. **Summary of significant accounting policies** *(continued)*

b) **Financial instruments – recognition and measurement** *(continued)*

**Financial liabilities** *(continued)*

*Derecognition of financial liabilities*

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

**Derivatives**

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 or loss immediately, unless the derivative is designated in a qualifying hedging relationship The Credit Union does not have any hedging instruments.

c) **Membership shares**

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union Board of Directors are classified as equity.

d) **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the equipment. When significant parts of property and equipment are required to be replaced in intervals, the Credit Union recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Depreciation is recorded on a straight-line basis using the following annual rates:

| | |
|---|---|
| Building | 25 years |
| Security system | 3 years |
| Furniture and equipment | 3 years |
| Computer equipment | 3 years |

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. Gains and losses on the disposal of property and equipment are recorded in the profit or loss in the year of disposal.

e) **Intangible assets**

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union. Computer software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment. Computer software is amortized on a straight-line basis over 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 the profit or loss.

## 4. Summary of significant accounting policies *(continued)*

### f) Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its assets that are subject to depreciation and amortization to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than it's carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the profit or loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the profit or loss.

### g) Revenue recognition

**Interest on member loans**

Interest income is recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets. The 'amortized cost' of a financial asset 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.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired). Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

## 4. Summary of significant accounting policies *(continued)*

**Other income**

The Credit Union generates revenue from providing financial services to its members. Other income comprises commissions, fees, service charges and dividend income. Other income revenue is recognized as services are rendered. The Credit Union does not have an enforceable right to payment until services are rendered. The amount of revenue recognized on these transactions is based on the price specified in the contract. The Credit Union does not expect to have any contracts where the period between the transfer of the promised goods or services to the member and payment by the member exceeds one year. Consequently, the Credit Union does not adjust any of the transaction prices for the time value of money.

Dividend income is recognized when dividends are declared on shares.

### h) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the profit or loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

**Current income tax**

Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

**Deferred tax**

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences; and,
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and,
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities in a transaction that is not a business combination and that effects neither accounting, nor taxable profit or loss.

### i) 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 the exchange rates at the statement of financial position date. Translation gains and losses are included in the profit or loss.

## 5. Recent accounting pronouncements

The Credit Union has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that there were none that would have a significant impact on the Credit Union.

## 6. Investments and accrued interest

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| FVTPL | | |
| Shares in Central | **300,000** | 300,000 |
| At amortized cost | | |
| Term deposits with Central | **3,330,000** | 8,180,000 |
| Accrued interest | **29,761** | 7,401 |
| | **3,359,761** | 8,187,401 |
| **Total investments** | **3,659,761** | 8,487,401 |

As required by the Act, the Credit Union holds investments with Central to maintain its liquidity level. All term deposits mature within one year. As required under IFRS 9, the Credit Union prepared an impairment analysis for the investments and determined no impairment was necessary.

## 7. Loans to members and accrued interest

Principal including accrued interest and loss allowance by loan type:

| **2023** | **Principal & accrued interest amount<br>$** | **Loss allowance measured at 12-month ECL<br>$** | **Loss allowance measured at lifetime ECL<br>$** | **Net carrying amount<br>$** |
|---|---|---|---|---|
| Consumer loans | **1,853,202** | **32,605** | **-** | **1,820,597** |
| Residential mortgages | **19,738,574** | **7,800** | **-** | **19,730,774** |
| Commercial loans | **148,412** | **1,291** | **-** | **147,121** |
| | **21,740,188** | **41,696** | **-** | **21,698,492** |

| **2022** | Principal & accrued interest amount<br>$ | Loss allowance measured at 12-month ECL<br>$ | Loss allowance measured at lifetime ECL<br>$ | Net carrying amount<br>$ |
|---|---|---|---|---|
| Consumer loans | 1,407,170 | 33,424 | - | 1,373,746 |
| Residential mortgages | 16,378,514 | 8,205 | - | 16,370,309 |
| Commercial loans | 174,239 | 67 | - | 174,172 |
| | 17,959,923 | 41,696 | - | 17,918,227 |

### 7. Loans to members and accrued interest *(continued)*

Maturity of loans

Loans to members, not including accrued interest and loss allowance, mature as follows:

