AMALGAMATION AGREEMENT

THIS AGREEMENT made this ____ day of June, 2022

BETWEEN:

VISION CREDIT UNION LTD.

- and -

ENCOMPASS CREDIT UNION LTD.

WHEREAS it is desirable that the members and business of Vision Credit Union Ltd. be amalgamated with the members and business of Encompass Credit Union Ltd. in accordance with the *Credit Union Act* of Alberta.

NOW THEREFORE in consideration of the mutual covenants herein set out, the parties hereto covenant and agree as follows:

1. DEFINITIONS

1.1 In this Agreement, unless there is something in the subject matter or context inconsistent therewith:

1.1.1 "Act" means the *Credit Union Act* of Alberta RSA 2000, as amended from time to time.

1.1.2 "Amalgamated Credit Union" means the resulting amalgamated credit union resulting from the amalgamation of Vision and Encompass.

1.1.3 "Amalgamation Date" means November 1, 2022.

1.1.4 "Assets" means all assets set out under the heading "Assets" in Schedule "A" attached hereto.

1.1.5 "Closing Date" means October 31, 2022.

1.1.6 "Corporation" means the Credit Union Deposit Guarantee Corporation.

1.1.7 "Laws" includes statutes, regulations and municipal by-laws.

1.1.8 "Liabilities" means all liabilities set out under the heading "Liabilities" in Schedule "A" attached hereto.

1.1.9 "Minister" means the member of the Alberta Executive Council charged by the Lieutenant Governor in Council with the Administration of the Act.

1.1.10 "Predecessor Credit Union" means Vision Credit Union Ltd. or Encompass Credit Union Ltd.

1.1.11 "Predecessor Credit Unions" means Vision Credit Union Ltd. and Encompass Credit Union Ltd.

1.1.12 "Principal Regulations" means the Credit Union Act Principal Regulations, as amended from time to time in force and effect.

1.1.13 "Encompass" means Encompass Credit Union Ltd.

1.1.14 "Vision" means Vision Credit Union Ltd.

2. PROPERTY AND AMALGAMATION REQUIREMENTS

2.1 As of the Amalgamation Date, the Predecessor Credit Unions covenant and agree that:

2.1.1 All of the Assets of each Predecessor Credit Union, subject to its Liabilities, as such exist immediately before the Amalgamation Date, shall become the assets and liabilities of the Amalgamated Credit Union.

2.1.2 The Amalgamated Credit Union shall possess all of the property, rights and privileges and shall be subject to all of the liabilities of the Predecessor Credit Unions.

2.1.3 The capital of the Amalgamated Credit Union shall consist of:

2.1.3.1 An unlimited number of common shares with the following characteristics: a par value of One ($1.00) Dollar each (but fractional shares may be issued); transferable only in restricted circumstances; non-assessable; redeemable at the discretion of the credit union, subject to the restrictions contained in the Act and Regulations and the Amalgamated Credit Union's By-Laws.

2.1.4 The shares of each Predecessor Credit Union which are issued and outstanding immediately prior to the Amalgamation Date shall, as and from that date, be converted into issued shares of the Amalgamated Credit Union as follows:

2.1.4.1 The common shares with a par value of One ($1.00) Dollar each of each Predecessor Credit Union shall be converted, share for share, into an equal number of shares with a par value of One ($1.00) Dollar each of the Amalgamated Credit Union (except that fractional shares issued by the Predecessor Credit Unions shall be converted into fractional shares of the Amalgamated Credit Union); members with converted shareholdings less than the minimum required by the proposed By-Laws will be given six (6) months from the Amalgamation Date to purchase the required number of shares before having their memberships terminated.

2.2 The Articles of Amalgamation of the Amalgamated Credit Union shall be as per the attached **Schedule "B"**.

2.3 The Board of Directors of the Amalgamated Credit Union shall be comprised of no more than thirteen (13) persons and no less than eleven (11) persons.

2.4 The proposed Board of Directors of the Amalgamated Credit Union shall be as set out in **Schedule "C"** attached hereto.

2.5 No action or proceeding by or against any Predecessor Credit Union shall be affected by the amalgamation of the Predecessor Credit Unions and for all purposes of such action or proceeding, the name of the Amalgamated Credit Union shall be substituted in place of the Predecessor Credit Union, as the case may be.

2.6 The proposed By-Laws of the Amalgamated Credit Union shall be adopted, as set out in **Schedule "D"** attached hereto.

2.7 The Amalgamated Credit Union will operate with the existing organization structure and management team of Vision Credit Union Ltd. in place immediately before the Amalgamation Date.

2.8 The place of business of the Amalgamated Credit Union, being its registered office thereof, shall be Vision Credit Union Ltd. at Camrose, Alberta.

2.9 The Amalgamated Credit Union will operate as an Open Bond Full Service Financial Institution.

2.10 **Schedule "A"** attached hereto accurately sets out the Assets, Liabilities, capital and retained earnings of Encompass as at October 31, 2021 and Vision as at October 31, 2021.

3. REPRESENTATIONS AND WARRANTIES

3.1 The Predecessor Credit Unions acknowledge and confirm that they hereby made, and are relying upon, the representations and warranties herein provided. Each Predecessor Credit Union hereby represents and warrants that:

3.1.1 It is a credit union duly incorporated, validly existing and in good standing under the applicable laws and has all requisite power and authority to hold the Assets owned by it and has the rights to deal with the said Assets;

3.1.2 It will obtain such approval as required in order to act in the manner contemplated by this Agreement, and such approval shall be obtained before the Closing Date;

3.1.3 Its financial statements, which have been furnished by each of the Predecessor Credit Unions to the other or others, as the case may be, present fairly its financial position;

3.1.4 Except for such claims, debts or liabilities as are reflected in the financial statements referred to in the preceding paragraph, it has no outstanding indebtedness and is not subject to any claims or liabilities and that without the prior written consent of the others, it will not incur, prior to the Closing Date, any additional indebtedness or incur any liabilities;

3.1.5 It has filed all requisite tax returns and all other appropriate tax returns, required to be filed by it by the laws of the Province of Alberta or the laws of Canada and it has paid all taxes and assessments (including interest or penalties, owed by it to the extent that such taxes and assessments have become payable and to the extent that such taxes and assessments and subsequent tax liabilities have occurred but have not become payable), the full amounts of such taxes have been reflected as liabilities on its books, and has paid all taxes which would not require a filing of returns and which are required to be paid by it;

3.1.6 It has good and marketable title to all its real, personal and intangible property including the real, personal and intangible property reflected in the financial statements delivered pursuant to clause 3.1.3 above;

3.1.7 Between the date of this Agreement and the Closing Date, it will not, without the prior written consent of the other parties, make any changes, modifications in any contracts, agreements or understandings, or incur any further obligations or surrender any rights under such contracts, agreements or undertakings, or to make any further additions to its property except such changes or modifications as are in the ordinary course of business or are necessary or appropriate to maintain their properties;

3.1.8 It is not subject to any order, judgment or decree with respect to its business or the condition of any of its assets or property, or to any provision in its Articles or By-laws, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated under this Agreement, or compliance by it with the terms, conditions, and provisions of this Agreement;

3.1.9 All its outstanding accounts receivable, as set forth in the above mentioned financial statements and in its books and records, are collectible except to the extent of the provisions for bad debts, if any, set forth in the financial statements;

3.1.10 It has maintained its books of account in the usual, regular, and ordinary manner in accordance with generally accepted accounting principles applied on a consistent basis;

3.1.11 During the period from the date of this Agreement, to and including the Closing Date, it will conduct its business solely in the usual and ordinary manner and will refrain from any transactions not in the ordinary course of its business without prior written consent of the other parties to this Agreement to such transaction having been obtained;

3.1.12 The disclosures made on its part are complete and accurate with respect to all matters affecting the ability to operate its business and any omissions and any inaccuracies in such disclosure, whether considered alone or in the aggregate, do not adversely affect in any manner its ability to operate its business;

3.1.13 The execution and performance of this Agreement has been duly authorized by its board of directors and such execution and performance are within its corporate powers;

3.1.14 Each Predecessor Credit Union hereby represents and warrants that it will carry out all steps required by the Act and its respective Constitutions and By-Laws that are necessary in order to validly give effect to this Agreement; and

3.1.15 Each Predecessor Credit Union hereby represents and warrants that its financial position is accurately set out in all material respects in the Balance Sheet prepared by its management; for Encompass as at October 31, 2021 and for Vision as at October 31, 2021 as attached hereto as Schedule "E" and business has been conducted in the ordinary course since November 2021 and will be conducted in the ordinary course until the Closing Date.

3.2 Each Predecessor Credit Union hereby represents and warrants that there are no:

3.2.1 Material unrecorded assets or contingent assets;

3.2.2 Material unrecorded liabilities or contingent liabilities;

3.2.3 Significant contractual obligations such as purchases of property outside the ordinary business of the Predecessor Credit Union;

3.2.4 Arrangements or agreements by which programs have been established to provide retirement income to employees that have not been disclosed;

3.2.5 Material transactions that have not been properly recorded in the accounting records underlying the financial statements as of the Closing Date; and

3.2.6 Any liens or encumbrances on its assets that have been pledged or assigned as security for liabilities, performance of contracts or otherwise encumbered have been properly disclosed,

Except as outlined in Schedule "A" attached hereto.

3.3 Each Predecessor Credit Union hereby represents and warrants that it has filed all annual returns and has paid all fees under the applicable laws with respect to its corporate existence and is in good standing thereunder.

3.4 Each Predecessor Credit Union hereby represents and warrants that it is not now, and will not be on the Closing Date, in arrears in the remittance of employees' federal and provincial tax deductions, and has complied with the laws and regulations relating thereto.

3.5 Each Predecessor Credit Union hereby represents and warrants that there are no judgements or executions outstanding against it and it has not guaranteed to give security for any debt or obligations of any person, firm or corporation, except those arising in the ordinary course of business and detailed on the Schedule "A" attached hereto.

3.6 Each Predecessor Credit Union hereby represents and warrants that it has advised the other party of any action, labour dispute, arbitration suit or other legal proceedings, actual or threatened, that it may be party to at the present time and there is no circumstance, matter or thing known to its respective directors or officers which is likely to give rise to such action, suit or other legal proceeding except as has been expressly disclosed to the parties.

4. CONDITIONS PRECEDENT

4.1 Before the Predecessor Credit Unions are obliged to close this transaction:

4.1.1 They will receive approval, in the form of a special resolution, from their memberships assenting to the terms and conditions set forth in this Agreement or seek an exception from the Corporation requiring the approval of their membership in the form of a special resolution assenting to the terms and condition set forth in this Agreement; and

4.1.2 The Corporation will approve the terms and conditions set forth in this Agreement.

If these conditions precedent are not satisfied prior to the Closing Date, this Agreement shall be null and void.

4.2 Previous to the approval set out in Article 4.1.1 and 4.1.2, at least two (2) of the proposed directors of the Amalgamated Credit Union shall submit to the Corporation a certified resolution stating that the Amalgamated Credit Union will not be insolvent and that no creditor will be prejudiced by the terms and effects of the amalgamation.

4.3 Prior to the Amalgamation Date, except to the extent this notice is waived by the Corporation, each Predecessor Credit Union will give written notice of the proposed amalgamation to all the known creditors and customers to whom it owes more than One Thousand ($1,000.00) Dollars.

4.4 Each Predecessor Credit Union shall, from the date hereof until the Amalgamation Date, consult with each other with respect to its business operations and shall not incur any extraordinary expenditures, whether of a capital nature or otherwise, prior to the Amalgamation Date without the approval and consent of the other Predecessor Credit Union.

4.5 This Agreement may be terminated, by either the Board of Directors of the Predecessor Credit Unions, Encompass Credit Union Ltd. or Vision Credit Union Ltd., at any time prior to the Minister issuing a certificate of amalgamation, notwithstanding the adoption, or partial adoption, of this Agreement under Article 4.1.

5. CLOSING AND POST-CLOSING

5.1 By the Amalgamation Date, the Amalgamated Credit Union shall submit to the Minister the following items:

5.1.1 Articles of amalgamation setting out the name and the nature of the bond of association of the Amalgamated Credit Union, as well as a statement of any restrictions or prohibitions on its business activities;

5.1.2 A copy of the proposed By-Laws, signed by at least two (2) of the proposed directors of the Amalgamated Credit Union;

5.1.3 A notice of the address of the registered office of the Amalgamated Credit Union; and

5.1.4 A notice containing the full name and residential address of each of the proposed directors of the Amalgamated Credit Union.

6. MISCELLANEOUS

6.1 The Predecessor Credit Unions agree not to divulge any information with regard to individual Member loans, deposits or other credit facilities to persons other than Directors or employees of the Predecessor Credit Unions or the Directors or officers of the Corporation or to the Minister or his lawful representatives.

6.2 The preamble and Schedules hereto are incorporated herein by reference and form an integral and binding part of this Agreement.

6.3 This Agreement shall not be amended, varied or altered unless both parties agree in writing.

6.4 This Agreement contains the entire contract between the parties hereto and no party shall be bound by any warranty, condition or term other than as expressly stated herein.

6.5 Time shall be of the essence of this Agreement.

6.6 The parties agree that this Agreement shall be governed by the laws of the Province of Alberta.

6.7 This Agreement shall inure to the benefit of and be binding upon the respective parties hereto and their respective heirs, executors, administrators and assigns.

6.8 The parties agree that they will do whatever is reasonably necessary to give effect to the intent of this Agreement that is requested by the other party.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the day and year first written above by persons authorized by their respective Credit Unions.

VISION CREDIT UNION LTD.

Per: ______________________________

______________________________ c/s

ENCOMPASS CREDIT UNION LTD.

Per: ______________________________

______________________________ c/s

SCHEDULE "A"
ASSETS AND LIABILITIES

Vision Credit Union Ltd.
Statement of Financial Position
October 31, 2021

($Thousands)	2021	2020
Assets		
Cash and cash equivalents *(Note 4)*	**$ 134,292**	$ 20,987
Investments and accrued interest *(Note 5)*	**172,061**	256,415
Member loans receivable and accrued interest *(Note 6)*	**1,196,181**	1,030,327
Income taxes recoverable	**-**	406
Foreclosed properties held for resale	**346**	486
Other assets *(Note 7)*	**569**	347
Property and equipment *(Note 8)*	**18,023**	19,153
Investment property *(Note 9)*	**190**	367
Derivative financial assets *(Note 10)*	**280**	34
Intangible assets *(Note 11)*	**4,628**	4,471
Deferred tax *(Note 12)*	**361**	186
	$ 1,526,931	$ 1,333,179
Liabilities		
Member deposits and accrued interest *(Note 13)*	**$ 1,353,460**	$ 1,177,352
Accounts payable and accrued liabilities	**4,013**	2,495
Income taxes payable	**8**	-
Derivative financial liabilities *(Note 10)*	**280**	34
	1,357,761	1,179,881
Contingent liabilities and commitments *(Note 14)*		
Members' equity		
Member shares *(Note 15)*	**79,211**	74,034
ProfitShare allocation	**13,350**	11,950
Retained earnings	**76,609**	67,314
	169,170	153,298
	$ 1,526,931	$ 1,333,179

On behalf of the Board

_________________________ *Director*

_________________________ *Director*

Encompass Credit Union Ltd.
Consolidated Statement of Financial Position
October 31, 2021

	2021	2020
Assets		
Cash and cash equivalents *(Note 4)*	$ 47,803,350	$ 66,072,541
Investments and accrued interest *(Note 5)*	96,649,444	92,709,305
Member loans receivable and accrued interest *(Note 6)*	384,721,819	388,724,348
Income taxes recoverable	135,577	515,406
Other assets *(Note 7)*	1,114,607	961,634
Property and equipment *(Note 8)*	5,674,516	6,005,137
Investment property *(Note 9)*	-	404,407
Intangible assets *(Note 10)*	529,643	676,536
Deferred tax *(Note 11)*	435,902	1,031,108
	$537,064,858	$557,100,422
Liabilities		
Member deposits and accrued interest *(Note 12)*	$470,675,584	$494,628,457
Accounts payable and accrued liabilities	6,358,009	5,313,684
Derivative financial liabilities *(Note 13)*	330,130	166,677
	477,363,723	500,108,818
Contingent liabilities and commitments *(Note 14)*		
Members' equity		
Member shares *(Note 15)*	14,359,837	14,007,519
Common share dividend and/or patronage allocation	709,612	595,494
Retained earnings	44,631,686	42,388,591
	59,701,135	56,991,604
	$537,064,858	$557,100,422

On behalf of the Board

______________ *Director*

______________ *Director*

SCHEDULE "B"
ARTICLES OF AMALGAMATION

Alberta

ARTICLES OF AMALGAMATION

Financial Institutions – Policy, Treasury Board and Finance

This form, together with a copy of the proposed by-laws, a name search report (if applicable), Notice of Directors (form AT4042), and a Notice of Address (form AT4043) must be submitted to Financial Institutions - Policy, FIPolicy@gov.ab.ca or 8th floor Federal Building, 9820 - 107 Street, EDMONTON, Alberta, T5K 1E7, 780-644-5006. These forms are available on our website.

Amalgamated Credit Union Name: VISION CREDIT UNION LTD.

Email Address: dhautzinger@visioncu.ca

Telephone Number: 780-672-1175

If space is insufficient, attach additional sheets

Bond of Association Statement:

OPEN BOND

Restrictions or Prohibitions:

NO RESTRICTIONS

☐ *Check here, if additional sheets are attached*

AMALGAMATING CREDIT UNIONS

Name	Registered Office	Corporate Access Number
VISION CREDIT UNION LTD.	5007 51 Street, Camrose, Alberta, T4V 1S6	2323592945
ENCOMPASS CREDIT UNION LTD.	502 10 Street, Wainwright, Alberta, T9W 1P4	2318826191

☐ *Check here, if additional sheets are attached*

CERTIFICATION

As directors of the above amalgamated credit union, we certify that the credit unions have complied with all the provisions of the Alberta *Credit Union Act* with respect to amalgamations, and that the particulars in this statement are true and complete.

