

**VERMILION CREDIT UNION LIMITED**

**VERMILION, ALBERTA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED OCTOBER 31, 2018**



## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These financial statements were prepared by the management of Vermilion Credit Union Limited (the "Credit Union") who are responsible for their accuracy, completeness and integrity. They were developed in accordance with the requirements of the *Credit Union Act* of Alberta and conform in all material respects with International Financial Reporting Standards.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that the financial records are complete and accurate so as to safeguard the assets of the Credit Union. These systems include establishment and communication of standards of business conduct throughout all levels of the organization to provide assurance that all transactions are authorized and proper records are maintained. Internal control provides management with the ability to assess the adequacy of these controls. Further, they are reviewed by the Credit Union's external auditors.

The Board of Directors has approved the financial statements. The Board, comprising nine directors who are not officers or employees of the Credit Union, has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. Metrix Group LLP are the external auditors appointed by recommendation of the Audit and Finance Committee to the Board of Directors. The external auditors have examined the financial statements of the Credit Union in accordance with Canadian auditing standards. They have had full and free access to the internal audit staff, other management staff, and the Audit and Finance Committee of the Board. Their report appears herein.

Vermilion, Alberta  
January 24, 2019



David Eremko  
Chief Executive Officer

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## INDEPENDENT AUDITORS' REPORT

To the Members of Vermilion Credit Union Limited

We have audited the accompanying financial statements of Vermilion Credit Union Limited, which comprise the statement of financial position as at October 31, 2018 and the statements of net income and comprehensive income, changes in member equity, and cash flows for the year ended October 31, 2018, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Vermilion Credit Union Limited as at October 31, 2018 and its financial performance and cash flows for the year ended October 31, 2018 in accordance with International Financial Reporting Standards.

**METRIX GROUP LLP**

Chartered Professional Accountants


January 24, 2019  
Edmonton, Alberta

**VERMILION CREDIT UNION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT OCTOBER 31, 2018**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents (Note 6)	\$ 22,373,194	\$ 33,681,637
Investments (Note 7)	6,304,359	7,802,564
Derivative assets (Note 21)	133,214	175,384
Member loans (Note 8)	153,534,179	143,079,970
Assets held for resale (Note 9)	-	64,864
Other assets	82,257	112,736
Property and equipment (Note 11)	1,261,017	1,305,086
Intangible assets (Note 12)	<u>40,193</u>	<u>90,564</u>
	<u><b>\$183,728,413</b></u>	<u><b>\$186,312,805</b></u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 251,845	\$ 215,005
Deferred income tax liability (Note 10)	33,626	38,201
Derivative liabilities (Note 21)	133,214	175,384
Income taxes payable	53,382	14,805
Member deposits (Note 14)	163,074,815	166,821,283
Allocation payable (Note 15)	<u>174,300</u>	<u>163,350</u>
	<u><b>163,721,182</b></u>	<u><b>167,428,028</b></u>
<b>MEMBERS' EQUITY</b>		
Allocation distributable (Note 15)	327,335	261,363
Common shares (Note 16)	7,598,471	7,526,905
Retained earnings	<u>12,081,425</u>	<u>11,096,509</u>
	<u><b>20,007,231</b></u>	<u><b>18,884,777</b></u>
	<u><b>\$183,728,413</b></u>	<u><b>\$186,312,805</b></u>

Commitments (Note 18)