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Under 1 year | **3,592,752** | 3,447,765 |
| 1 to 2 years | **2,967,608** | 1,418,961 |
| 2 to 3 years | **4,768,797** | 1,937,231 |
| 3 to 4 years | **8,065,120** | 2,614,840 |
| Over 4 years | **2,298,171** | 8,505,747 |
| | **21,692,448** | 17,924,544 |

The allowance for expected credit losses changed as follows:

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Balance, beginning of year | **43,648** | 218,985 |
| Amounts previously provided for, now written-off * | **-** | (175,337) |
| Balance, end of year | **43,648** | 43,648 |

Presented on Statement of Financial Position as follows:

| | 2023 | 2022 |
|---|---|---|
| Set off against loans to members with accrued interest | **41,696** | 41,696 |
| Provision for undrawn commitments | **1,952** | 1,952 |
| Balance, end of year | **43,648** | 43,648 |

* This related to a syndicated commercial loan, a portion of which totaling $175,337 was determined to be uncollectible in the previous year and was fully provided for. During the year ended October 31, 2023, upon reaching a final settlement agreement, the Credit Union collected the portion that was determined to be collectible previously and wrote off the uncollectible amount previously provided for.

The principal collateral and other credit enhancements the Credit Union holds as security for loans include insurance, mortgages over residential lots and properties, recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. 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.

### 8. Other assets

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Prepaid expenses | **12,463** | 75,034 |

## 9. Property and equipment

| | Building $ | Security system $ | Furniture and equipment $ | Computer equipment $ | Total $ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At October 31, 2021 | 353,695 | 17,711 | 18,728 | 66,631 | 456,765 |
| Additions | - | - | 2,535 | 2,278 | 4,813 |
| At October 31, 2022 | 353,695 | 17,711 | 21,263 | 68,909 | 461,578 |
| Additions | - | - | **13,019** | **24,826** | **37,845** |
| At October 31, 2023 | **353,695** | **17,711** | **34,282** | **93,735** | **499,423** |
| **Depreciation** | | | | | |
| At October 31, 2021 | 80,381 | 17,711 | 16,292 | 63,124 | 177,508 |
| Charge for the year | 14,148 | - | 1,910 | 2,127 | 18,185 |
| At October 31, 2022 | 94,529 | 17,711 | 18,202 | 65,251 | 195,693 |
| Charge for the year | **14,148** | - | **6,366** | **9,990** | **30,504** |
| At October 31, 2023 | **108,677** | **17,711** | **24,568** | **75,241** | **226,197** |
| **Net book value** | | | | | |
| At October 31, 2022 | 259,166 | - | 3,061 | 3,658 | 265,885 |
| At October 31, 2023 | **245,018** | - | **9,714** | **18,494** | **273,226** |

## 10. Intangible assets

| | Computer software $ |
|---|---|
| **Cost** | |
| At October 31, 2022 and 2023 | **179,767** |
| **Amortization** | |
| At October 31, 2021 | 151,472 |
| Charge for the year | 14,731 |
| At October 31, 2022 | 166,203 |
| Charge for the year | **13,564** |
| At October 31, 2023 | **179,767** |
| **Net book value** | |
| At October 31, 2022 | 13,564 |
| At October 31, 2023 | - |

## 11. Member deposits and accrued interest

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Demand deposits | **20,022,203** | 17,359,613 |
| Term deposits | **5,871,075** | 6,128,949 |
| Registered Retirement Savings Plans | **2,995,213** | 2,744,363 |
| | **28,888,491** | 26,232,925 |
| Accrued interest | **124,324** | 25,915 |
| | **29,012,815** | 26,258,840 |

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

Concentra Bank (a subsidiary of Equitable Bank) acts as the trustee of the Registered Retirement Savings Plans ("RRSP") offered to members. Under an agreement with Concentra Bank, the contributions to the plan, and the interest earned on them, are deposited in the Credit Union. When members terminate these plans, the funds are repaid to them.