Director: ______________________ Date: ______________
Name and Signature

Director: ______________________ Date: ______________
Name and Signature

Director: ______________________ Date: ______________
Name and Signature

SCHEDULE "C"
PROPOSED BOARD MEMBERS

Director	Region	Expiration
Glenn Friesen – Chair	Camrose/Daysland/Killam/Sedgewick/vNow	March 2023
Dean Huolt – Vice Chair	Camrose/Daysland/Killam/Sedgewick/vNow	March 2023
Dennis Baird	Stettler/Castor/Alliance	March 2023
Reg Bouchard	Peace River/Falher/La Glace	March 2023
Ariel Haubrich	Wainwright/Irma/Hardisty/Hughenden/Edgerton	March 2023
Allen Stefiuk	Vegreville/Two Hills/Viking	March 2024
Doug Tremblay	La Crete/Manning	March 2024
Stuart Schramm	Pincher Creek	March 2024
Daryl Hoey	Wainwright/Irma/Hardisty/Hughenden/Edgerton	March 2024
Ron Pilger	Camrose/Daysland/Killam/Sedgewick/vNow	March 2025
Doug Callaghan	Wainwright/Irma/Hardisty/Hughenden/Edgerton	March 2025
Dean Nelson	Wetaskiwin	March 2025
Yvonne Schell	Camrose/Daysland/Killam/Sedgewick/vNow	March 2025

SCHEDULE "D"
PROPOSED BYLAWS

VISION CREDIT UNION LTD. BYLAWS
INDEX

VISION CREDIT UNION LTD.
BYLAWS

1. Interpretation

1.1. In these Bylaws the words defined below shall have the meanings as defined herein unless the context otherwise specifies or requires:

1.1.1. "Act" means the *Credit Union Act* (Alberta), as from time to time amended, and every statute that may be substituted therefore and, in the case of such substitution, any reference in the Bylaws of the Credit Union to provisions of the Act shall be read as references to the substituted provisions therefore in the new statute or statutes;

1.1.2. "Board" means the Board of Vision Credit Union Ltd.;

1.1.3. "Bylaw" or "Bylaws" means these Bylaws of the Credit Union as amended and which are, from time to time, in force and effect;

1.1.4. "Chair" shall be the chair of the Board as appointed in accordance with 9.16 below and shall have the powers and duties as defined in 10.2 below;

1.1.5. "Credit Union" shall mean Vision Credit Union Ltd.;

1.1.6. "Director" means a member of the Board;

1.1.7. "CEO" means the President and Chief Executive Officer, or any other title given to the individual who reports directly to the Board and is responsible for the operations of the Credit Union;

1.1.8. "Members" are those individuals as defined within the Act;

1.1.9. "Regulations" means the *Credit Union (Principal) Regulations* and *Credit Union (Ministerial) Regulations,* as amended from time to time, in force and effect;

1.1.10. "Trading Area" means that geographic area over which the Credit Union conducts its business; and

1.1.11. "Vice Chair" shall be the vice chair of the Board as appointed in accordance with 9.16 below and shall have the powers and duties as defined in 10.3 below;

1.2. All terms contained in the Bylaws and which are defined in the Act shall have the meanings given to such terms in the Act.

1.3. The singular shall include the plural and the plural shall include the singular; the masculine shall include the feminine and the feminine shall include the masculine and the neuter gender includes bodies corporate and politic.

1.4. The Bylaws are in all respects subordinate to the Act and Regulations, and shall not be interpreted as permitting any action that is prohibited by the Act or the Regulations thereto. Whenever the Bylaws are more restrictive than the requirements of the Act or Regulations, the restrictions of the Bylaws shall bind the Credit Union.

2. Membership

2.1. Two or more persons may apply for joint membership in the Credit Union.

2.2. Application for membership shall be made in writing, and the Board may from time to time specify the form of such applications.

2.3. No person or entity shall be eligible for membership in the Credit Union until they have fully paid for one common share of the Credit Union.

2.4. Credit Unions wishing to open accounts at the Credit Union shall not be required to purchase common shares and will be treated as customers of the Credit Union. They will not be eligible in the distribution of profits, including patronage payments.

2.5. The Board may, at its discretion, authorize the CEO of the Credit Union or any other officer of the Credit Union to approve applications for or terminate membership into the Credit Union.

2.6. All applications for membership approved by a designated officer shall be reported to the Board at the next regular meeting of the Board.

2.7. The Credit Union shall not make the membership list of the Credit Union available to any person for any purpose.

3. Shareholding

3.1. Where a Member holding common shares wishes to request the Credit Union to redeem the shares, the Member shall make such a request in writing to the Board. Subject to approval by the Board or an officer delegated in accordance with the Act and the Bylaws, the Credit Union shall, after deduction of all amounts due from the Member to the Credit Union, and upon the closure of the Member's accounts, remit to the Member the balance due in respect of the shares redeemed. In the case of a partnership, corporation or estate, the account need not be closed until the common shares have been disbursed.

3.2. Where a Member holding common shares wishes to transfer their shares to another Member or credit union, the requesting Member shall make the request to transfer in writing to the Credit Union. Subject to approval of the Board or an officer delegated in accordance with the Act and the Bylaws, the Credit Union shall, after payment of all amounts due from the Member to the Credit Union, transfer the balance of the Member's shares.

3.3. A transfer or redemption of common shares will be permitted only where the application has been approved by the Board under 3.1. and 3.2. and subject to the Act and the following conditions:

3.3.1. The Member has moved within the Trading Area but in closer proximity to another credit union;

3.3.2. In the case of a partnership, the partnership has discontinued business operations; or

3.3.3. In the case of a corporation, the corporation has discontinued business operations.

3.4. The Board or an officer delegated in accordance with the Act, shall have ninety (90) days to respond to redemption requests. The priority for considering requests for redemption of common shares shall be by the date of the application.

3.5. Redemption approvals of common shares will be processed as follows:

3.5.1. Estate claims shall be paid in full upon approval;

3.5.2. All balances under a specified amount determined by the Board or an officer delegated in accordance with the Act shall be paid in full upon approval;

3.5.3. Partnerships or corporations shall be paid in full upon approval; and

3.5.4. All other approvals shall be paid within six (6) months of approval, at the discretion of the Board or an officer delegated in accordance with the Act.

3.6. Any Member's loan that is written off shall result in the forfeiture to the Credit Union of all the Member's common shares, up to and including December 31st in the year of such write off, as per the provisions of Section 137 of the Act.

3.7. The Board or an officer delegated in accordance with the Act shall determine:

3.7.1. The method of calculating dividends on common shares;

3.7.2. The manner or method of determining a patronage rebate;

3.7.3. The record date for payment of a dividend on common shares or a patronage rebate; and

3.7.4. The allocation distribution amount based on total interest paid on loans and authorized overdrafts and/or interest received on Credit Union deposit accounts during a calendar year.

3.8. No allocations, dividends or patronage rebates shall be made to an account after it has been closed and the redemption request has been approved but not yet paid.

3.9. No allocations, dividends or patronage rebates shall be made to an account that was acquired by tender or for accounts where special quotations are involved. Exceptions may be approved subject to the approval of the Board or the CEO, as the officer delegated by the Board.

3.10. The Board may, at its discretion, authorize the CEO of the Credit Union or their designates to approve the issuance or transfer and redemption of common shares and closure of membership of the Credit Union.

3.11. All redemptions must be reported to the Board at the next board meeting together with the year to date total of redemptions.

4. Investment Shares

4.1. The Board is authorized to create, issue and maintain a class of special shares (the "Investment Shares"). There shall be no limit on the number of Investment Shares that may be issued.

4.2. Investment Shares may only be issued in one or more designated series and a sequential letter of the alphabet must identify each of the designated series.

4.3. Before the Credit Union issues Investment Shares, the Board must:

4.3.1. Authorize the issue of shares in the series;

4.3.2. Specify the issue price of the shares;

4.3.3. Specify the method of calculation of the dividends paid on the shares;

4.3.4. Specify whether the dividends are cumulative or non-cumulative; and

4.3.5. Specify the terms and conditions of any redemption or conversion rights of both the holder and the Credit Union.

4.4. The Credit Union may not exchange or convert Investment Shares in a series for common shares or any other series that have been issued by the Credit Union.

4.5. The Investment Shares have no par value and carry no voting rights.

4.6. The Board shall not pay common share dividends or patronage rebates ahead of Investment Share dividends, but it does have the discretion to retain earnings for operational purposes ahead of Investment Share dividends.

4.7. The Investment Shares shall have the rights, privileges, restrictions and conditions that are granted by the Act, the Regulations and the Bylaws, and the authorizing resolution of the Board of the Credit Union.

5. Membership Meetings

5.1. Where notice to a Member is required under the Bylaws, other than the notice calling a general or special membership meeting, a Board meeting, or a committee meeting, such notice shall be by registered mail or by ordinary mail or by private courier. Notice is deemed to have been given after the expiry of ten (10) days from the date the notice was delivered to the post office or on delivery by a private courier.

5.2. Notice of a general meeting of the Credit Union shall be given at least ten (10) days but no more than forty (40) days prior to a general meeting, in accordance with the Act and shall be given by:

5.2.1. Publishing notification on member's statements;

5.2.2. Publishing the notice in a newspaper(s) serving the Credit Union's Trading Areas;

5.2.3. Posting a notice in the offices of the Credit Union; or

5.2.4. Posting a notice on the official website of the Credit Union.

5.3. If two (2) or more persons are registered as holders of a joint membership in the Credit Union, notice to one (1) of such persons shall be sufficient notice to all of them.

5.4. Provided that the conditions under Section 58(3) of the Act for notice of an adjourned meeting are met, no further notice need be provided by the Credit Union of an adjourned meeting.

5.5. So long as the criteria of Section 60.1(1) of the Act has been met, the Board, at its sole discretion, shall approve that general meetings will be held remotely.

5.5.1. Should any circumstances arise where a public gathering is not permitted (either by government restriction, natural disaster, etc.), a virtual (electronic) meeting may be permitted.

5.5.2. A Member or any other person who is entitled to attend a general meeting may participate in the meeting (including voting) to the same but to no greater extent than if personally present, by means of telephonic, electronic or other communication facility that complies with the regulations, if any, and that permits persons participating in the meeting to communicate adequately with each other during the meeting.

5.5.3. Persons who lawfully participate in the meeting by one of the means described in subsection 5.5.2. are deemed to be present at the meeting.

5.6. The chairperson of any meeting of Members shall be the Chair, or in their absence, the vice Chair, or in the absence of both of them, some other person appointed by the Board.

5.7. If the secretary of the Credit Union is absent, the chairperson shall appoint some person to act as secretary of the meeting.

5.8. The order of business at an annual general meeting of the Credit Union shall include, but not be restricted to, the following:

5.8.1. Adoption of the minutes of the last meeting;

5.8.2. Report of the Board;

5.8.3. Financial statement and auditors' report presentation;

5.8.4. Report of the audit and finance committee;

5.8.5. Report of the credit committee;

5.8.6. Report of the risk and governance committee; and

5.8.7. New business, including elections, resolutions, and bylaw amendments, if applicable.

5.9. Roberts Rules of Order shall govern the rules of order for membership meetings and the following additional rules:

5.9.1. The maximum time an individual speaker may address or speak to any one issue is two (2) minutes of each time they are permitted to speak; and

5.9.2. The chairperson shall determine if a visitor is entitled to speak to or discuss any issues.

5.10. At any meeting, unless a poll is called for, a declaration by the chairperson of the meeting that the required majority has carried a resolution shall be conclusive of the fact.

5.11. At any meeting, voting shall occur by a show of hands, unless the Board, in their sole direction, requires the vote occur by ballot or a Member, in accordance with s. 60(1)(8), demands a vote by ballot.

5.12. Scrutineers appointed or elected at a meeting of the Members for the purposes of ascertaining the results of a ballot shall be entitled to any information and may examine any records of the Credit Union necessary to determine the validity of any ballots.

5.13. A vote by ballot will be considered spoiled wherein:

5.13.1. More than the permitted number of candidates for an election has been selected on the ballot;

5.13.2. The ballot is irregular by way of being a forgery of an official ballot;

5.13.3. A name(s) other than a duly nominated candidate has been written onto the ballot;

5.13.4. The choice marked is unclear or illegible or subject to reasonable doubt, by reason of erasures, misplaced marks, etc.; or

5.13.5. The ballot is marked in a manner by which the voter can be identified.

5.14. At all annual or special meetings, a quorum shall be in accordance with the Act.

5.15. The only persons entitled to be present at an annual meeting or special general meeting shall be Members, other than the auditors of the Credit Union and others who are entitled or required under the provision of the Act to be present at the meeting or have been invited by the Credit Union. The Minister or their delegate and the designated representative of the Credit Union Deposit Guarantee Corporation shall be entitled to attend all membership meetings, but are not entitled to vote. At the invitation of the chairperson, a person who is not a member entitled to vote may be permitted to address the meeting.

6. Voting Rights

6.1. The Directors may set, by resolution, a record date for the purpose of determining which Members are to receive notice of a meeting and who are to be entitled to vote at a meeting, which record date shall not be later than ten (10) days before the date of the meeting or earlier than sixty (60) days before the date of the meeting.

6.2. Any Member of the Credit Union may vote on any question before the Members but, subject to the Bylaws and the Act, has only one (1) vote on any question.

6.3. Each person who is party to a joint membership shall collectively have one (1) vote.

6.4. A minor may not vote on any matter.

6.5. Where a Member of the Credit Union is other than an individual or a trustee or personal representative of a corporation, government, partnership or unincorporated association, the Credit Union shall recognize an individual authorized by resolution of the directors or governing body of that Member to represent it at meetings of Members of the Credit Union.

6.6. No Member may represent more than one (1) body corporate or association, but such member may vote in their own right, if a member, as well as for the corporation or association they represent.

6.7. At the Board's discretion, voting on Member's resolutions may take place in person at the meeting held for that purpose or through branch voting as described below in Section 7.

7. Branch Voting

7.1. Branch polling shall be conducted at all full service branches of the Credit Union, during concurrent time periods. Branch polls shall remain open during regular Credit Union business hours for a minimum of two (2) consecutive days.

7.2. Members may vote at only the branch where they have an account and which is closest to the member's personal residence, or in the case of a business, at the branch where the main business account is located.

7.3. Notwithstanding 7.2 above, Members holding accounts with vNow shall consider the 5030-51 Street branch in Camrose, Alberta to be the branch where they shall be entitled to vote for the purposes of in branch voting.

7.4. Members shall be provided with a ballot for voting after confirmation of their voting status by the Credit Union staff. A record will be maintained of all Members who have received a ballot, and this shall be checked prior to issuing ballots to confirm that a Member does not vote more than once.

8. Election of Directors

8.1. The procedure for election of Directors shall be as follows:

8.1.1. Members located at Camrose City Centre, Camrose West End, Camrose Administration, vNOW, Daysland, Killam and Sedgewick branches will elect four (4) Directors.

8.1.2. Members located at Wainwright, Irma, Hardisty, Hughenden and Edgerton branches will elect three (3) Directors.

8.1.3. Members located at Vegreville, Two Hills and Viking branches will elect one (1) Director.

8.1.4. Members located at Wetaskiwin branch will elect one (1) Director.

8.1.5. Members located at Stettler, Castor and Alliance branches will elect one (1) Director.

8.1.6. Members located at the La Crete and Manning branches will elect one (1) Director.

8.1.7. Members located at Peace River, Falher and La Glace branches will elect one (1) Director.

8.1.8. Members located at Pincher Creek branch will elect one (1) Director.

8.2. A private area shall be established for Members to complete ballots.

8.3. All polling stations shall have posted clear instructions for ballot completion.

8.4. The Member shall place completed ballots in a sealed container at the branch. At the close of voting, these sealed containers shall be delivered for counting to an independent third party approved by the Board for counting.

8.5. If the number of qualified persons nominated for the office for which the director election is to be held is equal to, or less than, the number of officers to be filled, the persons so nominated will be declared elected.

8.6. In any director election, those nominees receiving the largest number of votes shall be declared elected as directors. In the event of a tie between one or more nominees with only one position to be filled, a coin toss by the Chair will be used to determine the winner.

9. Board

9.1. A Director, in addition to the qualifications under Section 65 of the Act, must meet the following qualifications:

9.1.1. The Director must not be an employee or Director of a business selling competitive products or services;

9.1.2. The Director must not be an immediate relative of a Director, the CEO (Chief Executive Officer) or SVP (Senior Vice President) of the Credit Union. An immediate relative for this section means a spouse (including common law spouse), child (including adopted child), parent, sibling, grandparent, or the spouse of any of the foregoing;

9.1.3. The Director must not be in breach of their oath of office as a Director, including, but not limited to, the obligation to protect the confidentiality of Credit Union or Member information;

9.1.4. The Director must not be in violation of the Credit Union's policies or Bylaws;

9.1.5. The Director must be eligible for bonding by an indemnity-bonding agency;

9.1.6. The Director must have a good credit history;

9.1.7. The Director must have attended a minimum of seventy-five percent (75%) of Board meetings per year, unless the Director has provided advance notice of the reason for their absence with good cause, and the Board has approved the Director's absences, and the Director has not failed to attend three (3) consecutive meetings without the approval of the Board; and

9.1.8. The Director must have been a resident in the Credit Union Trading Area for at least one (1) year prior to election.

9.2. Where a Director no longer meets the qualifications of a Director under paragraph 9.1., they shall submit their resignation to the Board and if they fail to do so, the Board shall remove the Director by a resolution of the Board when it becomes aware of a defect in their qualifications. In the event the facts surrounding the defect in qualifications are unclear, or the circumstances giving rise to the defect can be corrected, a Director may be suspended by a resolution of the Board for a period of time specified in the resolution not to exceed ninety (90) days, or until the matter of their qualification is resolved, which ever shall occur earlier.

9.3. A Director ceases to hold office when the Director:

9.3.1. Dies or resigns;

9.3.2. Is removed from office by ordinary resolution of the Members at a general meeting;

9.3.3. Becomes disqualified unless a resolution to suspend is passed, not opposed to the Act and pursuant to Bylaw 8.1.;

9.3.4. No longer has a region to represent by a branch closure causing the elimination of a region; or

9.3.5. Has served four (4) consecutive terms. At the completion of their fourth (4^{th}) term, the Director must resign their seat on the Board for at least one (1) year before accepting a nomination for Director.

9.4. The Board shall consist of eleven (11) to thirteen (13) persons duly elected by the Members.

9.5. The Members shall elect or declared elected Directors at the first meeting of Members and at each annual meeting of Members thereafter. The term of office for Directors shall be until the third annual meeting following their election, provided that for the purpose of staggering terms, Members may elect or declared elected Directors for a shorter term.

9.6. The Board shall appoint a nominating committee of not less than three (3) Members of the Board (the "Nominating Committee").

9.7. At least sixty (60) days prior to the date set for the annual meeting, the Nominating Committee shall provide notice to the members in accordance with paragraph 5.1. that an election is to take place, and inviting nominations from the membership of qualified persons willing to stand for election. The notice shall include the date for close of nominations, which shall not be less than ten (10) days before the date of the proposed election.

9.8. In consideration of Board policy and the above in 9.7 due to the requirement for the close of nominations no less than ten (10) days prior to the day of the proposed election no nominations will be allowed after this date, from the floor during the proposed meeting, or at all.

9.9. A Director whose term of office has expired is eligible for nomination and election by way of notifying the Nominating Committee as to his/her intent not less than thirty (30) days prior to close of nominations.

9.10. The Nominating Committee shall provide a standard nomination form approved by the Board. Every person nominated from the membership at large shall signify their intent to stand for election in writing along with the identified signature of a minimum of five (5) other active Members of the Credit Union in good standing. Nominees must submit a nomination form completed in accordance with the required information.