**ON BEHALF OF THE BOARD:**

  
 \_\_\_\_\_ Director

  
 \_\_\_\_\_ Director

**VERMILION CREDIT UNION LIMITED**  
**STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

	<u>2018</u>	<u>2017</u>
<b>INTEREST INCOME</b>		
Interest from member loans	\$ 5,666,395	\$ 5,228,896
Investment income	<u>626,485</u>	<u>425,278</u>
	<u>6,292,880</u>	<u>5,654,174</u>
<b>INTEREST EXPENSE</b>		
Interest on member deposits	1,625,195	1,362,972
Interest on financing	<u>104</u>	<u>21</u>
	<u>1,625,299</u>	<u>1,362,993</u>
<b>NET INTEREST INCOME BEFORE PROVISION FOR LOAN IMPAIRMENT</b>	4,667,581	4,291,181
<b>PROVISION FOR LOAN IMPAIRMENT (NOTE 8)</b>	<u>(13,315)</u>	<u>24,112</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN IMPAIRMENT</b>	4,680,896	4,267,069
<b>OTHER INCOME</b>	<u>848,627</u>	<u>875,212</u>
<b>NET INTEREST AND OTHER INCOME</b>	<u>5,529,523</u>	<u>5,142,281</u>
<b>OPERATING EXPENSES (SCHEDULE I)</b>		
Personnel	2,161,745	2,139,788
Occupancy	148,579	140,514
Security	180,981	174,520
Organization	103,183	89,745
General	<u>1,091,699</u>	<u>1,029,599</u>
	<u>3,686,187</u>	<u>3,574,166</u>
<b>INCOME BEFORE PATRONAGE ALLOCATION AND INCOME TAXES</b>	1,843,336	1,568,115
<b>PATRONAGE ALLOCATION (NOTE 15)</b>	<u>174,300</u>	<u>163,350</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>1,669,036</u>	<u>1,404,765</u>
<b>INCOME TAXES (NOTE 10)</b>		
Current	457,390	387,252
Deferred (recovery)	<u>(4,574)</u>	<u>(7,462)</u>
	<u>452,816</u>	<u>379,790</u>
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	<u>\$ 1,216,220</u>	<u>\$ 1,024,975</u>

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



**VERMILION CREDIT UNION LIMITED**  
**STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

	<u>Allocation</u> <u>Distributable</u>	<u>Member</u> <u>Shares</u>	<u>Retained</u> <u>Earnings</u>	<u>Total</u>
<b>Balance, October 31, 2016</b>	\$ 263,600	\$ 7,071,608	\$ 10,258,959	\$ 17,594,167
Net income	-	-	1,024,975	1,024,975
Dividends paid through issuance of member shares	(263,600)	258,467	5,133	-
Dividends accrued	261,363	-	(261,363)	-
Income tax recovery, dividends declared	-	-	68,805	68,805
Issuance of member shares	-	495,263	-	495,263
Redemption of member shares	-	(298,433)	-	(298,433)
<b>Balance, October 31, 2017</b>	<u>261,363</u>	<u>7,526,905</u>	<u>11,096,509</u>	<u>18,884,777</u>
Net income	-	-	1,216,220	1,216,220
Dividends paid through issuance of member shares	(261,363)	250,884	10,479	-
Dividends accrued	327,335	-	(327,335)	-
Income tax recovery, dividends declared	-	-	85,552	85,552
Issuance of member shares	-	374,595	-	374,595
Redemption of member shares	-	(553,913)	-	(553,913)
<b>Balance, October 31, 2018</b>	<u>\$ 327,335</u>	<u>\$ 7,598,471</u>	<u>\$ 12,081,425</u>	<u>\$ 20,007,231</u>

**VERMILION CREDIT UNION LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

	<u>2018</u>	<u>2017</u>
<b>OPERATING ACTIVITIES</b>		
Interest received from member loans	\$ 5,566,454	\$ 5,231,216
Interest received from investments	480,240	261,001
Dividends received	147,353	133,292
Other income received	848,627	875,212
Interest paid to members	(1,520,449)	(1,377,727)
Income taxes paid	(333,261)	(354,318)
Net operating expenses paid	(3,489,756)	(3,512,278)
Patronage allocation paid	(163,350)	(161,550)
Net change in member loans	(10,321,049)	2,851,992
Net change in investments	1,497,097	(1,198,552)
Net change in member deposits	<u>(3,851,214)</u>	<u>10,702,377</u>
	<u>(11,139,308)</u>	<u>13,450,665</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(43,278)	(91,217)
Purchase of intangible assets	-	(5,499)
Acquisition of foreclosed property	-	(64,864)
Proceeds on disposal of foreclosed property	<u>53,565</u>	<u>-</u>
	<u>10,287</u>	<u>(161,580)</u>
<b>FINANCING ACTIVITIES</b>		
Issue of member shares	625,479	753,730
Redemption of member shares	(553,913)	(298,433)
Dividends on common shares	(250,884)	(258,467)
Interest paid on financing	<u>(104)</u>	<u>(21)</u>
	<u>(179,422)</u>	<u>196,809</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(11,308,443)</b>	<b>13,485,894</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>33,681,637</u></b>	<b><u>20,195,743</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 22,373,194</u></b>	<b><u>\$ 33,681,637</u></b>