Maturity of deposits

Member deposits, not including accrued interest, mature as follows:

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Payable on demand | **20,022,203** | 17,359,613 |
| Under 1 year | **5,211,879** | 5,660,483 |
| 1 to 2 years | **2,198,934** | 1,273,940 |
| 2 to 3 years | **1,127,701** | 539,983 |
| 3 to 4 years | **327,774** | 1,805 |
| 4 years or greater | **-** | 1,397,101 |
| | **28,888,491** | 26,232,925 |

## 12. Income taxes

Income tax expense comprises:

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Current tax expense | **34,995** | 29,970 |
| Deferred tax expense | **-** | - |
| **Total tax expense** | **34,995** | 29,970 |

## 12. Income taxes *(continued)*

The income tax expense for the year can be reconciled to the accounting profit as follows:

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Income before provision for taxes | 298,329 | 275,266 |
| Combined federal and provincial tax rate | 11% | 11% |
| Tax expense at statutory rate | 32,816 | 30,279 |
| Adjusted for the effect of: | | |
| Rate difference and other items | - | (379) |
| Permanent differences | 2,179 | 70 |
| Income tax expense | 34,995 | 29,970 |

*Deferred tax assets and liabilities recognized are attributable to the following:*

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Deferred tax assets (liabilities) | | |
| Loan allowance | 4,801 | 4,801 |
| Property and equipment and intangible assets | (416) | (416) |
| Net deferred tax asset | 4,385 | 4,385 |

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Balance, beginning of year | 4,385 | 4,385 |
| Expense for the year | - | - |
| Balance, end of year | 4,385 | 4,385 |

## 13. Derivatives

Equity-linked options are used to fix costs on term deposits products which pay a return to the deposit holder based on the change in equity market indexes. 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 $89,170 (2022 – $195,074) and the fair value of the embedded derivative is $89,170 (2022 – $195,074). Both items are marked to market through profit or loss. This had no effect on income for the years ended October 31, 2023 and 2022.

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

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Within 1 year | - | 639,700 |
| 2 to 3 years | - | - |
| 3 to 4 years | 457,270 | - |
| 4 to 5 years | 335,000 | 457,270 |
| Balance, end of year | 792,270 | 1,096,970 |

## 14. Members shares

### Authorized shares

The member shares are:

a) issuable in unlimited number;

b) issuable as fractional shares with a par value of $1;

c) transferable only in restricted circumstances;

d) non-assessable; and

e) redeemable at par value at the discretion of the Credit Union, subject to restrictions contained in the Credit Union Act.

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

| | |
|---|---|
| - Regular member account | $100 |
| - Business / organization account | $500 |
| - Members are allowed to hold a maximum investment of | $100,000 |

Each member of the Credit Union has one vote, regardless of the number of shares that a member holds.

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

### Issued and outstanding

| | 2023 $ | 2022 $ |
|---|---|---|
| Balance, beginning of year | 1,277,607 | 1,131,788 |
| Issued for cash | 42,200 | 147,370 |
| Redeemed | (44,586) | (1,551) |
| Balance, end of year | 1,275,221 | 1,277,607 |

## 15. Financial instrument risk management

As part of its operations, the Credit Union carries a number of financial instruments. It is management's opinion that the Credit Union is exposed to the following risks as a result of holding financial instruments:

- credit risk;
- liquidity risk; and
- market risk (interest rate and foreign currency risks).

The following is a description of those risks and how the Credit Union manages the exposure of them.

### Credit risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally as a result of the Credit Union's lending activities with members.

Risk measurement

The Credit Union employs a risk measurement process for its loan portfolio which is designed to assess and quantify the level of risk inherent in credit granting activities. Risk is measured by reviewing qualitative and quantitative factors that impact the loan portfolio.

The following information represents the maximum exposure to credit risk before taking into consideration any collateral:

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Cash and cash equivalents | **5,434,965** | 1,241,729 |
| Investments and accrued interest | **3,659,761** | 8,487,401 |
| Loans to members and accrued interest | **21,698,492** | 17,918,227 |
| | **30,793,218** | 27,647,357 |

Objectives, policies and processes

The Credit Union is committed to the following principles in managing credit risk exposure:

- Credit risk assessment includes the establishment of policies and processes related to credit risk management and risk rating;
- Credit risk mitigation includes credit structuring, collateral, and guarantees;
- Credit risk approval limits includes establishing credit risk limits and reporting exceptions thereto;
- Credit risk documentation focuses on documentation and administration; and
- Credit risk monitoring and review.

The Credit Union's credit risk policies, processes and methodologies are reviewed annually to ensure they remain relevant and effective in managing credit risk.

**15. Financial instrument risk management** *(continued)*

Inputs, assumptions and techniques

*Definition of default and assessments of credit risk*

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers member loans receivable to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information including forward-looking information, available without undue cost or effort in making this assessment. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers). The Credit Union considers there not to have been a significant increase in credit risk despite contractual payments being more than 30 days past due when they have interviewed the borrower and determined that payment is forthcoming.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its members. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings.