9.11. Upon receipt of nominations, the Nominating Committee shall examine the nomination forms submitted and determine there from those candidates who are qualified. All nominees to the Board must meet the requirements for a Director to hold office as specified in Section 65 of the Act, and the Bylaws. The Board may also establish a policy for nominating candidates for Director on the basis of affiliation with a branch or region served by the Credit Union.

9.12. The Nominating Committee shall have the authority to reject the nomination of any nominee who does not meet the necessary qualifications for a Director to hold office.

9.13. Elections for Directors may be conducted by way of an election at the annual general meeting, or by way of voting conducted in the branches of the Credit Union, or by a combination of those methods. The Board shall determine for each election which method or methods of electing Directors shall be employed.

9.14. The results of the election shall be reported to the membership at the annual general meeting. Members so elected shall hold office for the remainder of the term of the vacant seat not to extend beyond the third annual meeting following their election.

9.15. If there is a failure to elect the minimum of Directors at a meeting of Members, the Directors then in office may, by special resolution, appoint a representative to fill the vacancy until the next annual general meeting of the Credit Union.

9.16. Where a vacancy occurs on the Board, the Board may appoint a replacement from the branch(es), in accordance with 8.1, the vacancy occurred or wait until the next annual general meeting to hold an election for the vacant position.

9.17. At the first meeting following the annual general meeting of the Credit Union, the Board shall choose from their own Members a Chair and a vice Chair, and such other officers, as they consider necessary. Elections for officers shall be by secret ballot. All officer elections shall be decided by a majority vote with the candidate receiving the least votes dropped from each succeeding ballot until a majority is established.

9.18. Directors of the Credit Union shall receive remuneration in recognition of their time in attendance at meetings in relation to their duties with the Credit Union. Remuneration may be paid based on a rate for remuneration per meeting, rate per day, or rate per portion of a day, and the rate of remuneration may differ for Directors and committee members and by the type of meeting attended. The Board shall establish the rates on the basis provided herein, but in no event shall the aggregate amount of remuneration paid to Directors and committee members exceed two percent (2.0%) of total Credit Union operating expenses.

10. Designation and Powers of Officers

10.1. The Board shall, by motion, appoint employee officers and all officers shall perform such other duties not inconsistent with the Act, Regulations and Bylaws as may be authorized by the Board.

10.2. The Chair shall have the following powers and duties:

10.2.1. Shall be an ex officio member of all committees;

10.2.2. Shall preside at all meetings of the Board unless they are unable to do so;

10.2.3. Shall ensure that a delegate attends the Alberta Central annual general meeting; and

10.2.4. Shall perform such other duties and functions as the Board may prescribe.

10.3. The vice Chair shall substitute for the Chair and perform all of their duties and exercise all of their powers when the Chair is unable to do so.

10.4. The Credit Union shall appoint an employee to act as recording secretary who shall attend all meetings of the Members and the Board and shall cause correct minutes to be kept of the said meetings. The secretary shall cause proper notice of all meetings of the Board and the membership to be given. If the secretary of the Credit Union is absent, the chairman shall appoint some person to act as secretary of the meeting.

11. Committees

11.1. Pursuant to the requirements of section 80 of the Act, the Board shall appoint such committees, as it considers necessary. All elections for committee executives/officers shall be by secret ballot and shall be decided by a majority vote with the candidate receiving the least votes dropped from each succeeding ballot until a majority is established.

11.2. The audit and finance committee may, to fulfil its duties, utilize the services of an internal auditor and the internal auditor shall report directly to the audit and finance committee all their findings, and to the Board in accordance with the Act.

11.3. The credit committee may delegate any of its powers, duties and functions to approved officers and employees of the Credit Union who shall report directly to the credit committee on a regular basis. Any such delegation does not relieve the credit committee of its responsibility under the Act.

12. Board and Committee Meetings

12.1. The Board shall meet no less than quarterly, and more often if the business of the Credit Union warrants.

12.2. Committees of the Board shall meet according to the following minimum schedules:

12.2.1. Audit and finance committee – quarterly;

12.2.2. Credit committee – as required;

12.2.3. Nominating Committee – as required; and

12.2.4. Risk and governance committee – quarterly.

12.3. A Board meeting or committee meeting may be held by means of telephone or other communication facilities which permit all persons participating in the meeting to hear each other, and the directors participating by those means shall be deemed to be present at the meeting.

12.4. Notice of Board or committee meetings, including the date, time, place and agenda, shall be communicated by announcement at the preceding meeting, by telephone or by mail to each Director or committee member not less than seven (7) days prior to the meeting. In the event a meeting by telephone conference call of the Board or committee is required, notice shall be given in person or by telephone to each participant, not less than twenty-four (24) hours in advance of the conference call.

12.5. Notice may be waived by the Board or committee upon a poll of the members with simple majority agreement, for the purpose of holding an emergency meeting of the Board or committee.

12.6. A quorum of the Board shall be not less than a majority of the Directors.

12.7. A quorum of a committee of the Board shall be not less than:

12.7.1. Audit and finance committee – three at least one of who shall be a Director;

12.7.2. Credit committee – at least two of the committee members; and

12.7.3. Nominating Committee – two-thirds of the committee members.

12.8. Voting by the Board or committees shall be by a show of hands, unless otherwise required by the Board or committee.

VISION CREDIT UNION LTD.

Per: ____________________________

Per: ____________________________

SCHEDULE "E"
FINANCIAL STATEMENTS

Vision Credit Union Ltd.

Financial Statements

Year Ended October 31, 2021

Management's Responsibility for Financial Reporting

The financial statements of Vision Credit Union Ltd. and all other information contained in the annual report are prepared and presented by management, which is responsible for their accuracy, objectivity and completeness. This responsibility includes presenting the statements in accordance with International Financial Reporting Standards (IFRS). The preparation of the statements necessarily involves the use of estimates, which are made using careful judgment.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors (Board) has the ultimate responsibility for these financial statements. The Board oversees management's responsibilities for financial reporting through an Audit & Finance Committee, which is composed entirely of directors who are not officers or employees of Vision Credit Union Ltd. The Committee reviews the financial statements and recommends them to the Board for approval.

To carry out its duties, the Audit & Finance Committee (Committee) reviews the annual financial statements, as well as issues related to them. The Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems. The Committee's review of financial reports includes an assessment of key management estimates and judgments material to the financial results.

The external auditor, appointed by the Board of Directors, conducted an audit of these financial statements in accordance with Canadian generally accepted auditing standards. The external auditor has full and unrestricted access to the Committee to discuss their audit findings as to the integrity of Vision Credit Union Ltd.'s financial reporting and adequacy of internal controls.

Mowbrey Gil LLP Chartered Professional Accountants has examined these financial statements and their report follows.

Mr. Steve Friend, CEO

Camrose, Alberta
December 14, 2021

Independent Auditor's Report

To the Members of Vision Credit Union Ltd.

Opinion

We have audited the financial statements of Vision Credit Union Ltd. (the Credit Union), which comprise the statement of financial position as at October 31, 2021, and the statements of income and comprehensive income, changes in member's 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, 2021, and the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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:

(continues)

- 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.

Mowbray Gil LLP

Edmonton, Alberta
December 14, 2021

CHARTERED PROFESSIONAL ACCOUNTANTS

Vision Credit Union Ltd.
Statement of Financial Position
October 31, 2021

	2021	2020
($Thousands)		
Assets		
Cash and cash equivalents *(Note 4)*	**$ 134,292**	$ 20,987
Investments and accrued interest *(Note 5)*	**172,061**	256,415
Member loans receivable and accrued interest *(Note 6)*	**1,196,181**	1,030,327
Income taxes recoverable	**-**	406
Foreclosed properties held for resale	**346**	486
Other assets *(Note 7)*	**569**	347
Property and equipment *(Note 8)*	**18,023**	19,153
Investment property *(Note 9)*	**190**	367
Derivative financial assets *(Note 10)*	**280**	34
Intangible assets *(Note 11)*	**4,628**	4,471
Deferred tax *(Note 12)*	**361**	186
	$ 1,526,931	$ 1,333,179
Liabilities		
Member deposits and accrued interest *(Note 13)*	**$ 1,353,460**	$ 1,177,352
Accounts payable and accrued liabilities	**4,013**	2,495
Income taxes payable	**8**	-
Derivative financial liabilities *(Note 10)*	**280**	34
	1,357,761	1,179,881
Contingent liabilities and commitments *(Note 14)*		
Members' equity		
Member shares *(Note 15)*	**79,211**	74,034
ProfitShare allocation	**13,350**	11,950
Retained earnings	**76,609**	67,314
	169,170	153,298
	$ 1,526,931	$ 1,333,179

On behalf of the Board

_______________________________ *Director*

_______________________________ *Director*

Vision Credit Union Ltd.
Statement of Income and Comprehensive Income
Year Ended October 31, 2021

($Thousands)	2021	2020
Interest income		
Member loans	$ 44,405	$ 45,244
Investments	1,046	2,098
	45,451	47,342
Interest expense		
Member deposits	7,940	10,995
Financial margin	37,511	36,347
Other income (expense)		
Other income	5,948	5,141
Allowance for loan loss	294	(1,271)
Allowance for investment loss	12	(16)
	6,254	3,854
Operating expenses		
Personnel	13,205	12,994
Administration	7,819	7,093
Occupancy	2,156	1,868
Member security	842	746
Organization	433	436
	24,455	23,137
Income before ProfitShare allocation and income taxes	19,310	17,064
ProfitShare allocation	(13,350)	(11,950)
Income before income taxes	5,960	5,114
Income taxes *(Note 12)*		
Current	1,310	1,275
Deferred	(156)	13
	1,154	1,288
Net income and comprehensive income for the year	$ 4,806	$ 3,826

	Member shares	ProfitShare allocation	Retained earnings	**2021**	2020
($Thousands)					
Balance - beginning of year	$ 74,034	$ 11,950	$ 67,314	**$ 153,298**	$ 144,659
Pincher Creek balances upon amalgamation *(Note 21)*	-	-	4,489	**4,489**	-
Net income and comprehensive income for the year	-	-	4,806	**4,806**	3,826
Issuance of member shares	11,950	(11,950)	-	-	2
Redemption of member shares	(6,773)	-	-	**(6,773)**	(7,139)
ProfitShare allocation	-	13,350	-	**13,350**	11,950
Balance - end of year	$ 79,211	$ 13,350	$ 76,609	**$ 169,170**	$ 153,298

Vision Credit Union Ltd.
Statement of Cash Flows
Year Ended October 31, 2021

	2021	2020
($Thousands)		
Operating activities		
Net income and comprehensive income for the year	$ **4,806**	$ 3,826
Items not affecting cash:		
Amortization of property, equipment, investment property and intangible assets	**2,205**	2,019
Deferred taxes	**(156)**	13
ProfitShare allocation	**13,350**	11,950
	20,205	17,808
Changes in non-cash working capital:		
Investments and accrued interest	**84,354**	(103,970)
Member loans receivable and accrued interest	**(165,854)**	(30,086)
Foreclosed properties held for resale	**140**	(486)
Other assets	**(222)**	49
Member deposits and accrued interest	**176,115**	121,255
Income taxes payable	**414**	(270)
Accounts payable and accrued liabilities	**1,280**	346
Derivative financial liabilities	**246**	(4)
	96,473	(13,166)
	116,678	4,642
Investing activities		
Purchase of property, equipment and intangible assets	**(1,229)**	(2,110)
Proceeds on disposal of investment property	**140**	328
Net assets acquired through business combination	**4,489**	-
	3,400	(1,782)
Financing activity		
Member shares issued (redemption)	**(6,773)**	(7,137)
Increase (decrease) in cash flow	**113,305**	(4,277)
Cash and cash equivalents - beginning of year	**20,987**	25,264
Cash and cash equivalents - end of year	$ **134,292**	$ 20,987
Cash flows supplementary information		
Interest received	$ **44,758**	$ 47,512
Interest paid	$ **9,703**	$ 11,047
Income taxes paid	$ **896**	$ 1,545

1. Reporting entity information

Entity information

Vision Credit Union Ltd. (the Credit Union) is incorporated under the Credit Union Act of the Province of Alberta.

The Credit Union operates eighteen credit union branches and serves members in Camrose, Peace River, Pincher Creek and the surrounding areas. The address of the Credit Union's registered office is 5007 - 51st Street, Camrose, Alberta, T4V 1S6.

The Credit Union Deposit Guarantee Corporation (CUDGC), 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 CUDGC carries out this obligation.

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).

These financial statements for the year ended October 31, 2021 were recommended for approval and authorized for issue by the Board of Directors on December 14, 2021.

Basis of measurement

These financial statements have been prepared on the historic cost basis except for financial assets and financial liabilities classified as available for sale or as fair value with gains or losses included in the statement of income and comprehensive income.

Functional and presentation currency

These financial statements are presented in Canadian dollars (CAD), which is the functional currency of the Credit Union.

2. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, the current account with Credit Union Central Alberta Limited (operating as Alberta Central) and items in transit and are recorded at amortized cost in the statement of financial position. 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.

Investments

Alberta Central term deposits and shares

Alberta Central term deposits are accounted for at amortized cost, and are adjusted to recognize other than a temporary impairment in the underlying value. Alberta Central shares are classified as fair value through profit or loss (FVTPL) and are measured at fair value with unrealized gains and losses recognized through profit or loss.

(continues)

2. Significant accounting policies *(continued)*

Portfolio investments

Investments and other shares are valued initially at fair value, then are adjusted to recognize other than a temporary impairment in the underlying value. Investments are purchased with the intention to hold them to maturity, or until market conditions cause alternative investments to become more attractive. Equity investments that do not have a quoted market price in an active market are estimated to be equal to cost.

Member loans receivable

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Foreclosed properties held for resale

Foreclosed properties held for resale are carried at the lower of the amortized cost of the loan or mortgages foreclosed, adjusted for revenues received and cost incurred subsequent to foreclosure, and the estimated net proceeds from the sale of assets.

Property and equipment

Property and equipment are stated at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Amortization is provided using the following methods and rates intended to amortize the cost of the assets over their estimated useful lives:

Buildings	10-40 years	straight-line method
Furniture and equipment	3-20 years	straight-line method
Parking lot	14-25 years	straight-line method
Computer hardware	3-10 years	straight-line method

The useful lives of items of property and equipment are reviewed on a regular basis and the useful life is altered if estimates have changed significantly. Gains or losses on disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the statement of income and comprehensive income as other operating income or other operating costs, respectively.

(continues)

2. Significant accounting policies *(continued)*

Investment property

Investment property consists of land and a building in High Prairie that is rented to unrelated parties. The land and building were initially recorded at cost, and after recognition the Credit Union has the choice to either use the fair value model or the cost model to account for its investment property. The Credit Union has chosen the cost model to account for its investment property, in which IAS 16 then applies.

Investment property is stated at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Amortization is provided using the following methods and rates intended to amortize the cost of the investment property over its estimated useful life:

Buildings	40 years	straight-line method

The useful life of investment property is reviewed on a regular basis and the useful life is altered if estimates have changed significantly. Gains or losses on disposal of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the statement of income and comprehensive income as other operating income or other operating costs, respectively.

Intangible assets

Intangible assets consist of certain acquired and internally developed banking software and finite intangibles received upon the acquisition of the Wetaskiwin branch and upon the amalgamation with Pincher Creek Credit Union. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Credit Union and the cost can be measured reliably. Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. When the recoverable amount is less than the net carrying value an impairment loss is recognized in the statement of income and comprehensive income.

Intangible assets available for use are amortized on a straight-line basis over their useful lives (which has been estimated to range from 3 years to 15 years). The method of amortization and the useful lives of the assets are reviewed annually and adjusted if appropriate.

There are no indefinite life intangible assets.

Impairment of financial assets

The Credit Union records an allowance for loan losses for all financial assets that are measured at amortized cost or at fair value through other comprehensive income (FVOCI), which also includes loan commitments and financial guarantee contracts. Equity investments are not subject to impairment. Impairment losses are measured based on the estimated amounts and timing of future cash flows, and collateral values.

(continues)

2. Significant accounting policies *(continued)*

For financial assets measured at FVOCI, the calculated expected credit loss (ECL) does not reduce the carrying amount in the statement of financial position, which remains at fair value. Instead, the allowance is recognized in other comprehensive income (OCI) as an accumulated impairment amounts with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is reclassified to profit or loss when the asset is derecognized.

Measurement of Expected Credit Losses

At each reporting date, the Credit Union recognizes a loss allowance based on an impairment model that comprises three different stages:

- Stage 1: For financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered credit-impaired financial assets at initial recognition, a loss allowance amounting to 12-month expected credit losses is recognized.

- Stage 2: For financial instruments that have had a significant increase in credit risk since initial recognition, but are not considered credit-impaired financial assets, a loss allowance amounting to the lifetime expected credit losses is recognized.

- Stage 3: For financial instruments considered credit impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

Stage 1 and 2 are considered to be performing loans and Stage 3 consists of impaired loans. Financial instruments may, over their life, move from one impairment model to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are categorized based on the change in credit risk from origination (initial recognition) to current reporting date.

Forward-looking information

The Credit Union assesses on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost and FVTPL and with the exposure arising from loan commitments and financial guarantee contracts. The Credit Union recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money; and,

- Reasonable and supportable information that is available without the undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected life

For loans in Stages 2 and 3, allowances are based on the ECL over the loan's expected remaining lifetime. For most loans, the life is based on the remaining contractual term. Exceptions can apply if the loan has the following characteristics:

(continues)

2. Significant accounting policies *(continued)*

- Includes both a loan and an undrawn commitment component;
- The contractual liability by the lender to demand repayment and cancel the undrawn commitment; and,
- If there is no stated contractual term (i.e. credit cards, home equity lines of credit (HELOC's) and revolving lines of credit).

Significant increase in credit risk

Movement in the stages relies on judgment to assess whether a loan's credit risk has significantly increased relative to the date the loan was initially recognized. For this assessment, an increase in credit risk is considered at the instrument level.

Assessing for significant increases in credit risk is performed quarterly based on the following factors. Should any of these factors indicate a significant increase in credit risk, the loan is moved to the appropriate stage:

- Credit risk ratings: commercial and agricultural loans use an internal risk rating, while personal and residential mortgages use beacon scores, or,
- Loans that are 30 days past due are typically considered to have experienced a significant increase in credit risk (Stage 2), or,
- Loans past 90 days are typically considered to be in default (Stage 3), or,
- Other factors known by the Credit Union are also used as appropriate to determine staging if different from above. This can include, but not limited to, information gathered in the collections process.

If a member's credit risk increases significantly from initial recognition, the loan associated with that member will increase to the next stage level. If these conditions reverse and the member's credit risk recovers back to its initial rating or better, the loan will move back a stage.

Financial assets with low credit risk are considered to have a low risk of default, as the borrower is still able to fulfil their contractual obligations, including in stress scenarios. These financial assets have been assessed collectively and include Alberta Central term deposits, accounts receivable, letters of credit and letters of guarantee.