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**1. NATURE OF OPERATIONS**

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

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

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

**2. BASIS OF PRESENTATION**

**(a) Statement of Compliance**

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

The financial statements have been approved for issue by the Board of Directors on January 24, 2019.

**(b) Basis of Measurement**

The financial statements have been prepared using the historical cost basis, unless otherwise noted in the significant accounting policies.

**(c) Functional Currency**

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

**(d) Use of Estimates and Judgments**

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

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

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



**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, the current account with Alberta Central and items in transit, and on deposits with an original maturity of less than or equal to three months.

**(b) Investments**

Investments are initially measured at fair value and subsequently accounted for depending on their classification as either loans and receivables, held-to-maturity or available for sale financial assets.

**(c) Member Loans**

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

**(d) Financial Instruments**

**(i) *Financial assets***

The Credit Union designates financial assets as follows: fair value through profit or loss, loans and receivables, held-to-maturity investments and available for sale financial assets. Management determines the classification of its financial instruments at initial recognition.

**(ii) *Fair value through profit or loss***

Fair value through profit or loss financial assets are measured at fair value with unrealized gains and losses recognized through the statement of net income and comprehensive income. The Credit Union's fair value through profit or loss financial assets include cash and cash equivalents and derivatives.

**(iii) *Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Member loans, accrued interest and other receivables are designated as loans and receivables. Loans and receivables are initially recognized at fair value - which is the cash consideration to originate or purchase the loan net of any transaction costs - and measured subsequently at amortized cost using the effective interest rate method.

**(iv) *Held-to-maturity***

Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the positive intention and ability to hold until its maturity date, and which are not designated as a fair value through profit or loss or as available-for-sale. The Credit Union's held-to-maturity investments includes its term deposits with Credit Union Central of Alberta, Concentra Financial and other credit unions. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

*(CONT'D)*

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(d) Financial Instruments (CONT'D)**

**(v) *Available-for-sale financial assets***

Available-for-sale ("AFS") investments are financial assets that are intended to be held for an indefinite period of time and are not classified as loans and receivables. The Credit Union's AFS investments includes its shares in Credit Union Central of Alberta, Concentra Financial and Cornerstone Co-operative. AFS financial assets are initially recognized at fair value plus transaction costs and measured subsequently at fair value with gains and losses being recognized in the statement of comprehensive income, except for impairment losses, until the financial asset is derecognized. The Credit Union does not have an accumulated balance of other comprehensive income.

If an AFS asset is determined to be impaired, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized in the statement of net income. However, interest is calculated using the effective interest rate method, and dividends on AFS equity instruments are recognized in the statement of net income as investment income when the right to receive payment is established.

**(vi) *Financial liabilities***

The Credit Union designates member deposits, and accounts payable and accrued liabilities as other financial liabilities. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

**(vii) *Impairment of financial assets***

The Credit Union assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recorded only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event(s) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by the borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as conditions that correlate with defaults in the group.

**(viii) *Derecognition of financial instruments***

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. If control has been retained, the Credit Union recognizes the transferred asset to the extent of its continuing involvement. If control has not been retained, the Credit Union derecognizes the transferred asset. Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

*(CONT'D)*

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(e) Derivatives and Hedge Accounting**

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

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

**(f) Foreclosed Property**

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure on the loans that are in default. Foreclosed properties are classified as assets held-for-sale and are measured at the lower of the carrying amount and the fair value less costs to sell.