*Measurement of expected credit losses*

The Credit Union measures expected credit losses for member loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential mortgages, commercial loans and consumer loans). Otherwise, expected credit losses are measured on an individual basis.

**15. Financial instrument risk management** *(continued)*

When measuring 12-month and lifetime expected credit losses, the Credit Union utilizes a model, which uses current banking system loan data to assess probability of default, exposure at default, loss given default, and present value calculations. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its members and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

The Credit Union had a syndicated commercial loan, a portion of which totaling $175,337 was determined to be uncollectible in the previous year and was fully provided for. During the year ended October 31, 2022, upon reaching a final settlement agreement, the Credit Union collected the portion that was determined to be collectible previously and wrote off the uncollectible amount previously provided for. Other than this loan, the Credit Union has not had to grant any loan deferrals or experienced any significant delinquencies during the years ended October 31, 2023 and 2022.

In determining the 12-month and lifetime expected credit losses, management also performed an evaluation of the potential impact forward-looking macroeconomic variables could have on its estimation of expected credit loss allowances. These macroeconomic variables include unemployment rates, high inflation, production capacity limits, supply chain pressures and central bank's fiscal policies. The current expectation is that the interest rates will drop in 2024; though recession is still a possibility.

*Write-offs*

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

## 15. Financial instrument risk management *(continued)*

Exposure to credit risk – loan to members and accrued interest

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount.

Except as noted below, the gross carrying amount of financial assets represents the maximum exposure to credit risk for that class of financial asset.

| 2023 | 12-month ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| Consumer loans - loan principal and accrued interest | | | | |
| - Low risk | 1,848,690 | - | - | 1,848,690 |
| - Medium risk | - | 4,512 | - | 4,512 |
| Gross carrying amount of consumer loans and interest receivable | 1,848,690 | 4,512 | - | 1,853,202 |
| Less: Allowance for expected credit loss | (29,699) | (2,906) | - | (32,605) |
| Total carrying amount of consumer loans and interest receivable | 1,818,991 | 1,606 | - | 1,820,597 |

| 2023 | 12-month ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| Residential mortgages – loan principal and accrued interest | | | | |
| - Low risk | 19,738,574 | - | - | 19,738,574 |
| Gross carrying amount of residential mortgages and interest receivable | 19,738,574 | - | - | 19,738,574 |
| Less: Allowance for expected credit loss | (7,800) | - | - | (7,800) |
| Total carrying amount of residential mortgages and interest receivable | 19,730,774 | - | - | 19,730,774 |

| 2023 | 12-month ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| Commercial loans – loan principal and accrued interest | | | | |
| - Low risk | 148,412 | - | - | 148,412 |
| Gross carrying amount of commercial loans and interest receivable | 148,412 | - | - | 148,412 |
| Less: Allowance for expected credit loss | (1,291) | - | - | (1,291) |
| Total carrying amount of commercial loans and interest receivable | 147,121 | - | - | 147,121 |

## 15. Financial instrument risk management *(continued)*

| 2022 | 12-month ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| Consumer loans – loan principal and accrued interest | | | | |
| - Low risk | 1,400,170 | - | - | 1,400,170 |
| - Medium risk | - | 7,000 | - | 7,000 |
| Gross carrying amount of consumer loans and interest receivable | 1,400,170 | 7,000 | - | 1,407,170 |
| Less: Allowance for expected credit loss | (31,070) | (2,354) | - | (33,424) |
| Total carrying amount of consumer loans and interest receivable | 1,369,100 | 4,646 | - | 1,373,746 |

| 2022 | 12-month ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| Residential mortgages – loan principal and accrued interest | | | | |
| - Low risk | 16,378,514 | - | - | 16,378,514 |
| Gross carrying amount of residential mortgages and interest receivable | 16,378,514 | - | - | 16,378,514 |
| Less: Allowance for expected credit loss | (8,205) | - | - | (8,205) |
| Total carrying amount of residential mortgages and interest receivable | 16,370,309 | - | - | 16,370,309 |

| 2022 | 12-month ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| Commercial loans – loan principal and accrued interest | | | | |
| - Low risk | 174,239 | - | - | 174,239 |
| Gross carrying amount of commercial loans and interest receivable | 174,239 | - | - | 174,239 |
| Less: Allowance for expected credit loss | (67) | - | - | (67) |
| Total carrying amount of commercial loans and interest receivable | 174,172 | - | - | 174,172 |

**15. Financial instrument risk management** *(continued)*

**Liquidity risk**

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure that the Credit Union has access to enough readily available funds to cover its financial obligation as they become due. The Credit Union's business requires such liquidity for operating and regulatory purposes which includes statutory liquidity requirements.