The Credit Union exercises expert credit judgment in assessing if an exposure has experienced significant increase in credit risk since initial recognition and in determining the amount of ECLs at each reporting date. The current environment is subject to rapid change with COVID-19 and while the model calculations have been updated to reflect the estimated impact of COVID-19, there is still considerable uncertainty about the length and potential impact of COVID-19. The model calculations have been updated to include changes in borrower credit scores, industry and geography specific COVID-19 impacts, payment support initiatives introduced by financial institutions and the government, and the persistence of the economic shutdown. The Credit Union has performed certain additional qualitative portfolio and loan level assessments of significant increase in credit risk.

(continues)

2. Significant accounting policies *(continued)*

Default

The Credit Union has defined default as any credit instrument that meets at least one of the following criteria:

- 90 or more days past due, unless other factors rebut this presumption.
- Less than 90 days past due but the Credit Union has information indicating that the member is unlikely to pay their credit obligations in full. Examples include member bankruptcy and breach in covenants.

An instrument is considered to no longer be in default when it no longer meets any of the default criteria.

Other financial assets

For assets measured at amortized cost, an impairment loss is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset held at cost is calculated as the difference between its carrying value and the present value of estimated future cash flows discounted at the current market rate of return for a similar asset.

All impairment losses are recognized in the statement of income and comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the statement of income and comprehensive income. Reversals of impairments are not recognized for available-for-sale financial assets that are measured at cost.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets 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 cash-generating units (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. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The 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 its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of income and comprehensive income.

(continues)

2. Significant accounting policies *(continued)*

Where an impairment loss subsequently reverses, 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 statement of income and comprehensive income.

Member deposits

Member deposits are initially recognized at fair value net of transaction costs directly attributable to issuance and are subsequently measured at amortized cost using the effective interest method.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Member 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 Board of Directors are classified as equity. Shares subject to regulatory restriction are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments.*

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.

Interest income is recognized in the statement of 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.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

Commissions and fees that are considered an integral part of the effective interest rate are included in the measurement of the effective interest rate. Commissions and fees that are not an integral part of the effective interest rate, including insurance commissions and mortgage prepayment penalties are recognized as income when charged to the members.

Account service charges are recognized as income when charged to the members.

(continues)

2. Significant accounting policies *(continued)*

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred 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.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allows the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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 year end date. Translation gains and losses are recognized in the statement of income and comprehensive income for the year.

Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized in the statement of financial position when the Credit Union becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. The Credit Union recognizes financial instruments at the trade date. All financial instruments are initially measured at fair value. Subsequent measurement is dependent upon the financial instrument's classification. Transaction costs relating to financial instruments designated as fair value through profit or loss are expensed as incurred. Transaction costs for other financial instruments are capitalized on initial recognition.

The financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in the statement of income and comprehensive income.

(continues)

2. Significant accounting policies *(continued)*

Upon initial recognition, financial assets are classified as amortized cost, FVOCI or 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.

Debt instruments 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.
- FVOCI - assets that are held for collection of contractual cash flows for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at FVOCI. 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 FVOCI.
- Mandatorily at FVTPL - assets that do not meet the criteria to be measured at amortized cost, or FVOCI, are measured at FVTPL. All interest income and changes in the financial assets' carrying value are recognized in profit or loss.
- Designated at FVTPL - on initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at FVTPL include the Alberta Central shares.

Refer to Note 17 for more information about financial instruments held by the Credit Union, their measurement basis, and their carrying amount.

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 by management. Information considered in this assessment includes stated policies and objectives and how performance of the portfolio is evaluated.

(continues)

2. Significant accounting policies *(continued)*

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.

Other financial liabilities are initially measured at fair value, then subsequently carried at amortized cost. Accounts payable and accrued liabilities and member deposits and accrued interest are classified as other financial liabilities.

De-recognition of financial assets

De-recognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and, either;
- The Credit Union has transferred substantially all the risks and rewards of the asset, or,
- The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred or retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent that the Credit Union's continuing involvement in the asset, in that case, the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in the statement of income and comprehensive income.

(continues)

2. Significant accounting policies *(continued)*

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity of the Credit Union, except those resulting from investments by members and distributions to members. Comprehensive income is the total of net income and other comprehensive income. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with IFRS, require recognition, but are excluded from net income. The Credit Union does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments, have been recognized in the statement of income and comprehensive income for the year.

New IFRS standards and interpretations not applied

Certain new standards have been published that are mandatory for the Credit Union's accounting periods beginning on or after October 31, 2021, or later periods that the Credit Union has decided not to early adopt. The impact to the Credit Union of these standards is not yet assessed.

Conceptual Framework

In March 2018, the IASB issued a revised Conceptual Framework for financial reporting, which includes revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation, and disclosure. The conceptual framework is used to develop accounting policies when no IFRS applies to a transaction.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves.

Government assistance

Government assistance is accounted for as a reduction in the related expenses in the period the assistance is provided for.

3. Significant accounting judgments, estimates and assumptions

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. The resulting accounting estimates will, by definition, seldom equal the resulted actual results, and actual results may ultimately differ from these estimates.

(continues)

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

Allowance for impaired loans

Under the IFRS 9 model, the allowance for impaired loans is based on the expected credit loss metrics, described above. This has reduced the amount of accounting estimates required as the majority of the loan loss provisions are calculated based on the model. However, the Credit Union reviews its Stage 3 loans (the most risky) and calculates a specific loan loss provision. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Credit Union makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The global pandemic declared by the World Health Organization in March 2020 due to the outbreak of COVID-19 has cast uncertainty on the estimates, assumptions, and critical judgements exercised by management. The full extent of the impact of the pandemic, including government and/or regulatory responses, will have on the Canadian (specifically Albertan) economy is highly uncertain and difficult to predict at this time. In addition to the pandemic, low oil prices, disputes among oil producing countries and completion of pipelines has added to the uncertainty that Alberta may still have a higher than normal unemployment rate once the pandemic has passed. The Credit Union has put in place relief measures for personal and business members who are having trouble meeting their financial obligations, including loan deferrals.

The main effects of the COVID-19 pandemic on the Credit Union's profit and loss and financial position as at October 31, 2021 are a reduced margin due to lower interest rates and economic uncertainty requiring management to make significant judgements to estimate the allowance for expected credit losses, which decreased compared to the previous year.

The impairment loss on member loans receivable is disclosed in more detail in Note 6.

Financial instruments not traded in active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes that they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

4. Cash and cash equivalents

($Thousands)		2021		2020
Cash held with Alberta Central, including items in transit	$	**129,668**	$	16,594
Cash on hand		**4,624**		4,393
	$	**134,292**	$	20,987

5. Investments

($Thousands)		2021		2020
Amortized cost				
Term deposits held with Alberta Central	$	**112,723**	$	241,230
Other term deposits		**45,000**		3,000
Accrued interest		**157**		64
		157,880		244,294
FVTPL				
Alberta Central common shares		**14,078**		12,030
Other investments		**135**		134
		14,213		12,164
		172,093		256,458
Investment allowance		**(32)**		(43)
	$	**172,061**	$	256,415

As required by the Credit Union Act, the Credit Union holds investments in Alberta Central to maintain its liquidity level.

Term deposits held with Alberta Central earn interest at rates ranging from 0.12% to 0.90% per annum. The term deposit maturities range from November 2021 to May 2022.

6. Member loans receivable

($Thousands)	Stage 1	Stage 2	Stage 3	2021 *Total*
Residential				
Mortgage	$ 428,023	$ 23,626	$ 2,464	**$ 454,113**
Line of credit	3,978	76	57	**4,111**
	432,001	23,702	2,521	**458,224**
Commercial & Agricultural				
Mortgage	493,552	7,223	1,499	**502,274**
Term loan	76,359	604	219	**77,182**
Overdraft	66,530	945	100	**67,575**
Line of credit	2,765	-	-	**2,765**
	639,206	8,772	1,818	**649,796**
Consumer				
Overdraft and excess	52,801	1,494	23	**54,318**
Term loan	26,199	2,683	188	**29,070**
Line of credit	442	9	-	**451**
	79,442	4,186	211	**83,839**
Accrued interest	7,351	132	94	**7,577**
Gross carrying amount	1,158,000	36,792	4,644	**1,199,436**
Loss allowance	1,198	898	1,159	**3,255**
Carrying amount	$ 1,156,802	$ 35,894	$ 3,485	**$ 1,196,181**

(continues)

6. Member loans receivable *(continued)*

($Thousands)	Stage 1	Stage 2	Stage 3	2020 *Total*
Residential				
Mortgage	$ 382,390	$ 26,158	$ 2,879	$ 411,427
Line of credit	4,033	231	10	4,274
	386,423	26,389	2,889	415,701
Commercial & Agricultural				
Mortgage	380,637	4,713	3,107	388,457
Term loan	75,088	657	363	76,108
Overdraft	62,777	1,101	213	64,091
Line of credit	3,214	-	-	3,214
	521,716	6,471	3,683	531,870
Consumer				
Overdraft and excess	48,239	3,052	108	51,399
Term loan	24,637	2,782	108	27,527
Line of credit	474	10	-	484
	73,350	5,844	216	79,410
Accrued interest	6,684	168	125	6,977
Gross carrying amount	988,173	38,872	6,913	1,033,958
Loss allowance	1,449	1,094	1,088	3,631
Carrying amount	$ 986,724	$ 37,778	$ 5,825	$ 1,030,327

The loss allowance recognized in the year is impacted by a variety of factors, such as:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period;
- Impact on the measurement of ECL due to changes in probability of default (PD), exposure at default (EAD) and loss given default (LGD) in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and,
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

(continues)

6. Member loans receivable *(continued)*

($Thousands)		Stage 1	Stage 2	Stage 3	2021 *Total*
Residential					
As at November 1, 2020	$	326	270	456	1,052
Pincher Creek loss allowance		18	14	18	50
Transfers		658	388	(1,046)	-
New originations		99	38	(17)	120
Remeasurements		(725)	(350)	1,038	(37)
Derecognized		(46)	(62)	106	(2)
Loans written off		-	-	(194)	(194)
As at October 31, 2021		**330**	**298**	**361**	**989**
Commercial & Agricultural					
As at November 1, 2020		588	258	512	1,358
Pincher Creek loss allowance		4	5	-	9
Transfers		192	(138)	(54)	-
New originations		146	3	-	149
Remeasurements		(490)	129	1,032	671
Derecognized		(41)	(2)	(827)	(870)
Loans written off		-	-	(69)	(69)
As at October 31, 2021		**399**	**255**	**594**	**1,248**
Consumer					
As at November 1, 2020		536	565	120	1,221
Pincher Creek loss allowance		13	5	-	18
Transfers		453	(89)	(364)	-
New originations		161	213	-	374
Remeasurements		(588)	(207)	598	(197)
Derecognized		(106)	(129)	(104)	(339)
Loans written off		-	(13)	(46)	(59)
As at October 31, 2021		**469**	**345**	**204**	**1,018**
Total credit loss allowance	**$**	**1,198**	**898**	**1,159**	**3,255**
Off balance sheet					
Commercial & Agricultural	$	40	9	5	54
Consumer		113	29	1	143

(continues)

6. Member loans receivable *(continued)*

		Stage 1	Stage 2	Stage 3	2020 *Total*
($Thousands)					
Residential					
As at November 1, 2019	$	271	219	85	575
Transfers		249	68	(317)	-
New originations		71	59	-	130
Remeasurements		(236)	(41)	697	420
Derecognized		(29)	(35)	(9)	(73)
Loans written off		-	-	-	-
As at October 31, 2020		326	270	456	1,052
Commercial & Agricultural					
As at November 1, 2019		330	130	486	946
Transfers		342	704	(1,046)	-
New originations		147	-	1	148
Remeasurements		(151)	32	1,267	1,148
Derecognized		(80)	(608)	(122)	(810)
Loans written off		-	-	(74)	(74)
As at October 31, 2020		588	258	512	1,358
Consumer					
As at November 1, 2019		543	542	31	1,116
Transfers		171	(2)	(169)	-
New originations		266	100	16	382
Remeasurements		(237)	108	373	244
Derecognized		(207)	(183)	(51)	(441)
Loans written off		-	-	(80)	(80)
As at October 31, 2020		536	565	120	1,221
Total credit loss allowance	$	1,450	1,093	1,088	3,631
Off balance sheet					
Commercial & Agricultural	$	65	2	8	75
Consumer		115	63	2	180

7. Other assets

($Thousands)	2021	2020
Prepaid expenses	$ 467	$ 335
Accounts receivable	102	12
	$ 569	$ 347

8. Property and equipment

($Thousands) Cost	2020 Balance	Additions or Transfers	Disposals	2021 Balance
Land	$ 2,599	$ 54	$ -	$ 2,653
Buildings	20,482	79	-	20,561
Furniture and equipment	1,899	90	-	1,989
Parking lot	900	10	-	910
Computer hardware	1,400	30	-	1,430
	$ 27,280	$ 263	$ -	$ 27,543

Accumulated Amortization	2020 Balance	Amortization	Accumulated Amortization on Disposals	2021 Balance
Buildings	$ 6,102	$ 879	$ -	$ 6,981
Furniture and equipment	921	228	-	1,149
Parking lot	279	47	-	326
Computer hardware	825	239	-	1,064
	$ 8,127	$ 1,393	$ -	$ 9,520

Net book value	2021	2020
Land	$ 2,653	$ 2,599
Buildings	13,580	14,380
Furniture and equipment	840	978
Parking lot	584	621
Computer hardware	366	575
	$ 18,023	$ 19,153

Note: In the current year, the Credit Union acquired multiple assets from the amalgamation with Pincher Creek on August 1, 2021 which are included in the above additions or transfers. See Note 21 Business Combination for further details.

9. Investment property

($Thousands) Cost	2020 Balance	Additions	Disposals or Transfers	**2021 Balance**
Land	$ 250	-	106	**$ 144**
Buildings	241	-	60	**181**
	$ 491	-	166	**$ 325**

Accumulated Amortization	2020 Balance	Amortization	Accumulated Amortization on Disposals	**2021 Balance**
Buildings	$ 124	18	7	**$ 135**
	$ 124	$ 18	$ 7	**$ 135**

Net book value	**2021**	2020
Land	**$ 144**	250
Buildings	**46**	117
	$ 190	367

10. Derivative financial assets and liabilities

The Credit Union has entered into option agreements with Alberta Central to offset the exposure related to the performance of the underlying index on equity-linked products offered to members. The embedded derivative in the product as well as the option derivative is marked to market each year end, and amounted to $279,748 (2020 - $33,582) as shown on the statement of financial position. At the end of the term, the Credit Union will receive payment from Alberta Central which will offset the amount that will be paid to the members based on the performance of the underlying index of the product.

The Credit Union has $1,802,428 (2020 - $391,543) outstanding of equity-linked deposits owed to its members at year end.

The option agreements with Alberta Central are recorded in member deposits at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the term of the products and amounted to $14,012 (2020 - $8,866) for the year. The balance of the option agreements included in member deposits as at year end is $58,664 (2020 - $14,882).

11. Intangible assets

($Thousands) Cost	2020 Balance	Additions	Disposals	**2021 Balance**
Finite intangible assets	$ 3,958	$ -	$ -	**$ 3,958**
Specified software	2,058	966	81	**2,943**
	$ 6,016	$ 966	$ 81	**$ 6,901**

Accumulated Amortization	2020 Balance	Amortization	Accumulated Amortization on Disposals	**2021 Balance**
Finite intangible assets	$ 429	$ 396	$ -	**$ 825**
Specified software	1,116	398	65	**1,448**
	$ 1,545	$ 794	$ 65	**$ 2,273**

Net book value	**2021**	2020
Finite intangible assets	**$ 3,133**	$ 3,529
Specified software	**1,495**	942
	$ 4,628	$ 4,471

12. Income taxes

The total provision for income taxes in the statement of income and comprehensive income is at a rate differing from the combined federal and provincial statutory income tax rates for the following reasons:

	2021	2020
Combined federal and provincial statutory income tax rates	**46.00%**	47.50%
General tax reduction	**-23.00%**	-23.00%
Income taxes as reported	**23.00%**	24.50%

(continues)

12. Income taxes *(continued)*

The tax effects of temporary differences which give rise to the deferred income tax asset reported on the statement of financial position, are due to differences between the amounts deducted for accounting and income tax purposes with regards to property and equipment, intangible assets, investment property, the loss allowance and accounts payable and accrued liabilities.

Net deferred income tax assets are comprised of the following:

	2021	2020
($Thousands)		
Loss allowance	$ **90**	$ 102
Accounts payable and accrued liabilities	**110**	55
Property and equipment, intangible assets and investment property	**161**	29
	$ **361**	$ 186

13. Member deposits

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

	2021	2020
($Thousands)		
Demand deposits	$ **820,842**	$ 657,591
Term deposits	**381,838**	384,583
Registered plans	**147,246**	129,880
	1,349,926	1,172,054
Accrued interest	**3,534**	5,298
	$ **1,353,460**	$ 1,177,352

14. Contingent liabilities and commitments

Financing

To finance short-term cash needs, the Credit Union has available two operating lines of credit with Alberta Central. The first operating line of credit has a ceiling of $39,000,000 CAD (2020 - $34,550,000 CAD), is payable on demand, and bears interest at Alberta Central's Canadian prime rate less 0.5% (2020 - Alberta Central's Canadian prime rate less 0.5%).

(continues)

14. Contingent liabilities and commitments *(continued)*

The second operating line of credit has a ceiling of $1,000,000 USD (2020 - $1,000,000 USD) and a maximum component equivalent of $1,450,000 CAD (2020 - $1,450,000 CAD), is payable on demand, and bears interest at Alberta Central's US prime rate plus 0.5% (2020 - Alberta Central's US prime rate plus 0.5%).

The operating lines of credit avoid the need to maintain on hand large sums of cash for short-term purposes. The operating lines of credit are used generally on a day-to-day basis. There is no balance outstanding as at October 31, 2021 (2020 - $nil).

To finance long-term cash needs, the Credit Union has a revolving term loan with Alberta Central. The revolving term loan has an aggregate ceiling of $66,000,000 CAD (2020 - $60,000,000 CAD), terms of 1 to 24 months for each advance, and bears interest at Alberta Central's Canadian prime rate less 0.5%.

The revolving term loan avoids the need to maintain on hand large sums of cash for liquidity purposes. There is no balance outstanding as at October 31, 2021 (2020 - $nil).

The debt with Alberta Central is secured by the following:

- Demand promissory note;
- A general security agreement;
- General assignment of book debts and a hypothecation of the Credit Union's shares; and,
- Investments and deposits with Alberta Central.

Credit commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These include credit commitments, letters of credit, letters of guarantee and loan guarantees, which are not included on the statement of financial position.

Guarantees and standby letters of credit represent an irrevocable obligation to make payments to a third party in the event that the member is unable to meet its contractual financial or performance obligations. In the event of a call on such commitments, the Credit Union has recourse against the members.

Commitments to extend credit 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.

These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts set out below represent the maximum credit risk 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.