Risk measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgment pertaining to current and prospective market conditions and the related investing and borrowing activities of members.

Objectives, policies and processes

The acceptable amount of risk is defined by policies that are approved by the Board of Directors.

The Credit Union manages liquidity by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. Management provides monthly reports on these matters to the Board of Directors.

Key features of liquidity management include:

- Daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position; and
- Consideration of the term structure of loans and deposits, with emphasis on deposit maturities, as well as expected loan funding and other commitments to ensure the Credit Union can maintain required levels of liquidity while meeting its obligations.

The Act requires the Credit Union to maintain a minimum liquidity ratio of 6% of total assets. The Credit Union's liquidity ratio was 9.6% at October 31, 2023 (2022 – 8.3%).

**Market risk**

Market risk is the risk that changes in market prices – e.g., interest rate risk and foreign exchange rates – will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

***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 a financial instrument will fluctuate because of changes in prevailing market interest rates. Financial margin reported in the profit or loss 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.

Interest rate risk is measured by:

a) Static gap analysis which aggregates cash flows into repricing periods based on the maturity dates of the assets and liabilities.

b) 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.

c) 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.

## 15. Financial instrument risk management *(continued)*

The following table provides the potential before-tax impact on an immediate and sustained 1% increase or decrease in interest rates on net interest income. 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 risk management initiatives.

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Before tax impact of: | | |
| 1% increase in rates (approximate amount) | **97,000** | 116,000 |
| 1% decrease in rates (approximate amount) | **(97,000)** | (120,000) |

To manage the repricing 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 behavior, capital and liquidity levels and compliance with Credit Union policy.

The following table provides the interest rate sensitivity gap which represents the net principal values of interest rate sensitive financial assets and liabilities.

| 2023 | Floating rate<br>$ | Within one year<br>$ | One to five years<br>$ | Non-rate sensitive<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | - | - | - | 5,434,965 | 5,434,965 |
| Derivative asset | - | - | - | 89,170 | 89,170 |
| Investments and accrued interest | - | 3,330,000 | - | 329,761 | 3,659,761 |
| *(effective yield %)* | - | *5.085* | - | - | *4.627* |
| Loans to members with accrued interest | 11,712 | 3,545,663 | 18,093,377 | 47,740 | 21,698,492 |
| *(effective yield %)* | *15.180* | *6.602* | *3.515* | - | *4.018* |
| | 11,712 | 6,875,663 | 18,093,377 | 5,901,636 | 30,882,388 |
| **Financial liabilities** | | | | | |
| Accounts payable and accrued liabilities | - | - | - | 100,540 | 100,540 |
| Derivative liability | - | - | - | 89,170 | 89,170 |
| Provision for undrawn commitments | - | - | - | 1,952 | 1,952 |
| Member deposits with accrued interest | 6,367,594 | 5,211,879 | 3,654,409 | 13,778,933 | 29,012,815 |
| *(effective yield %)* | *0.462* | *2.640* | *2.537* | - | *0.895* |
| | 6,367,594 | 5,211,879 | 3,654,409 | 13,970,595 | 29,204,477 |
| Net gap, October 31, 2023 | (6,355,882) | 1,663,784 | 14,438,968 | (8,068,959) | 1,677,911 |

## 15. Financial instrument risk management *(continued)*

| 2022 | Floating rate $ | Within one year $ | One to five years $ | Non-rate sensitive $ | Total $ |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | - | - | - | 1,241,729 | 1,241,729 |
| Derivative asset | - | - | - | 195,074 | 195,074 |
| Investments and accrued interest | - | 8,180,000 | - | 307,401 | 8,487,401 |
| *(effective yield %)* | - | *3.686* | - | - | *3.552* |
| Loans to members with accrued interest | 10,716 | 3,412,383 | 14,459,749 | 35,379 | 17,918,227 |
| *(effective yield %)* | *10.585* | *5.063* | *3.041* | - | *3.439* |
| | 10,716 | 11,592,383 | 14,459,749 | 1,779,583 | 27,842,431 |
| **Financial liabilities** | | | | | |
| Accounts payable and accrued liabilities | - | - | - | 38,396 | 38,396 |
| Derivative liability | - | - | - | 195,074 | 195,074 |
| Provision for undrawn commitments | - | - | - | *1,952* | *1,952* |
| Member deposits with accrued interest | 5,595,868 | 7,624,877 | 1,248,435 | 11,789,660 | 26,258,840 |
| *(effective yield %)* | *0.435* | *1.339* | *1.146* | - | *0.536* |
| | 5,595,868 | 7,624,877 | 1,248,435 | 12,025,082 | 26,494,262 |
| Net gap, October 31, 2022 | (5,585,152) | 3,967,506 | 13,211,314 | (10,245,499) | 1,348,169 |