As at October 31, 2021 the Credit Union had the following amounts outstanding:

	2021	2020
($Thousands)		
Guarantees and standby letters of credit	**$ 2,554**	$ 1,842

Commitments to extend credit:

(continues)

14. Contingent liabilities and commitments *(continued)*

Original term to maturity of one year or less	**72,645**	57,022
Original term to maturity of more than one year	**140,918**	124,726

15. Member shares

Authorized:

a) An unlimited number may be issued;

b) A par value of $1, but fractional shares may be issued;

c) Transferable only in restricted circumstances;

d) Non-assessable; and,

e) 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.

A member must purchase at least one share to retain membership in the Credit Union.

Common shares are "at risk" capital and are not guaranteed by CUDGC.

16. 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 Credit Union Act of Alberta (the Act). The Credit Union complied with these capital requirements throughout the year ending October 31, 2021.

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

- 4% of total assets. As at October 31, 2021, this amounted to $61,077,220;
- 8% of risk weighted assets. Under this method, the Credit Union reviews each loan and other assets and assigns a risk weighting using definitions and formulas set out in the Act. The more risk associated with an asset, then the higher the assigned weighting. The balance of each asset is multiplied by the risk weighting with the result then added together. 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. As at October 31, 2021, this amounted to $79,731,349.

  Additionally, the Credit Union is required to have a regulatory capital buffer of 3.5% of risk weighted assets for the year ended October 31, 2021. Further to this requirement, the Credit Union is expected to hold a self-identified internal buffer of no less than 2% of risk weighted assets. As at October 31, 2021, the Credit Union exceeds all capital requirements and holds total capital of 16.71% of risk weighted assets.

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

- Establishing policies for capital management, monitoring and reporting;

(continues)

16. Capital management *(continued)*

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

Under the Act, total capital as at October 31, 2021 includes:

		2021		2020
($Thousands)				
Retained earnings	$	**76,609**	$	67,314
Member shares		**79,211**		74,034
ProfitShare allocation		**13,350**		11,950
Loss allowance		**2,321**		2,832
Deferred tax		**(361)**		(186)
Intangible assets		**(4,628)**		(4,471)
	$	**166,502**	$	151,473

Therefore, the Credit Union has exceeded its minimum capital requirements at October 31, 2021.

17. Financial instruments risk management

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk, foreign currency risk and liquidity risk.

The Credit Union, as part of operations, has established avoidance of undue concentrations of risk and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows a risk management policy approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

a) Ensuring all activities are consistent with the mission, vision and values of the Credit Union;

b) Balancing risk and return by:

- Managing credit, market and liquidity risk through preventative and detective controls;
- Ensuring credit quality is maintained;
- Ensuring credit, market, and liquidity risk is maintained at acceptable levels;
- Diversifying risk in transactions, member relationships and loan portfolios;
- Pricing according to risk taken; and,
- Using consistent credit risk exposure tools.

Various Board of Directors committees are involved in financial instrument risk management oversight, including the Audit & Finance Committee. The risk policies, procedures and objectives have not changed materially from the prior year.

(continues)

17. Financial instruments risk management *(continued)*

Credit risk

Credit risk is the risk of a financial loss in the event of failure by a borrower to completely honour its financial obligation to the Credit Union, such as interest and/or principal payments due on member loans. Credit risk arises principally as a result of the Credit Union's lending activities with members.

Management and the Board of Directors review and update the credit risk policy annually. The Credit Union's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the statement of financial position. See Note 6 for further information.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Credit Union due to its primary service area being Camrose, Peace River, Pincher Creek and surrounding areas.

Credit risk management

The Credit Union uses a risk management process for its credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. Management of credit risk is established in policies and procedures by the Board of Directors.

The primary credit risk management policies and procedures include the following:

a) Loan security (collateral) requirements;
b) Security valuation processes, including methods used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;
c) Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;
d) Borrowing member capacity (repayment ability) requirements;
e) Borrowing member character requirements;
f) Limits on aggregate credit exposure per individual and/or related parties;
g) Limits on concentration to credit risk by loan type, industry and economic sector;
h) Limits on types of credit facilities and services offered;
i) Internal loan approval processes;
j) Loan documentation standards;
k) Loan re-negotiation, extension and renewal processes;
l) Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
m) Control and monitoring processes including portfolio risk identification and delinquency tolerances;
n) Timely loan analysis processes to identify, assess and manage delinquent and impaired loans;
o) Collection processes that include action plans for deteriorating loans;

(continues)

17. Financial instruments risk management *(continued)*

p) Overdraft control and administration processes; and,

q) Loan syndication processes.

The measurement of ECL under IFRS 9 uses the information and approaches that the Credit Union uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is discussed below.

Expected credit loss measurement

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below.

- Stage 1 - on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established;
- Stage 2 - if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and,
- Stage 3 - when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECLs measured based on ECLs on a lifetime basis.

The key judgments and assumptions adopted by the Credit Union in addressing the requirements of the standard are discussed below.

Significant increase in credit risk

The assessment of significant increase in credit risk (SICR) incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all instruments held by the Credit Union. A watch list is used to monitor credit risk; this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by management.

The Credit Union considers a financial instrument to have experienced a SICR when one or more of the following quantitative or qualitative criteria have been met:

- Contractual cash flow obligations are more than 90 days past due;
- Adverse changes in the borrowers situation indicates its inability to fulfill contractual obligations (ie. significant deterioration in credit score or risk ratings, adverse financial or economic conditions, early signs of cash flow/liquidity problems);
- A significant change in collateral value which is expected to increase the risk of default; and,
- Forward looking information indicate that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced.

The Credit Union has not used the low credit risk exemption for any financial instruments in the year ended October 31, 2021.

(continues)

17. Financial instruments risk management *(continued)*

Measuring ECL - explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Credit Union expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. For example, for a revolving commitment, the Credit Union includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Credit Union's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be incurred if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be incurred if the default occurs the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (ie. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity to the current 12-month PD. The maturity profile looks at how defaults develop into a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
- For revolving products, the EAD is predicted by taking current drawn balance and adding a credit conversion factor, which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on the analysis of the Credit Union's recent default data.

The 12-month and lifetime LGDs are determined based on the factors, which impact the recoveries made post default. These vary by product type:

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and expected recovery costs.

(continues)

17. Financial instruments risk management *(continued)*

- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs and how collateral values change, etc., are monitored and reviewed on a quarterly basis.

Due to the significant uncertainty surrounding the unprecedented COVID-19 pandemic's impact on the economy, significant judgment was used by the Credit Union to determine its best estimate on the allowance for credit losses and actual results may differ materially from that recorded as at October 31, 2021.

Except as noted above, there have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Credit Union has performed historical analysis, identified the key economic variables impacting credit risk, and ECLs for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base case scenario") are based on the consideration of a variety of external, actual and forecast information that allows the Credit Union to formulate a base case view of the future direction of relevant economics variables as well as representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by government bodies and the Bank of Canada, forecasts by Canadian banks and financial institutions and other selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Credit Union for other purposes such as budgeting and strategic planning. The other scenarios represent more optimistic and more pessimistic outcomes. At October 31, 2021, the Credit Union concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgment, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the lifetime PD under each of the scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2 or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Credit Union measures ECL as either a probability weighted 12-month ECL (Stage 1) or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting, as opposed to weighting the inputs.

(continues)

17. Financial instruments risk management *(continued)*

As with an economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Credit Union considers these forecasts to represents its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Credit Union's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Consumer and residential mortgages

- House price index as it has significant impact on the mortgage collateral valuation; and,
- Unemployment rate as it impacts on the borrowers ability to meet their contractual repayments.

Commercial

- Vacancy increases as it has significant impact on performance and collateral valuations; and,
- Capitalization rates as it has an impact on the companies' likelihood of default.

Collateral and other credit enhancements

The Credit Union employs a range of policies to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Credit Union has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Credit Union prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Mortgage insurance over residential properties;
- Charges against chattels;
- Charges over business assets such as premises, inventory and accounts receivable; and,
- Charges over financial instruments such as debt securities.

Longer term finance and lending to corporate entities are generally secured; revolving individual credit facilities are either secured or unsecured.

The Credit Union's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Credit Union since the prior period.

Market risk

Market risk is the risk of a 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.

(continues)

17. Financial instruments risk management *(continued)*

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 loans and deposits held. The Credit Union does not hedge its fair value risk, with the exception of the exposure of the equity-linked products offered to members as discussed in Note 10.

The amounts are designed to approximate the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. Since many of the Credit Union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

Fair values have not been determined for property and equipment or any other asset or liability that is not a financial instrument. The fair value of cash, variable rate loans and deposits, and accounts payable and accrued liabilities are assumed to equal their book values due to their short term nature. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

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

a) The fair values of cash and cash equivalents, short-term investments, other assets and other liabilities are assumed to approximate book values, due to their short-term nature.

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

c) The estimated fair value of fixed rate member loans and fixed rate member deposits is determined by discounting the expected future cash flows of these loans and deposits at current market rates for products with similar terms and credit risks.

Estimated fair values of financial instruments are summarized as follows:

(continues)

17. Financial instruments risk management *(continued)*

				2021	2020
		Book Value	Fair Value	**Fair Value Difference**	Fair Value Difference
($Thousands)					
Assets					
Cash	$	134,292	134,292	**-**	-
Investments		172,061	172,186	**125**	84
Member loans		1,196,181	1,193,804	**(2,377)**	(20,316)
Other assets		24,397	24,397	**-**	-
Less:					
Liabilities					
Member deposits		1,353,460	1,357,453	**(3,993)**	(6,498)
Other liabilities		4,301	4,301	**-**	-
	$	169,170	162,925	**(6,245)**	(26,730)

Fair value measurements

The Credit Union classifies fair value measurements recognized on the balance sheet using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair values as follows:

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

The carrying value of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand. Member loans and member deposits have been classified as Level 2 as fair values are primarily due to change in interest rates. There have been no transfers between Level 1 and 2 during the year.

Fair value measurements are classified in the fair value hierarchy base 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.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

(continues)

17. Financial instruments risk management *(continued)*

As at October 31, 2021	Floating Rate	0-3 Months	3-6 Months	6-12 Months	More Than 1 Year	Non Interest Sensitive	Total
($Thousands)							
Assets							
Cash	$ 133,186	-	-	-	-	1,106	**134,292**
Effective yield (%)	*0.25%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	***0.24%***
Investments	-	116,472	20,000	21,251	-	14,338	**172,061**
Effective yield (%)	*0.00%*	*0.19%*	*0.79%*	*0.73%*	*0.00%*	*0.00%*	***0.34%***
Members' loans	330,792	108,353	77,119	157,576	518,018	4,323	**1,196,181**
Effective yield (%)	*4.94%*	*4.21%*	*4.15%*	*4.00%*	*3.85%*	*0.00%*	***4.21%***
Other assets	-	-	-	-	-	24,397	**24,397**
	463,978	224,825	97,119	178,827	518,018	44,164	**1,526,931**
Liabilities and Equity							
Members' deposits	865,481	115,541	63,646	102,329	149,131	57,332	**1,353,460**
Effective yield (%)	*0.67%*	*0.71%*	*1.01%*	*0.95%*	*1.71%*	*0.00%*	***0.80%***
Other liabilities	-	-	-	-	-	4,301	**4,301**
Equity	-	-	-	-	-	169,170	**169,170**
	865,481	115,541	63,646	102,329	149,131	230,803	**1,526,931**
Net 2021 position	$(401,503)	109,284	33,473	76,498	368,887	(186,639)	**-**

(continues)

17. Financial instruments risk management *(continued)*

As at October 31, 2020	Floating Rate	0-3 Months	3-6 Months	6-12 Months	More Than 1 Year	Non Interest Sensitive	Total
($Thousands)							
Assets							
Cash	$ 19,500	-	-	-	-	1,487	20,987
Effective yield (%)	*0.02%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.02%*
Investments	-	203,009	19,959	21,262	-	12,185	256,415
Effective yield (%)	*0.00%*	*0.26%*	*0.35%*	*0.41%*	*0.00%*	*0.00%*	*0.27%*
Members' loans	267,181	92,335	49,349	105,712	512,403	3,347	1,030,327
Effective yield (%)	*5.21%*	*4.43%*	*4.45%*	*4.58%*	*4.46%*	*0.00%*	*4.65%*
Other assets	-	-	-	-	-	25,450	25,450
	286,681	295,344	69,308	126,974	512,403	42,469	1,333,179
Liabilities and Equity							
Members' deposits	675,473	116,065	81,075	108,409	159,447	36,883	1,177,352
Effective yield (%)	*0.65%*	*1.56%*	*1.89%*	*1.44%*	*2.09%*	*0.00%*	*1.07%*
Other liabilities	-	-	-	-	-	2,529	2,529
Equity	-	-	-	-	-	153,298	153,298
	675,473	116,065	81,075	108,409	159,447	192,710	1,333,179
Net 2020 position	$(388,792)	179,279	(11,767)	18,565	352,956	(150,241)	-

Foreign currency risk

Foreign currency risk exposure results if financial assets or financial liabilities are denominated in a currency other than Canadian dollars. The Credit Union holds USD. The balances held are relatively low therefore the currency risk is low. The Credit Union follows a policy of holding US dollars in an amount slightly below the US dollar deposit account levels. These levels are monitored and recorded daily. The buy and sell rates are also monitored and recorded daily. Excess US cash holdings are converted into Canadian funds.

Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to pay obligations when they fall due or not be able to repay depositors when funds are withdrawn. To mitigate this risk, the Act requires that the Credit Union maintain, at all times liquidity that is adequate in relation to the business carried on. The Credit Union calculates its liquidity position on a monthly basis to assess compliance with statutory and mandatory liquidity requirements. These balances are communicated to the Board of Directors regularly throughout the year. The Credit Union manages liquidity by continuously monitoring actual daily cash flows, monitoring the maturity dates of financial assets and financial liabilities, and maintaining adequate cash reserves.

(continues)

17. Financial instruments risk management *(continued)*

The Act requires credit unions to maintain eligible assets for adequate liquidity. Assets held by the Credit Union for such purposes are outlined below:

		2021		2020
($Thousands)				
Alberta Central statutory investments	**$**	**102,142**	$	90,713
Alberta Central common shares		**14,078**		12,030
Total assets held for liquidity	**$**	**116,220**	$	102,743

18. Director and officer indemnification

The Credit Union indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Credit Union to the extent permitted by law.

19. Related party transactions

Key management personnel (KMP) consists of the CEO, CFO, Senior Vice Presidents, Vice Presidents, and the Board of Directors.

Loans made to KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities. These benefits are subject to tax with the total value of the benefit included in the compensation figures below.

There are no loans that are impaired in relation to loan balances with KMP or directors.

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.

At year end, the total value of loans outstanding to KMP and member deposits from KMP amounted to:

		2021		2020
($Thousands)				
Aggregate of loans to KMP	**$**	**5,604**	$	3,894
Total value of revolving credit facilities to KMP		**1,152**		1,065
Net balance available		**6,756**		4,959
Aggregate of deposits from KMP		**1,353**		1,869

(continues)

19. Related party transactions *(continued)*

During the year, the interest earned on loans and interest paid on deposits for KMP amounted to:

($Thousands)		**2021**		2020
Interest and other revenue earned on loans to KMP	**$**	**214**	$	145
Interest paid on deposits to KMP		**19**		28

During the year, the aggregate compensation of the five most highly compensated KMP is:

($Thousands)		Salary & Bonus	Benefits	**2021** *Total*
Chief Executive Officer	$	682	20	702
Chief Financial Officer		324	21	345
Senior VP Credit		215	21	236
Senior VP Operations		205	20	225
Regional Manager		138	14	152
	$	1,564	96	1,660

($Thousands)		Salary & Bonus	Benefits	2020 *Total*
Chief Executive Officer	$	612	19	631
Senior VP Finance & Strategy		247	19	266
Senior VP Credit		217	19	236
Senior VP Operations		208	20	228
Regional Manager		138	12	150
	$	1,422	89	1,511

Transactions with the Board of Directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union.

Payments made for honoraria and per diems amounted to $79,700 (2020 - $65,550) and reimbursement of expenses amounted to $4,083 (2020 - $13,804). Amounts paid to directors ranged from $1,300 to $7,600 with an average of $3,994.

The Credit Union Deposit Guarantee Corporation

CUDGC was incorporated for the purpose of protecting the members of credit unions from financial loss in respect of their deposits with credit unions and to establish sound procedures and controls for credit unions. CUDGC provides a safeguard for all savings and deposits of members of Alberta credit unions.

(continues)

19. Related party transactions *(continued)*

Transactions with the CUDGC included assessments of $628,485 (2020 - $556,576) and are recorded as member security expense in the statement of income and comprehensive income. There was $166,214 (2020 - $145,169) included in accounts payable and accrued liabilities at year end.

The Credit Union Central Alberta Limited

The Credit Union is a member of the Alberta Central which acts as a depository for surplus funds, and makes loans to credit unions. Alberta Central also provides other services for a fee to the Credit Union and acts in an advisory capacity.

Transactions with Alberta Central included income earned on investments referred to in Note 5 in the amount of $863,894 (2020 - $2,057,475), and fees assessed by Alberta Central which include annual affiliation dues in the amount of $284,995 (2020 - $324,391) recorded as organization expense in the statement of income and comprehensive income.

Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the maintenance of the infrastructure needed to ensure uninterrupted delivery of such banking services.

Celero Solutions is a company formed as a joint venture by the Credit Union Centrals of Alberta, Manitoba, and Saskatchewan.

20. COVID-19 Global Pandemic

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national and global economies.

As at year end, the Credit Union is aware of changes in its operations as a result of the COVID-19 crisis. Management is uncertain of the effects of these changes on its financial statements and believes that any disturbance may be temporary; however, there is uncertainty about the length and potential impact of the disturbance.

As a result, we are unable to estimate the potential impact on the Credit Union's operations as at the date of these financial statements.

Government assistance provided for under the Canada Emergency Wage Subsidy (CEWS) program is recorded as a reduction of salaries and wages in the period which the assistance is provided for. CEWS provides non-repayable subsidies to organizations experiencing a decrease in revenues over the eligibility period to subsidize labour costs in the face of COVID-19. In the current year, the Credit Union has recorded $902,718 of CEWS assistance of which $56,219 is included in accounts receivable at year end.

21. Business combination

On August 1, 2021 Vision Credit Union Ltd. acquired 100% of the voting equity interests of Pincher Creek Credit Union Ltd. as a result of a business combination as defined in *IFRS 3 Business Combinations (IFRS 3) of Part I of the Canadian Chartered Professional Accountants (CPA) Handbook*.

The acquisition occurred through a member vote and subsequent share for share exchange whereby each of the members of Pincher Creek Credit Union Ltd. exchanged their shares for shares in Vision Credit Union Ltd. (the Credit Union). As a result of the share exchanges, Vision Credit Union Ltd. was considered the acquirer and Pincher Creek Credit Union Ltd. was considered the acquiree in the business combination under the guidance provided in *IFRS 3*. The assets and liabilities of Pincher Creek Credit Union Ltd. were merged with the assets and liabilities of Vision Credit Union Ltd. to form the Credit Union.

The amalgamation is anticipated to increase the Credit Union trade area by providing increased access to the retail network across the province of Alberta. By merging with existing credit unions, there is an opportunity for increased efficiencies through the combination of front and back office functionality as well as an opportunity for the members of the merging entities to have access to a more diverse product base.

Fair valuation of acquired assets

No cash was transferred, and no contingent consideration was provided, however, an exchange of shares was performed as part of transaction on the acquisition date of August 1, 2021. The acquisition date fair value of the acquiree's equity interest and net identifiable assets and liabilities are outlined below.

Cash	$ 19,267
Investments and accrued interest	7,667
Members' loans receivable and accrued interest	52,129
Other assets	55
Property and equipment	141
Intangible assets	46
Derivative financial assets	195
Deferred tax asset	18
	79,518
Member deposits and accrued interest	(73,167)
Other liabilities	(397)
Off balance sheet provisions	(13)
Derivative financial liabilities	(195)
Member shares	(1,257)
	(75,029)
Total addition to equity	$ 4,489

The carrying values for the following net identifiable assets and liabilities approximate their fair value due to their short term nature:

- Cash;
- Other assets; and,
- Other liabilities

(continues)

21. Business combination *(continued)*

The estimated fair values of investments and accrued interest are based on quoted market prices when available (Level 1), quoted market prices of similar investments (Level 2) or the market price of the last transaction for that instrument in an active market (Level 2).

For variable interest rate loans that re-price frequently, carrying values are assumed to approximate fair values. Fair values of other loans are estimated using discounted cash flow techniques based on the contractual repayment of the loans. The discount rates applied were based on the market rate for equitable classes or groupings as at July 31, 2021 (Level 2), as applicable. Market rates are determined by employing posted lending rates plus or minus standard industry bonusing or discounting for each month of cash flow. The fair value of loans is net of a specific provision for impairment, and collective allowance.

Deferred tax has been recalculated given the fair value adjustments made to the assets and liabilities acquired through the above noted business combination.

The fair values of property and equipment and intangible assets were determined as follows:

- Land and buildings were assessed by an independent property appraiser and the assessment was conducted in July 2021;
- All other property and equipment was assessed at the acquisition date net book value which is considered to approximate fair value; and,
- Intangible assets, which include computer software only, were assessed at the acquisition date net book value which is considered to approximate fair value.

The fair value of deposits without a specified maturity term is considered to approximate the carrying value. The fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits. Market rates are determined by employing posted guaranteed investment certificate rates plus or minus standard industry bonusing for each month of cash flow. The fair value of deposits with variable interest rates that re-price frequently are considered to approximate the carrying value.

The fair value of derivative financial instruments is estimated by referring to the appropriate current market yields with matching terms to maturity (Level 2). The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

The fair value of member shares approximates the carrying value.

No goodwill was recognized in the above business combination.

Impact of the amalgamation on the statement of income and comprehensive income

Income and expenses derived from the amalgamation have been included in the statement of income and comprehensive income from August 1, 2021 onward.

Commencing on the amalgamation date, many expenses of the incoming predecessor entities were paid collectively and many revenues became indistinguishable as to their origin. Such collective costs included but were not limited to: board and governance related expenses, legal and accounting fees. As a result, the disclosure of profit or loss of the predecessor entities since the amalgamation date and the determination and related disclosure of the combined income and comprehensive income from August 1, 2021 onwards resulting from the above noted business combination is impracticable.

(continues)

21. Business combination *(continued)*

Incremental acquisition-related legal, professional and accounting costs of the above noted business combination have been recognized as an expense in the statement of income and comprehensive income and are as follows:

- Legal, professional and accounting costs $67,204

A portion of the acquisition-related expenses were also recognized in Pincher Creek Credit Union Ltd. for the period ended July 31, 2021.

Encompass Credit Union Ltd.

Consolidated Financial Statements

Year Ended October 31, 2021

Management's Responsibility for Financial Reporting

The consolidated financial statements of Encompass Credit Union Ltd. and all other information contained in the annual report are prepared and presented by management, which is responsible for their accuracy, objectivity and completeness. This responsibility includes presenting the statements in accordance with International Financial Reporting Standards (IFRS). The preparation of the statements necessarily involves the use of estimates, which are made using careful judgment.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors (Board) has the ultimate responsibility for these financial statements. The Board oversees management's responsibilities for financial reporting through an Audit & Finance Committee (Committee), which is composed entirely of directors who are not officers or employees of Encompass Credit Union Ltd. The Committee reviews the financial statements and recommends them to the Board for approval.

To carry out its duties, the Committee reviews the annual financial statements, as well as issues related to them. The Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems. The Committee's review of financial reports includes an assessment of key management estimates and judgments material to the financial results.

The external auditor, appointed by the Board of Directors, conducted an audit of these financial statements in accordance with Canadian generally accepted auditing standards. The external auditor has full and unrestricted access to the Audit & Finance Committee to discuss their audit findings as to the integrity of Encompass Credit Union Ltd.'s financial reporting and adequacy of internal controls.

Mowbrey Gil LLP Chartered Professional Accountants has examined these financial statements and their report follows.

Mr. Kelly Longley, President & CEO

Wainwright, AB
December 15, 2021

Independent Auditor's Report

To the Members of Encompass Credit Union Ltd.

Opinion

We have audited the consolidated financial statements of Encompass Credit Union Ltd. (the Credit Union), which comprise the consolidated statement of financial position as at October 31, 2021, and the consolidated statements of income and comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at October 31, 2021, and the consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Consolidated Financial Statements* section of our report. We are independent of the Credit Union in accordance with ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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:

(continues)

2300 CN Tower, 10004 - 104 Avenue, Edmonton, Alberta T5J 0K1
T 780 461 3800 • F 780 462 4536 • www.MowbreyGil.com

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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.

Mowbray Gil LLP

Edmonton, Alberta
December 15, 2021

CHARTERED PROFESSIONAL ACCOUNTANTS

Encompass Credit Union Ltd.
Consolidated Statement of Financial Position
October 31, 2021

	2021	2020
Assets		
Cash and cash equivalents *(Note 4)*	**$ 47,803,350**	$ 66,072,541
Investments and accrued interest *(Note 5)*	**96,649,444**	92,709,305
Member loans receivable and accrued interest *(Note 6)*	**384,721,819**	388,724,348
Income taxes recoverable	**135,577**	515,406
Other assets *(Note 7)*	**1,114,607**	961,634
Property and equipment *(Note 8)*	**5,674,516**	6,005,137
Investment property *(Note 9)*	**-**	404,407
Intangible assets *(Note 10)*	**529,643**	676,536
Deferred tax *(Note 11)*	**435,902**	1,031,108
	$537,064,858	$557,100,422
Liabilities		
Member deposits and accrued interest *(Note 12)*	**$470,675,584**	$494,628,457
Accounts payable and accrued liabilities	**6,358,009**	5,313,684
Derivative financial liabilities *(Note 13)*	**330,130**	166,677
	477,363,723	500,108,818
Contingent liabilities and commitments *(Note 14)*		
Members' equity		
Member shares *(Note 15)*	**14,359,837**	14,007,519
Common share dividend and/or patronage allocation	**709,612**	595,494
Retained earnings	**44,631,686**	42,388,591
	59,701,135	56,991,604
	$537,064,858	$557,100,422

On behalf of the Board

Director

Director

Encompass Credit Union Ltd.
Consolidated Statement of Income and Comprehensive Income
Year Ended October 31, 2021

	2021	2020
Interest income		
Member loans	$ 14,317,497	$ 15,708,189
Investments	1,220,967	1,700,552
	15,538,464	17,408,741
Interest expense		
Member deposits	3,827,198	6,832,571
Borrowed funds	35	947
	3,827,233	6,833,518
Gross financial margin	11,711,231	10,575,223
Other operational income (expense)		
Service and other charges	2,271,465	2,191,454
Allowance for loan loss	255,276	(1,014,592)
	2,526,741	1,176,862
Operating expenses		
Personnel	5,211,601	5,469,359
General	2,979,737	2,928,912
Occupancy	713,091	754,236
Member security	282,274	293,097
Organization	191,978	236,414
	9,378,681	9,682,018
Income from operations	4,859,291	2,070,067
Other income (expense)		
Canada Emergency Wage Subsidy *(Note 20)*	447,794	488,950
Gain on disposal of property, equipment and intangibles	13,217	-
Donation	(1,500,000)	(3,500,000)
	(1,038,989)	(3,011,050)
Income (loss) before income taxes	3,820,302	(940,983)
Income taxes (recovered) *(Note 11)*		
Current	435,600	554,400
Deferred	595,206	(830,661)
	1,030,806	(276,261)
Net income (loss) and comprehensive income (loss) for the year	$ 2,789,496	$ (664,722)

	Member shares	Common share dividend and/or Patronage allocation	Retained earnings	**2021**	2020
Balance - beginning of year	$ 14,007,519	$ 595,494	$ 42,388,591	**$ 56,991,604**	$ 57,813,233
Payment of prior year common share dividends	595,494	(595,494)	-	-	-
Net income (loss) and comprehensive income (loss) for the year	-	-	2,789,496	**2,789,496**	(664,722)
Issuance of member shares	149,709	-	-	**149,709**	264,010
Common share dividend	-	709,612	(709,612)	-	-
Income tax recovery thereon	-	-	163,211	**163,211**	145,866
Redemption of member shares	(392,885)	-	-	**(392,885)**	(566,783)
Balance - end of year	$ 14,359,837	$ 709,612	$ 44,631,686	**$ 59,701,135**	$ 56,991,604

Encompass Credit Union Ltd.
Consolidated Statement of Cash Flows
Year Ended October 31, 2021

	2021	2020
Operating activities		
Net income (loss) and comprehensive income (loss) for the year	$ **2,789,496**	$ (664,722)
Items not affecting cash:		
Amortization of property, equipment and intangibles	**427,774**	451,977
Gain on disposal of property, equipment and intangibles	**(13,217)**	-
Deferred taxes	**595,206**	(830,661)
	3,799,259	(1,043,406)
Changes in non-cash working capital:		
Net change in investments and accrued interest	**(3,940,139)**	(7,995,427)
Net change in member loans receivable and accrued interest	**4,002,529**	13,845,118
Income taxes recoverable	**379,829**	(1,029,409)
Other assets	**(152,973)**	3,071,056
Net change in member deposits and accrued interest	**(23,952,878)**	54,431,240
Accounts payable and accrued liabilities	**1,044,325**	4,082,358
Derivative financial liabilities	**163,453**	30,239
	(22,455,854)	66,435,175
	(18,656,595)	65,391,769
Investing activities		
Purchase of property, equipment, and intangible assets	**(9,001)**	(834,305)
Transfers and proceeds on disposal of property and equipment, investment property and intangible assets	**476,365**	-
	467,364	(834,305)
Financing activities		
Net increase in member shares	**466,441**	292,722
Common share dividends paid, net of taxes	**(546,401)**	(449,628)
	(79,960)	(156,906)
Increase (decrease) in cash flow	**(18,269,191)**	64,400,558
Cash and cash equivalents - beginning of year	**66,072,541**	1,671,983
Cash and cash equivalents - end of year	$ **47,803,350**	$ 66,072,541
Cash flows supplementary information		
Interest received	$ **15,389,924**	$ 17,430,690
Interest paid	$ **6,051,324**	$ 6,449,735
Income taxes paid	$ **55,771**	$ 1,583,809

1. Reporting entity information

Entity information

Encompass Credit Union Ltd. (the Credit Union) is incorporated under the Credit Union Act of the Province of Alberta.

The Credit Union operates six credit union branches and one agency to serve members in Wainwright and the surrounding area. The address of the Credit Union's registered office is 502 - 10th Street, Wainwright, Alberta, T9W 1P4.

The Credit Union Deposit Guarantee Corporation (CUDGC), 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 CUDGC carries out this obligation.

Statement of compliance

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

These consolidated financial statements for the year ended October 31, 2021 were recommended for approval and authorized for issue by the Board of Directors on December 15, 2021.

Basis of measurement

These consolidated financial statements have been prepared on the historic cost basis except for financial assets and financial liabilities classified as available for sale or as fair value with gains or losses included in the consolidated statement of income and comprehensive income.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars (CAD), which is the functional currency of the Credit Union.

2. Significant accounting policies

Consolidation

These consolidated financial statements include the accounts of the Credit Union and its subsidiary corporation, PlanWright Financial Ltd., which is wholly-owned. All inter-corporate balances and transactions have been eliminated.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, the current account with Credit Union Central Alberta Limited (operating as Alberta Central), items in transit and accounts with other financial institutions. Cash and cash equivalents are recorded at amortized cost in the consolidated statement of financial position. 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.

(continues)

2. Significant accounting policies *(continued)*

Investments

Alberta Central term deposits and shares

Alberta Central term deposits are accounted for at amortized cost, and are adjusted to recognize other than a temporary impairment in the underlying value. Alberta Central shares are classified as fair value through profit or loss (FVTPL) and are measured at fair value with unrealized gains and losses recognized through profit or loss.

Portfolio investments

Investments and other shares are valued initially at fair value, then are adjusted to recognize other than a temporary impairment in the underlying value. Investments are purchased with the intention to hold them to maturity, or until market conditions cause alternative investments to become more attractive. Equity investments that do not have a quoted market price in an active market are estimated to be equal to cost.

Member loans receivable

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Foreclosed properties held for resale

Foreclosed properties held for resale are carried at the lower of the amortized cost of the loan or mortgages foreclosed, adjusted for revenues received and cost incurred subsequent to foreclosure, and the estimated net proceeds from the sale of assets.

Property and equipment

Property and equipment are stated at cost less accumulated amortization and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Amortization is provided using the following methods and rates intended to amortize the cost of the assets over their estimated useful lives:

Buildings	5 - 40 years	straight-line method
Furniture and equipment	3 - 10 years	straight-line method
Computer hardware	3 - 10 years	straight-line method
Parking lots	10 years	straight-line method

(continues)

2. Significant accounting policies *(continued)*

The useful lives of items of property and equipment are reviewed on a regular basis and the useful life is altered if estimates have changed significantly. Gains or losses on disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statement of income and comprehensive income as other operating income or other operating costs, respectively.

Intangible assets

Intangible assets consist of certain acquired and internally developed banking software. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Credit Union and the cost can be measured reliably. Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. When the recoverable amount is less than the net carrying value an impairment loss is recognized in the consolidated statement of income and comprehensive income.

Intangible assets available for use are amortized on a straight-line basis over their useful lives (which has been estimated to range from 3 1/3 years to 10 years). The method of amortization and the useful lives of the assets are reviewed annually and adjusted if appropriate.

There are no indefinite life intangible assets.

Impairment of financial assets

The Credit Union records an allowance for loan losses for all financial assets that are measured at amortized cost or at fair value through other comprehensive income (FVOCI), which also includes loan commitments and financial guarantee contracts. Equity investments are not subject to impairment. Impairment losses are measured based on the estimated amounts and timing of future cash flows, and collateral values.

For financial assets measured at FVOCI, the calculated expected credit loss (ECL) does not reduce the carrying amount in the consolidated statement of financial position, which remains at fair value. Instead, the allowance is recognized in other comprehensive income (OCI) as an accumulated impairment amounts with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is reclassified to profit or loss when the asset is derecognized.

Measurement of Expected Credit Losses

At each reporting date, the Credit Union recognizes a loss allowance based on an impairment model that comprises three different stages:

- Stage 1: For financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered credit-impaired financial assets at initial recognition, a loss allowance amounting to 12-month expected credit losses is recognized.
- Stage 2: For financial instruments that have had a significant increase in credit risk since initial recognition, but are not considered credit-impaired financial assets, a loss allowance amounting to the lifetime expected credit losses is recognized.

(continues)

2. Significant accounting policies *(continued)*

- Stage 3: For financial instruments considered credit impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

Stage 1 and 2 are considered to be performing loans and Stage 3 consists of impaired loans. Financial instruments may, over their life, move from one impairment model to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are categorized based on the change in credit risk from origination (initial recognition) to current reporting date.

Forward-looking information

The Credit Union assesses on a forward-looking basis the ECL associated with its assets carried at amortized cost and FVTPL and with the exposure arising from loan commitments and financial guarantee contracts. The Credit Union recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and,
- Reasonable and supportable information that is available without the undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected life

For loans in Stages 2 and 3, allowances are based on the ECL over the loan's expected remaining lifetime. For most loans, the life is based on the remaining contractual term. Exceptions can apply if the loan has the following characteristics:

- Includes both a loan and an undrawn commitment component;
- The contractual liability by the lender to demand repayment and cancel the undrawn commitment; and,
- If there is no stated contractual term (i.e. credit cards, home equity lines of credit (HELOC's) and revolving lines of credit).

Significant increase in credit risk

Movement in the stages relies on judgment to assess whether a loan's credit risk has significantly increased relative to the date the loan was initially recognized. For this assessment, an increase in credit risk is considered at the instrument level.

Assessing for significant increases in credit risk is performed quarterly based on the following factors. Should any of these factors indicate a significant increase in credit risk, the loan is moved to the appropriate stage:

(continues)

2. Significant accounting policies *(continued)*

- Credit risk ratings: commercial and agricultural loans use an internal risk rating, while personal and residential mortgages use beacon scores, or,
- Loans that are 30 days past due are typically considered to have experienced a significant increase in credit risk (Stage 2), or,
- Loans past 90 days are typically considered to be in default (Stage 3), or,
- Other factors known by the Credit Union are also used as appropriate to determine staging if different from above. This can include, but not limited to, information gathered in the collections process.

If a member's credit risk increases significantly from initial recognition, the loan associated with that member will increase to the next stage level. If these conditions reverse and the member's credit risk recovers back to its initial rating or better, the loan will move back a stage.

Financial assets with low credit risk are considered to have a low risk of default, as the borrower is still able to fulfill their contractual obligations, including in stress scenarios. These financial assets have been assessed collectively and include Alberta Central term deposits, accounts receivable, letters of credit and letters of guarantee.

The Credit Union exercises expert credit judgment in assessing if an exposure has experienced significant increase in credit risk since initial recognition and in determining the amount of ECLs at each reporting date. The current environment is subject to rapid change with COVID-19 and while the model calculations have been updated to reflect the estimated impact of COVID-19, there is still considerable uncertainty about the length and potential impact of COVID-19. The model calculations have been updated to include changes in borrower credit scores, industry and geography specific COVID-19 impacts, payment support initiatives introduced by financial institutions and the government, and the persistence of the economic shutdown. The Credit Union has performed certain additional qualitative portfolio and loan level assessments of significant increase in credit risk.

Default

The Credit Union has defined default as any credit instrument that meets at least one of the following criteria:

- 90 or more days past due, unless other factors rebut this presumption.
- Less than 90 days past due but the Credit Union has information indicating that the member is unlikely to pay their credit obligations in full. Examples include member bankruptcy and breach in covenants.

An instrument is considered to no longer be in default when it no longer meets any of the default criteria.