### *Foreign currency risk*

Currency risk relates to the Credit Union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Credit Union had minimal foreign currency transactions during the year and did not carry any foreign currencies as of October 31, 2023 and 2022 hence there is no exposure to foreign currency as at the year end.

## 16. Fair value of financial instruments

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the assets or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

## 16. Fair value of financial instruments *(continued)*

Fair value is the consideration that would be agreed to in an arm's length transaction between knowledgeable and willing parties with no compulsion to act. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

The following methods and assumptions were used to estimate fair values of financial instruments:

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

b) 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.

c) The estimated fair values of fixed rate 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 Credit Union's financial instruments have been categorized into the fair value hierarchy as follows:

| 2023 | Fair value $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| *FVTPL - Mandatory* | | | | |
| Cash and cash equivalents | 5,435 | 5,435 | - | - |
| Shares in Central | 300 | - | - | 300 |
| Derivative asset | 89 | - | 89 | - |
| *Amortized cost* | | | | |
| Term deposits with Central and accrued interest | 3,360 | - | 3,360 | - |
| Loans to members and accrued interest | 19,951 | - | 19,951 | - |
| **Financial liabilities** | | | | |
| *Amortized cost* | | | | |
| Accounts payable and accrued liabilities | 101 | - | 101 | - |
| Member deposits and accrued interest | 28,981 | - | 28,981 | - |
| *FVTPL* | | | | |
| Derivative liability | 89 | - | 89 | - |

## 16. Fair value of financial instruments *(continued)*

| **2022** | Fair value $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| *FVTPL - Mandatory* | | | | |
| Cash and cash equivalents | 1,242 | 1,242 | - | - |
| Shares in Central | 300 | - | | 300 |
| Derivative asset | 195 | - | 195 | - |
| *Amortized cost* | | | | |
| Term deposits with Central and accrued interest | 8,187 | - | 8,187 | - |
| Loans to members and accrued interest | 16,922 | - | 16,922 | - |
| **Financial liabilities** | | | | |
| *Amortized cost* | | | | |
| Accounts payable and accrued liabilities | 38 | - | 38 | - |
| Member deposits and accrued interest | 26,313 | - | 26,313 | - |
| FVTPL | | | | |
| Derivative liability | 195 | - | 195 | - |

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

## 17. Off-balance sheet financial instruments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

Guarantees and standby letters of credit represent irrevocable assurances that the Credit Union will make payments in the event that a customer cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer and the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit. To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter-balancing positions. The Credit Union did not use interest rate swaps in the current year.

The Credit Union makes the following instruments available to its members:

a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;

b) documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions; and

c) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards) or other financing.

**17. Off-balance sheet financial instruments** *(continued)*

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded. The Credit Union had the following outstanding financial instruments subject to credit risk:

| | 2023<br>$ | 2022<br>$ |
|---|---|---|
| Guarantees, standby letters of credit and direct credit substitutes | **42,000** | 92,200 |
| Commitment to extend credit - original term to maturity of one year or less | **1,313,137** | 1,360,233 |

**18. Credit facilities**

The Credit Union has a revolving operating demand loan arrangement in the amount of $846,000 (2022 - $375,000) from Central, that carries interest at prime minus 0.5% i.e., 6.7% (2022 – prime minus 0.5% i.e. 5.45%). As at October 31, 2023, the amount withdrawn from the line of credit is $nil (2022 - $nil).

In addition, the Credit Union has in place demand revolving term loan arrangement in the amount of $1,410,000 (2022 – $525,000) also with Central that carries interest at prime minus 1% i.e.,6.20% (2022 – prime minus 1.0% i.e.,4.95%). The Credit Union has not drawn any amount against this term loan October 31, 2023 (2022 - $nil).