(continues)

2. Significant accounting policies *(continued)*

Other financial assets

For assets measured at amortized cost, an impairment loss is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset held at cost is calculated as the difference between its carrying value and the present value of estimated future cash flows discounted at the current market rate of return for a similar asset.

All impairment losses are recognized in the consolidated statement of income and comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the consolidated statement of income and comprehensive income. Reversals of impairments are not recognized for available-for-sale financial assets that are measured at cost.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets 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 cash-generating units (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. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The 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 its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of income and comprehensive income.

Where an impairment loss subsequently reverses, 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 consolidated statement of income and comprehensive income.

Member deposits

Member deposits are initially recognized at fair value net of transaction costs directly attributable to issuance and are subsequently measured at amortized cost using the effective interest method.

(continues)

2. Significant accounting policies *(continued)*

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Member 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 Board of Directors are classified as equity. Shares subject to regulatory restriction are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

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.

Interest income is recognized in the consolidated statement of 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.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

Commissions and fees that are considered an integral part of the effective interest rate are included in the measurement of the effective interest rate. Commissions and fees that are not an integral part of the effective interest rate, including insurance commissions and mortgage prepayment penalties are recognized as income when charged to the members.

Account service charges are recognized as income when charged to the members.

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

(continues)

2. Significant accounting policies *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred 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.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allows the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Government assistance

Government assistance for current expenses is recorded as other income when the related expenses are incurred.

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 year end date. Translation gains and losses are recognized in the consolidated statement of income and comprehensive income for the year.

Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized in the consolidated statement of financial position when the Credit Union becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. The Credit Union recognizes financial instruments at the trade date. All financial instruments are initially measured at fair value. Subsequent measurement is dependent upon the financial instrument's classification. Transaction costs relating to financial instruments designated as fair value through profit or loss are expensed as incurred. Transaction costs for other financial instruments are capitalized on initial recognition.

The financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in the consolidated statement of income and comprehensive income.

Upon initial recognition, financial assets are classified as amortized cost, FVOCI or 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.

(continues)

2. Significant accounting policies *(continued)*

Debt instruments 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.

- FVOCI - assets that are held for collection of contractual cash flows for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at FVOCI. 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 FVOCI.

- Mandatorily at FVTPL - assets that do not meet the criteria to be measured at amortized cost, or FVOCI, are measured at FVTPL. All interest income and changes in the financial assets' carrying value are recognized in profit or loss.

- Designated at FVTPL - on initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at FVTPL include the Alberta Central shares.

Refer to Note 17 for more information about financial instruments held by the Credit Union, their measurement basis, and their carrying amount.

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 by 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.

(continues)

2. Significant accounting policies *(continued)*

Other financial liabilities are initially measured at fair value, then subsequently carried at amortized cost. Accounts payable, accrued liabilities, member deposits, and accrued interest are classified as other financial liabilities.

De-recognition of financial assets

De-recognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and, either:
  - The Credit Union has transferred substantially all the risks and rewards of the asset, or,
  - The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred or retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent that the Credit Union's continuing involvement in the asset, in that case, the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in the consolidated statement of income and comprehensive income.

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity of the Credit Union, except those resulting from investments by members and distributions to members. Comprehensive income is the total of net income and other comprehensive income. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with IFRS, require recognition, but are excluded from net income. The Credit Union does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments, have been recognized in the consolidated statement of income and comprehensive income for the year.

New IFRS standards and interpretations not applied

Certain new standards have been published that are mandatory for the Credit Union's accounting periods beginning on or after October 31, 2021, or later periods that the Credit Union has decided not to early adopt. The impact to the Credit Union of these standards is not yet assessed.

(continues)

2. Significant accounting policies *(continued)*

IFRS 10 Consolidated Financial Statements

In September 2014, the IASB amended IFRS 10 *Consolidated Financial Statements* to address the loss of control of a subsidiary in various circumstances. These amendments are being applied prospectively to transactions occurring in annual periods on or after a date to be determined by the IASB. The Credit Union does not believe this standard will have an impact on its consolidated financial statements, as it is not anticipated that the Credit Union will lose control of its subsidiary in the foreseeable future.

Conceptual Framework

In March 2018, the IASB issued a revised Conceptual Framework for financial reporting, which includes revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation, and disclosure. The conceptual framework is used to develop accounting policies when no IFRS applies to a transaction.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves.

3. Significant accounting judgments, estimates and assumptions

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. The resulting accounting estimates will, by definition, seldom equal the resulted actual results, and actual results may ultimately differ from these estimates.

Allowance for impaired loans

With the adoption of the IFRS 9 model, the allowance for impaired loans is based on the expected credit loss metrics, described above. This has reduced the amount of accounting estimates required as the majority of the loan loss provisions are calculated based on the model. However, the Credit Union reviews its Stage 3 loans (the most risky) and calculates a specific loan loss provision. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Credit Union makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

(continues)

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

The global pandemic declared by the World Health Organization in March 2020 due to the outbreak of COVID-19 has cast uncertainty on the estimates, assumptions, and critical judgements exercised by management. The full extent of the impact of the pandemic, including government and/or regulatory responses, will have on the Canadian (specifically Albertan) economy is highly uncertain and difficult to predict at this time. In addition to the pandemic, low oil prices, disputes among oil producing countries and completion of pipelines has added to the uncertainty that Alberta may still have a higher than normal unemployment rate once the pandemic has passed. The Credit Union has put in place relief measures for personal and business members who are having trouble meeting their financial obligations, including loan deferrals.

The main effects of the COVID-19 pandemic on the Credit Union's profit and loss and financial position as at October 31, 2021 are a reduced margin due to lower interest rates and economic uncertainty requiring management to make significant judgments to estimate the allowance for expected credit losses, which decreased compared to the previous year.

The impairment loss on member loans receivable is disclosed in more detail in Note 6.

Financial instruments not traded in active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes that they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

4. Cash and cash equivalents

	2021	2020
Cash held with Alberta Central, including items in transit	**$ 46,555,125**	$ 64,867,030
Cash on hand	**1,248,225**	1,205,511
	$ 47,803,350	$ 66,072,541

5. Investments

	2021	2020
Amortized cost		
Term deposits held with Alberta Central	$ 35,705,000	$ 45,862,929
Accrued interest	1,022	7,699
	35,706,022	45,870,628
FVTPL		
Alberta Central common shares	6,240,000	6,240,000
Other investments	54,306,304	40,279,799
Accrued interest	397,371	319,069
	60,943,675	46,838,868
	96,649,697	92,709,496
Loss allowance	(253)	(191)
	$ 96,649,444	$ 92,709,305

As required by the Credit Union Act, the Credit Union holds investments in Alberta Central to maintain its liquidity level.

Term deposits held with Alberta Central earn interest at rates ranging from 0.12% to 0.77% per annum. The term deposits mature in November 2021.

Other investments include corporate bonds, term deposits and guaranteed investment certificates held with various financial institutions. Other investments earn interest at rates ranging from 0.60% to 4.93% per annum. The other investment maturities range from January 2022 to September 2026.

6. Member loans receivable

	Stage 1	Stage 2	Stage 3	2021 *Total*
Residential				
Mortgage	$148,774,891	$ 8,762,402	$ 227,704	**$157,764,997**
Line of credit	5,911,175	135,698	-	**6,046,873**
	154,686,066	8,898,100	227,704	**163,811,870**
Commercial & Agricultural				
Mortgage	125,220,725	2,021,493	1,125,879	**128,368,097**
Term loan	48,258,894	325,745	1,250,242	**49,834,881**
Overdraft	27,716,572	402,436	85,060	**28,204,068**
Line of credit	4,007,143	185,641	-	**4,192,784**
	205,203,334	2,935,315	2,461,181	**210,599,830**
Consumer				
Term loan	5,795,490	635,785	-	**6,431,275**
Overdraft and excess	1,509,786	53,272	746	**1,563,804**
Line of credit	1,558,704	121,861	-	**1,680,565**
	8,863,980	810,918	746	**9,675,644**
Accrued interest	-	-	-	**1,503,108**
Gross carrying amount	368,753,380	12,644,333	2,689,631	**385,590,452**
Loss allowance	(273,497)	(284,406)	(310,730)	**(868,633)**
Carrying amount	$368,479,883	$ 12,359,927	$ 2,378,901	**$384,721,819**

(continues)

6. **Member loans receivable *(continued)***

	Stage 1	Stage 2	Stage 3	2020 *Total*
Residential				
Mortgage	$150,455,177	$ 6,462,763	$ 236,434	$157,154,374
Line of credit	6,359,732	123,275	-	6,483,007
	156,814,909	6,586,038	236,434	163,637,381
Commercial & Agricultural				
Mortgage	119,661,296	1,201,587	1,473,586	122,336,469
Term loan	49,920,103	1,096,095	681,222	51,697,420
Overdraft	29,741,414	2,785,887	357,814	32,885,115
Line of credit	4,227,799	400,114	-	4,627,913
	203,550,612	5,483,683	2,512,622	211,546,917
Consumer				
Term loan	9,316,993	586,654	43,272	9,946,919
Overdraft and excess	1,785,632	99,022	13,953	1,898,607
Line of credit	1,356,070	58,475	77,666	1,492,211
	12,458,695	744,151	134,891	13,337,737
Accrued interest	-	-	-	1,426,193
Gross carrying amount	372,824,216	12,813,872	2,883,947	389,948,228
Loss allowance	(837,165)	(244,479)	(142,236)	(1,223,880)
Carrying amount	$371,987,051	$ 12,569,393	$ 2,741,711	$388,724,348

The loss allowance recognized in the year is impacted by a variety of factors, such as:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period;
- Impact on the measurement of ECL due to changes in probability of default (PD), exposure at default (EAD) and loss given default (LGD) in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and,
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

(continues)

6. Member loans receivable *(continued)*

		Stage 1	Stage 2	Stage 3	2021 *Total*
Residential					
As at November 1, 2020	$	106,351	141,501	23,921	271,773
Transfers					-
New originations		12,000	36,950		48,950
Remeasurements		(33,726)	(47,595)	(608)	(81,929)
Derecognized		(11,804)	(21,170)	-	(32,974)
Loans written off					-
As at October 31, 2021		**72,821**	**109,686**	**23,313**	**205,820**
Commercial & Agricultural					
As at November 1, 2020		483,060	39,746	48,156	570,962
Transfers					-
New originations		18,495	84	-	18,579
Remeasurements		(376,206)	95,715	239,967	(40,524)
Derecognized		(31,514)	(3,714)	(1,091)	(36,319)
Loans written off					-
As at October 31, 2021		**93,835**	**131,831**	**287,032**	**512,698**
Consumer					
As at November 1, 2020		72,195	60,521	69,738	202,454
Transfers					-
New originations		8,311	4,129	-	12,440
Remeasurements		(27,969)	(14,970)	(46,981)	(89,920)
Derecognized		(14,087)	(7,164)	(22,372)	(43,623)
Loans written off					-
As at October 31, 2021		**38,450**	**42,516**	**385**	**81,351**
	$	**205,106**	**284,033**	**310,730**	**799,869**
Off balance sheet					
Residential	$	6,830	37	-	6,867
Commercial & Agricultural		26,945	147	-	27,092
Consumer		34,616	189	-	34,805
Total credit loss allowance	**$**	**273,497**	**284,406**	**310,730**	**868,633**

(continues)

6. Member loans receivable *(continued)*

	Stage 1	Stage 2	Stage 3	2020 *Total*
Residential				
As at November 1, 2019	$ 129,565	43,833	30,962	204,360
Transfers	-	-	-	-
New originations	16,859	3,836	-	20,695
Remeasurements	(20,368)	93,832	(7,041)	66,423
Derecognized	(19,705)	-	-	(19,705)
Loans written off	-	-	-	-
As at October 31, 2020	106,351	141,501	23,921	271,773
Commercial & Agricultural				
As at November 1, 2019	237,403	6,195	43,883	287,481
Transfers	-	-	-	-
New originations	71,680	21,855	-	93,535
Remeasurements	187,542	11,788	5,714	205,044
Derecognized	(13,565)	(92)	(1,441)	(15,098)
Loans written off	-	-	-	-
As at October 31, 2020	483,060	39,746	48,156	570,962
Consumer				
As at November 1, 2019	112,123	25,570	25,958	163,651
Transfers	-	-	-	-
New originations	16,794	18,805	-	35,599
Remeasurements	(39,409)	20,658	44,824	26,073
Derecognized	(17,312)	(4,512)	(522)	(22,346)
Loans written off	-	-	(522)	(522)
As at October 31, 2020	72,196	60,521	69,738	202,455
	$ 661,607	241,768	141,815	1,045,190
Off balance sheet				
Residential	$ 8,375	149	-	8,524
Commercial & Agricultural	124,290	1,797	422	126,509
Consumer	42,891	766	-	43,657
Total credit loss allowance	$ 837,163	$ 244,480	$ 142,237	$ 1,223,880

7. Other assets

	2021	2020
Foreclosed properties held for sale	$ **385,000**	$ 385,000
Derivative financial assets *(Note 13)*	**330,130**	166,677
Prepaid expenses	**306,061**	291,059
Accounts receivable	**93,416**	118,898
	$ **1,114,607**	$ 961,634

8. Property and equipment

Cost	2020 Balance	Additions	Disposals	2021 Balance
Land	$ 877,457	$ -	$ -	$ **877,457**
Buildings	9,343,079	-	-	**9,343,079**
Furniture and equipment	1,620,064	-	857	**1,619,207**
Computer hardware	295,720	-	-	**295,720**
Parking lots	163,944	-	-	**163,944**
	$ 12,300,264	$ -	$ 857	$ **12,299,407**

Accumulated Amortization	2020 Balance	Amortization	Accumulated Amortization on Disposals	2021 Balance
Buildings	$ 4,498,780	$ 215,912	$ -	$ **4,714,692**
Furniture and equipment	1,362,894	100,028	857	**1,462,065**
Computer hardware	295,720	-	-	**295,720**
Parking lots	137,733	14,681	-	**152,414**
	$ 6,295,127	$ 330,621	$ 857	$ **6,624,891**

Net book value	2021	2020
Land	$ **877,457**	$ 877,457
Buildings	**4,628,387**	4,844,299
Furniture and equipment	**157,142**	257,170
Computer hardware	**-**	-
Parking lots	**11,530**	26,211
	$ **5,674,516**	$ 6,005,137

9. Investment property

Cost	2020 Balance	Additions or Transfers	Disposals or Transfers	**2021 Balance**
Land	$ 87,326		87,326	$ -
Buildings	321,774		321,774	-
	$ 409,100	-	409,100	$ -

Accumulated Amortization	2020 Balance	Amortization	Accumulated Amortization on Disposals	**2021 Balance**
Buildings	$ 4,693		4,693	$ -
	$ 4,693	$ -	$ 4,693	$ -

Net book value	**2021**	2020
Land	$ -	87,326
Buildings	-	317,081
	$ -	404,407

10. Intangible assets

Cost	2020 Balance	Additions	Disposals or Transfers	**2021 Balance**
Specified software	$ 2,130,642	$ 9,001	$ 64,104	**$ 2,075,539**

Accumulated Amortization	2020 Balance	Amortization	Accumulated Amortization on Disposals	**2021 Balance**
Specified software	$ 1,454,106	$ 91,790	$ -	**$ 1,545,896**

Net book value	**2021**	2020
Specified software	**$ 529,643**	$ 676,536

11. Income taxes

The total provision for income taxes in the consolidated statement of income and comprehensive income is at a rate differing from the combined federal and provincial statutory income tax rates for the following reasons:

	2021	2020
Combined federal and provincial statutory income tax rates	**47.50%**	47.50%
General tax reduction	**-24.50%**	-23.00%
Income taxes as reported	**23.00%**	24.50%

The tax effects of temporary differences which give rise to the deferred income tax asset reported on the consolidated statement of financial position, are due to differences between the amounts deducted for accounting and income tax purposes with regards to unused charitable donations, property and equipment, intangible assets, specific accruals and the loss allowance.

Net deferred income tax assets are comprised of the following:

	2021	2020
Unused charitable donation	**$ 332,790**	$ 805,000
Accruals	**126,656**	90,742
Loss allowance	**21,977**	30,964
Property, equipment, and intangible assets	**(45,521)**	104,402
	$ 435,902	$ 1,031,108

12. Member deposits

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

	2021	2020
Term deposits	**$173,401,954**	$238,853,123
Demand deposits	**235,550,060**	189,504,275
Registered plans	**60,244,927**	62,568,325
	469,196,941	490,925,723
Accrued interest	**1,478,643**	3,702,734
	$470,675,584	$494,628,457

Member deposits are subject to the following terms:

- Demand deposits are due on demand and bear interest rates up to 1.00% for the year ended October 31, 2021
- Term deposits are subject to fixed and variable rates of interest ranging from 0.20% to 0.90%, with interest payments due monthly, annually or on maturity.
- Registered plans are subject to fixed and variable rates of interest ranging from 0.20% to 0.90%, with interest payments due monthly, annually or on maturity.

13. Derivative financial assets and liabilities

The Credit Union has entered into option agreements with Alberta Central to offset the exposure related to the performance of the underlying index on equity-linked products offered to members. The embedded derivative in the product as well as the option derivative is marked to market each year end, and amounted to $330,130 (2020 - $166,677) as shown on the consolidated statement of financial position. At the end of the term, the Credit Union will receive payment from Alberta Central which will offset the amount that will be paid to the members based on the performance of the underlying index of the product.

The Credit Union has $1,548,560 (2020 - $1,735,240) outstanding of equity-linked deposits owed to its members at year end.

The option agreements with Alberta Central are recorded in member deposits at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the term of the products and amounted to $41,502 (2020 - $42,816) for the year. The balance of the option agreements included in member deposits as at year end is $33,474 (2020 - $66,955).

14. Contingent liabilities and commitments

Financing

To finance short-term cash needs, the Credit Union has a demand revolving operating line of credit with Alberta Central. The operating line of credit has a ceiling of $16,000,000 CAD (2020 - $15,275,000 CAD), including a United States dollar (USD) component equivalent to $725,000 CAD (2020 - $725,000 CAD). The demand revolving operating line of credit is payable on demand, bears interest at Alberta Central's Canadian prime rate less 0.5% (2020 - Alberta Central's Canadian prime rate less 0.5%) for CAD advances and Alberta Central's United States prime rate plus 0.5% (2020 - Alberta Central's United States prime rate plus 0.5%) for USD advances.

The operating line of credit avoids the need to maintain on hand large sums of cash for short-term purposes. The operating line of credit is used generally on a day-to-day basis. There is no balance outstanding as at October 31, 2021 (2020 - $nil).

To finance long-term cash needs, the Credit Union has available a revolving term loan with Alberta Central. The revolving term loan has an aggregate ceiling of $10,000,000 CAD (2020 - $10,000,000 CAD), with terms of 1 to 24 months for each advance, and bear interest at either Alberta Central's prime rate plus or minus the applicable discount or margin in effect from time to time, or at the option of the Credit Union for terms of more than 30 days, a fixed rate equal to Alberta Central's money market deposit rate.

The revolving term loan avoids the need to maintain on hand large sums of cash for liquidity purposes. There is no balance outstanding as at October 31, 2021 (2020 - $nil).

The debt with Alberta Central is secured by the following:

- Demand promissory note;
- General assignment of book debts and a hypothecation of the Credit Union's shares; and,
- Investments and deposits with Alberta Central.

Credit commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These include credit commitments, letters of credit, letters of guarantee and loan guarantees, which are not included in the consolidated statement of financial position.

Guarantees and standby letters of credit represent an irrevocable obligation to make payments to a third party in the event that the member is unable to meet its contractual financial or performance obligations. In the event of a call on such commitments, the Credit Union has recourse against the members.

Commitments to extend credit 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.

These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts set out below represent the maximum credit risk 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.

(continues)

14. Contingent liabilities and commitments *(continued)*

As at October 31, 2021 the Credit Union had the following amounts outstanding:

	2021	2020
Guarantees and standby letters of credit	**$ 86,996,793**	$ 79,887,491

15. Member shares

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

Authorized:

a) An unlimited number may be issued;

b) A par value of $1, but fractional shares may be issued;

c) Transferable only in restricted circumstances;

d) Non-assessable; and,

e) 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.

A member must purchase at least five shares to retain membership in the Credit Union. Customers who were previously clients of branches of a chartered bank acquired by the Credit Union are not required to purchase shares.

The maximum limit on the member shares is $40,000 for both individuals and businesses as set from time to time by a Special Resolution passed by the membership at the Annual General Meeting.

Common shares are "at risk" capital and are not guaranteed by CUDGC.

16. 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;
- To maintain a capital base that is structured to exceed regulatory requirements and the best utilize capital allocations; and,
- To comply at all times with the capital requirements set out in the Credit Union Act of Alberta (the Act). The Credit Union complied with these capital requirements throughout the year ending October 31, 2021.

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

- 4% of total assets. As at October 31, 2021, this amounted to $21,482,594.

(continues)

16. Capital management *(continued)*

- 8% of risk weighted assets. Under this method, the Credit Union reviews each loan and other assets and assigns a risk weighting using definitions and formulas set out in the Act. The more risk associated with an asset, then the higher the assigned weighting. The balance of each asset is multiplied by the risk weighting with the result then added together. 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. As at October 31, 2021, this amounted to $25,455,001.

  Additionally, the Credit Union is required to have a regulatory capital buffer of 2.5% of risk weighted assets for the year ended October 31, 2021. Further to this requirement, the Credit Union is expected to hold a self-identified internal buffer equal to 2% of risk weighted assets. For the year ended October 31, 2021, the Credit Union exceeds all capital requirements and holds total capital of 18.63% of risk weighted assets.

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 and the Audit & Finance Committee regarding financial results and capital adequacy;
- Reporting to CUDGC on its capital adequacy; and,
- Establishing budgets and reporting variances to those budgets.

Under the Act, total capital as at October 31, 2021 includes:

	2021	2020
Retained earnings	**$ 44,631,686**	$ 42,388,591
Member shares	**14,359,837**	14,007,519
Loss allowance	**799,869**	1,045,190
Common share dividend	**709,612**	595,494
Deferred tax	**(435,902)**	(1,031,108)
Intangible assets	**(529,643)**	(676,536)
	$ 59,535,459	$ 56,329,150

Therefore, the Credit Union has exceeded its minimum capital requirements at October 31, 2021.

17. Financial instruments risk management

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk, foreign currency risk and liquidity risk.

The Credit Union, as part of operations, has established avoidance of undue concentrations of risk and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows a risk management policy approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

(continues)

17. Financial instruments risk management *(continued)*

a) Ensuring all activities are consistent with the mission, vision and values of the Credit Union;

b) Balancing risk and return by:

- Managing credit, market and liquidity risk through preventative and detective controls;
- Ensuring credit quality is maintained;
- Ensuring credit, market, and liquidity risk is maintained at acceptable levels;
- Diversifying risk in transactions, member relationships and loan portfolios;
- Pricing according to risk taken; and,
- Using consistent credit risk exposure tools.

Various Board of Directors committees are involved in financial instrument risk management oversight, including the Audit & Finance Committee. The risk policies, procedures and objectives have not changed materially from the prior year.

Credit risk

Credit risk is the risk of a financial loss in the event of failure by a borrower to completely honour its financial obligation to the Credit Union, such as interest and/or principal payments due on member loans. Credit risk arises principally as a result of the Credit Union's lending activities with members.

Management and the Board of Directors review and update the credit risk policy annually. The Credit Union's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the consolidated statement of financial position. See Note 6 for further information.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Credit Union due to its primary service area being Wainwright and surrounding areas.

Credit risk management

The Credit Union uses a risk management process for its credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. Management of credit risk is established in policies and procedures by the Board of Directors.

(continues)

17. Financial instruments risk management *(continued)*

The primary credit risk management policies and procedures include the following:

a) Loan security (collateral) requirements;

b) Security valuation processes, including methods used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;

c) Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;

d) Borrowing member capacity (repayment ability) requirements;

e) Borrowing member character requirements;

f) Limits on aggregate credit exposure per individual and/or related parties;

g) Limits on concentration to credit risk by loan type, industry and economic sector;

h) Limits on types of credit facilities and services offered;

i) Internal loan approval processes;

j) Loan documentation standards;

k) Loan re-negotiation, extension and renewal processes;

l) Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;

m) Control and monitoring processes including portfolio risk identification and delinquency tolerances;

n) Timely loan analysis processes to identify, assess and manage delinquent and impaired loans;

o) Collection processes that include action plans for deteriorating loans;

p) Overdraft control and administration processes; and,

q) Loan syndication processes.

The measurement of ECL under IFRS 9 uses the information and approaches that the Credit Union uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is discussed below.

Expected credit loss measurement

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- Stage 1 - on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established;
- Stage 2 - if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and,
- Stage 3 - when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

(continues)

17. Financial instruments risk management *(continued)*

Financial instruments in Stage 1 have their ECL measured at an amount equal to the ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECLs measured based on ECLs on a lifetime basis.

The key judgments and assumptions adopted by the Credit Union in addressing the requirements of the standard are discussed below.

Significant increase in credit risk

The assessment of significant increase in credit risk (SICR) incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all instruments held by the Credit Union. A watch list is used to monitor credit risk; this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by management.

The Credit Union considers a financial instrument to have experienced a SICR when one or more of the following quantitative or qualitative criteria have been met:

- Contractual cash flow obligations are more than 60 days past due;
- Adverse changes in the borrowers situation indicates its inability to fulfill contractual obligations (ie. significant deterioration in credit score or risk ratings, adverse financial or economic conditions, early signs of cash flow/liquidity problems);
- A significant change in collateral value which is expected to increase the risk of default; and,
- Forward looking information indicate that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced.

The Credit Union has not used the low credit risk exemption for any financial instruments in the year ended October 31, 2021.

Measuring ECL - explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Credit Union expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. For example, for a revolving commitment, the Credit Union includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Credit Union's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be incurred if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be incurred if the default occurs the remaining expected lifetime of the loan.

(continues)

17. Financial instruments risk management *(continued)*

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (ie. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is the discounted back to the reporting date and summarized. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity to the current 12-month PD. The maturity profile looks at how defaults develop into a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
- For revolving products, the EAD is predicted by taking current drawn balance and adding a credit conversion factor, which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on the analysis of the Credit Union's recent default data.

The 12-month and lifetime LGDs are determined based on the factors, which impact the recoveries made post default. These vary by product type:

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and expected recovery costs.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs and how collateral values change, etc., are monitored and reviewed on a quarterly basis.

Due to the significant uncertainty surrounding the unprecedented COVID-19 pandemic's impact on the economy, significant judgment was used by the Credit Union to determine its best estimate on the allowance for credit losses and actual results may differ materially from that recorded as at October 31, 2021.

Except as noted above, there have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Credit Union has performed historical analysis, identified the key economic variables impacting credit risk, and ECLs for each portfolio.

(continues)

17. Financial instruments risk management *(continued)*

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base case scenario") are based on the consideration of a variety of external, actual and forecast information that allows the Credit Union to formulate a base case view of the future direction of relevant economic variables as well as representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by government bodies and the Bank of Canada, forecasts by Canadian banks and financial institutions and other selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Credit Union for other purposes such as budgeting and strategic planning. The other scenarios represent more optimistic and more pessimistic outcomes. At October 31, 2021, the Credit Union concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgment, taking into account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the lifetime PD under each of the scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2 or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Credit Union measures ECL as either a probability weighted 12-month ECL (Stage 1) or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting, as opposed to weighting the inputs.

As with an economic forecast, the projections and likelihood of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Credit Union considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Credit Union's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Consumer and residential mortgages

- House price index as it has significant impact on the mortgage collateral valuation; and,
- Unemployment rate as it impacts on the borrowers ability to meet their contractual repayments.

Commercial

- Vacancy increases as it has significant impact on performance and collateral valuations; and,
- Capitalization rates as it has an impact on the companies' likelihood of default.

Collateral and other credit enhancements

The Credit Union employs a range of policies to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Credit Union has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

(continues)

17. Financial instruments risk management *(continued)*

The Credit Union prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges against chattels;
- Charges over business assets such as premises, inventory and accounts receivable; and,
- Charges over financial instruments such as debt securities.

Longer term finance and lending to corporate entities are generally secured; revolving individual credit facilities are either secured or unsecured.

The Credit Union's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Credit Union since the prior period.

Market risk

Market risk is the risk of a 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.

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 investments, loans and deposits held. The Credit Union does not hedge its fair value risk, with the exception of the exposure of the equity-linked products offered to members as discussed in Note 13.

The amounts are designed to approximate the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. Since many of the Credit Union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

Fair values have not been determined for property and equipment or any other asset or liability that is not a financial instrument. The fair value of cash, variable rate loans and deposits, and accounts payable and accrued liabilities are assumed to equal their book values due to their short term nature. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

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

a) The fair values of cash and cash equivalents, short-term investments, other assets and other liabilities are assumed to approximate book values, due to their short-term nature.

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

(continues)

17. Financial instruments risk management *(continued)*

c) The estimated fair value of fixed rate member loans and fixed rate member deposits is determined by discounting the expected future cash flows of these loans and deposits at current market rates for products with similar terms and credit risks.

Estimated fair values of financial instruments are summarized as follows:

			2021	2020
	Book Value	Fair Value	**Fair Value Difference**	Fair Value Difference
($Thousands)				
Assets				
Cash	$ 47,803	47,803	**-**	-
Investments	96,649	97,464	**815**	898
Member loans	384,722	386,521	**1,799**	1,953
Other assets	7,891	7,891	**-**	-
Less:				
Liabilities				
Member deposits	470,676	473,014	**(2,338)**	3,157
Other liabilities	6,688	6,688		-
	$ 59,701	59,977	**276**	6,008

Fair value measurements

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

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

The carrying value of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand. Member loans and member deposits have been classified as Level 2 as fair values are primarily due to change in interest rates. There have been no transfers between Level 1 and 2 during the year.

Fair value measurements are classified in the fair value hierarchy base 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.

(continues)

17. Financial instruments risk management *(continued)*

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

As at October 31, 2021	Floating Rate	0-3 Months	3-6 Months	6-12 Months	More Than 1 Year	Non Interest Sensitive	Total
($Thousands)							
Assets							
Cash	$ 52,394	-	-	-	-	(4,591)	**47,803**
Effective yield (%)	*0.33%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	***0.36%***
Investments	-	50,972	5,496	8,308	25,215	6,658	**96,649**
Effective yield (%)	*0.00%*	*1.14%*	*1.06%*	*1.89%*	*1.47%*	*1.59%*	***1.21%***
Member loans	84,091	20,983	18,090	28,157	232,766	635	**384,722**
Effective yield (%)	*4.12%*	*3.67%*	*3.27%*	*3.69%*	*3.58%*	*0.00%*	***3.64%***
Other assets	-	-	-	-	-	7,891	**7,891**
	136,485	71,955	23,586	36,465	257,981	10,593	**537,065**
Liabilities and Equity							
Member deposits	19,822	161,318	55,687	51,373	66,794	115,682	**470,676**
Effective yield (%)	*0.16%*	*0.69%*	*0.72%*	*0.45%*	*1.11%*	*0.00%*	***0.76%***
Other liabilities	-	-	-	-	-	6,688	**6,688**
Equity	-	-	-	-	-	59,701	**59,701**
	19,822	161,318	55,687	51,373	66,794	182,071	**537,065**
Net 2021 position	$ 116,663	(89,363)	(32,101)	(14,908)	191,187	(171,478)	**-**

(continues)

17. Financial instruments risk management *(continued)*

As at October 31, 2020	Floating Rate	0-3 Months	3-6 Months	6-12 Months	More Than 1 Year	Non Interest Sensitive	Total
($Thousands)							
Assets							
Cash	$ 69,648	-	-	-	-	(3,575)	66,073
Effective yield (%)	*0.36%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.38%*
Investments	-	51,417	-	6,024	26,681	8,587	92,709
Effective yield (%)	*0.00%*	*0.39%*	*0.00%*	*1.73%*	*1.90%*	*0.00%*	*0.88%*
Member loans	90,814	27,367	16,145	29,654	224,542	202	388,724
Effective yield (%)	*4.43%*	*3.97%*	*3.62%*	*3.73%*	*3.72%*	*0.00%*	*3.90%*
Other assets	-	-	-	-	-	9,594	9,594
	160,462	78,784	16,145	35,678	251,223	14,808	557,100
Liabilities and Equity							
Member deposits	18,220	171,423	51,007	66,672	86,648	100,658	494,628
Effective yield (%)	*0.19%*	*1.18%*	*1.92%*	*1.10%*	*2.42%*	*0.00%*	*0.05%*
Other liabilities	-	-	-	-	-	5,481	5,481
Equity	-	-	-	-	-	56,991	56,991
	18,220	171,423	51,007	66,672	86,648	163,130	557,100
Net 2020 position	$142,242	(92,639)	(34,862)	(30,994)	164,575	(148,322)	-

Foreign currency risk

Foreign currency risk exposure results if financial assets or financial liabilities are denominated in a currency other than Canadian dollars. The Credit Union holds USD. The balances held are relatively low therefore the currency risk is low. The Credit Union follows a policy of holding US dollars in an amount slightly below the US dollar deposit account levels. These levels are monitored and recorded daily. The buy and sell rates are also monitored and recorded daily. Excess US cash holdings are converted into Canadian funds.

Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to pay obligations when they fall due or not be able to repay depositors when funds are withdrawn. To mitigate this risk, the Act requires that the Credit Union maintain, at all times liquidity that is adequate in relation to the business carried on. The Credit Union calculates its liquidity position on a monthly basis to assess compliance with statutory and mandatory liquidity requirements. These balances are communicated to the Board of Directors regularly throughout the year. The Credit Union manages liquidity by continuously monitoring actual daily cash flows, monitoring the maturity dates of financial assets and financial liabilities, and maintaining adequate cash reserves.

(continues)

17. Financial instruments risk management *(continued)*

The Act requires credit unions to maintain eligible assets for adequate liquidity. Assets held by the Credit Union for such purposes are outlined below:

	2021	2020
Alberta Central statutory investments	**$ 35,705,000**	$ 40,730,000
Alberta Central common shares	**6,240,000**	6,240,000
Total assets held for liquidity	**$ 41,945,000**	$ 46,970,000

18. Director and officer indemnification

The Credit Union indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Credit Union to the extent permitted by law.

19. Related party transactions

Key management personnel (KMP) of the Credit Union include the CEO, Vice Presidents, Executive Managers and Managers.

Loans made to KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities. These benefits are subject to tax with the total value of the benefit included in the compensation figures below.

There are no loans that are impaired in relation to loan balances with KMP or directors.

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.

At year end, the total value of loans outstanding to KMP and member deposits from KMP amounted to:

	2021	2020
Aggregate of loans and revolving credit facilities to KMP	**$ 2,044,679**	$ 1,790,735
Aggregate of deposits from KMP	**1,079,930**	1,436,997

During the year, the interest earned on loans and interest paid on deposits for KMP amounted to:

	2021	2020
Interest and other revenue earned on loans to KMP	**$ 17,391**	$ 26,310
Interest paid on deposits to KMP	**23,439**	22,318

(continues)

19. Related party transactions *(continued)*

During the year, the aggregate compensation of KMP amounted to:

	2021	2020
Salary, bonuses and short term benefits	$ 1,584,564	$ 1,884,225
Long term retirement benefits	123,000	130,210
	$ 1,707,564	$ 2,014,435

Transactions with the Board of Directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union.

Payments made for honoraria and per diems amounted to $36,600 (2020 - $41,725) and reimbursement of expenses amounted to $24,496 (2020 - $31,126). Amounts paid to directors ranged from $3,950 to $7,250 with an average of $5,229.

The Credit Union Deposit Guarantee Corporation

CUDGC was incorporated for the purpose of protecting the members of credit unions from financial loss in respect of their deposits with credit unions and to establish sound procedures and controls for credit unions. CUDGC provides a safeguard for all savings and deposits of members of Alberta credit unions.

Transactions with the CUDGC included assessments of $234,935 (2020 - $243,595) and are recorded as member security expense in the consolidated statement of income and comprehensive income. There was $58,368 (2020 - $61,895) included in accounts payable and accrued liabilities at year end.

The Credit Union Central Alberta Limited

The Credit Union is a member of the Alberta Central which acts as a depository for surplus funds, and makes loans to credit unions. Alberta Central also provides other services for a fee to the Credit Union and acts in an advisory capacity.

Transactions with Alberta Central included income earned on investments referred to in Note 5 in the amount of $253,468 (2020 - $965,726), and fees assessed by Alberta Central which include annual affiliation dues in the amount of $118,250 (2020 - $141,978) recorded as organization expense in the consolidated statement of income and comprehensive income.

Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the maintenance of the infrastructure needed to ensure uninterrupted delivery of such banking services.

Celero Solutions is a company formed as a joint venture by the Credit Union Centrals of Alberta, Manitoba, and Saskatchewan.

20. Global pandemic

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national and global economies.

As at year end, the Credit Union is aware of changes in its operations as a result of the COVID-19 crisis. Management is uncertain of the effects of these changes on its financial statements and believes that any disturbance may be temporary; however, there is uncertainty about the length and potential impact of the disturbance.

As a result, we are unable to estimate the potential impact on the Credit Union's operations as at the date of these financial statements.

Government assistance provided for under the Canada Emergency Wage Subsidy (CEWS) program is recorded as a reduction of salaries and wages in the period which the assistance is provided for. CEWS provides non-repayable subsidies to organizations experiencing a decrease in revenues over the eligibility period to subsidize labour costs in the face of COVID-19. In the current year, the Credit Union has recorded $447,794 (2020 - $448,950) of CEWS assistance of which $25,408 (2020 - $43,678) is included in accounts receivable at year end.