The total borrowings under the two credit facilities cannot exceed $2,256,000. The two credit facilities are secured by all present and future accounts, book debts, instruments, deposits and all monies payable by Central to the Credit Union.

**19. Capital management**

The Credit Union's objectives when managing capital are:

- 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; and
- To comply at all times with the capital requirements set out in the Act.

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

- Total capital as a percent of total assets; and
- Total capital as a percent 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 Act. The more risk associated with an asset, the higher a 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.

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

- Establishing policies for capital management, monitoring and reporting;
- Establishing policies for related areas such as asset liability management;
- Reporting to the Board of Directors regarding financial results and capital adequacy;
- Reporting to the Corporation on its capital adequacy; and
- Establishing budgets and reporting variances to those budgets.

The Credit Union is required under the Act to hold capital equal to or exceeding the greater of:

- 4% of total assets; and
- 8% of risk weighted assets ("RWA").

An additional regulatory capital buffer of 2.5% of total RWA is required for 2023 (2022 – 2.5% of total RWA).

**19. Capital management** *(continued)*

The Credit Union was in compliance with the regulatory requirements as indicated by the Act as follows:

| | 2023 | 2022 |
|---|---|---|
| Capital as a % of total assets | 6.42 | 6.15 |
| Capital as a % of risk weighted assets | 35.75 | 36.94 |

The Corporation, which is the regulator for credit unions in Alberta, placed the Credit Union under the supervision directive pursuant to the Act, requiring the Credit Union to follow certain directives in addition to any requirements provided for by the Act. As at October 31, 2023, the Credit Union was in compliance with the solvency and capital requirements under the Act.

Subsequent to the year end, effective December 12, 2023, the Corporation, following its review of the conditions of the directives, revoked those directives and removed the supervision status of the Credit Union. The Corporation will continue monitoring the ongoing process improvements of the Credit Union especially the credit risk management. This monitoring is at a lower form of staging for the Credit Union. The Corporation will evaluate the necessity of maintaining this lower form of staging or elevating it depending on certain factors by October 31, 2024.

**20. Related party transactions**

Directors, management and staff

The Credit Union, in accordance with its policy, grants credit to its management and staff at rates slightly below member rates. Directors pay regular member rates on loans. Directors and management had $864,698 (2022 - $706,967) in loans outstanding at October 31, 2023. All loans were in good standing at that date and are included in "Loans to members and accrued interest".

Directors, management and staff of the Credit Union hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members and are included in "Member deposits and accrued interest". Directors and management had $857,392 (2022 - $1,044,279) in deposits at October 31, 2023.

Directors and key management personnel

Key management personnel ("KMP") of the Credit Union are those persons having authority and responsibility for planning, directing, and controlling the activities of the Credit Union, directly or indirectly. KMP have been taken to comprise directors and members of management responsible for the day to day financial and operational management of the Credit Union.

Loans made to KMP are approved under the same lending criteria available to members. There are no loans that are impaired in relation to loan balances with KMP. There are no benefits or concessional terms and conditions applicable to the family members of KMP. There are no loans that are impaired in relation to the loan balances with family or relatives of KMP.

## 20. Related party transactions *(continued)*

The outstanding balances at October 31 for KMP are as follows:

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| Aggregate of loans and allowable overdrafts to KMP and directors | **864,698** | 706,967 |

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| Aggregate of member deposits to KMP and directors | 857,392 | 1,044,279 |
| Member shares of KMP and directors | 81,723 | 76,673 |
| | **939,115** | 1,120,952 |

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| Interest received (collected) on loans to KMP and directors | 21,152 | 13,283 |
| Interest paid on Member deposits to KMP and directors | 6,037 | 5,012 |

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| Salary and short-term benefits to KMP | 164,804 | 142,895 |

Directors of the Credit Union do not receive any remuneration or reimbursement of expenses.

Central

The Credit Union is a member of Central, which acts as a depository for surplus funds received from and loans made to credit unions. Central also provides other services for a fee to the Credit Union and acts in an advisory capacity. These transactions were made in the normal course of operations and are initially measured at fair value. For the year ended October 31, 2023, the Credit Union paid $4,920 (2022 - $4,160) in fees and dues to Central. As at October 31, 2023, the Credit Union has balance due to Central totaling $14,315 (2022 - $6,975).

## 21. Segmented information

The Credit Union operates principally in personal and commercial banking in Calgary.