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

**(g) Impairment of Non-Financial Assets**

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

Impairment charges are included in net income.

*(CONT'D)*

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(h) Property and Equipment**

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

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

Depreciation is recorded in the initial month of acquisition; no depreciation is recorded in the month of disposal.

**(i) Intangible Assets**

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

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

**(j) Income Taxes**

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

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

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

(CONT'D)

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(k) Provisions**

Provisions are recognized when the Credit Union has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense of any provision is recognized in the statement of net income and comprehensive income. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

**(l) Member Shares**

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

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

**(m) Dividends**

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

**(n) Revenue Recognition**

Interest income and expense for all interest-bearing financial instruments is recognized using the effective interest rate method. Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss.

Fees and commissions are recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

**(o) Foreign Currency Translation**

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

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**4. USE OF ESTIMATES AND KEY JUDGMENTS**

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

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

**(a) Fair Value of Financial Instruments**

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

The methods and assumptions applied, and the valuation techniques used, are disclosed in Note 22.

**(b) Allowance for Loan Impairment**

The specific allowance component of the total allowance for impairment applies to financial assets evaluated individually for impairment. In particular, management judgment is required in the estimate of the amount and timing of the future cash flows the Credit Union expects to receive from these specific loans. These estimates are based on a number of factors, including the net realizable value of any underlying collateral.

For the purpose of the collective allowance component of loan impairment, financial assets are grouped on the basis of the Credit Union's internal system that considers credit risk, characteristics such as asset type, industry, geographical location, collateral, delinquency status and other relevant economic factors. Future cash flows on the group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical credit loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical credit loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. This includes, for example, changes in unemployment rates, inflation, borrowing rates, consumer fuel prices, vehicle auction values or other factors that are indicative of incurred losses in the group and their magnitude.

*(CONT'D)*

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**4. USE OF ESTIMATES AND KEY JUDGMENTS (CONT'D)**

**(c) Property and Equipment**

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

**(d) Income Taxes**

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

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

**5. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

At October 31, 2018 a number of standards and interpretations, and amendments thereto have been issued by the IASB, which are not yet effective for these financial statements. Those which could have an impact on the Credit Union's financial statements are discussed below:

**(a) *IFRS 9 Financial Instruments***

IFRS 9 Financial Instruments issued on July 24, 2014 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for fiscal periods beginning on or after January 1, 2018 and is required to be applied retrospectively when initially applied.

*(CONT'D)*



**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**5. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONT'D)**

**(i) Impairment**

*IFRS 9* introduces an expected loss model for all financial assets not classified as or designated as Fair Value Through Profit Or Loss ("FVTPL"). Allowances are measured according to the model which has three stages: (1) on initial recognition; twelve month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly since initial recognition, and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (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.

The assessment of changes in credit risk since initial recognition and the estimation of expected credit losses are required to incorporate all relevant information which is available as at the reporting date. This includes information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation of expected credit losses is a discounted probability-weighted estimate.

The recognition and measurement of impairment losses under *IFRS 9* is intended to be more forward-looking than under *IAS 39* and the resulting provision for credit losses is expected to be more volatile. Because all financial assets within the scope of the *IFRS 9* impairment model will be assessed for at least 12-months of expected credit losses, and the population of financial assets to which full lifetime expected credit losses applies is larger than the population of impaired loans for which there is objective evidence of impairment in accordance with *IAS 39*, the allowance for credit losses is expected to increase.

**(ii) Classification and measurement**

*IFRS 9* also introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the assets. All financial assets, including hybrid contracts, are measured at FVTPL, fair value through other comprehensive income or amortized cost replacing the existing *IAS 39* classifications of held-to-maturity, loans and receivables, and available-for-sale. The combined application of the business model and contractual cash flow characteristics test may result in some differences in the population of financial assets measured at amortized cost or fair value compared with *IAS 39*. For financial liabilities, *IFRS 9* includes the requirements for classification and measurement previously included in *IAS 39*.

(CONT'D)

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**5. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONT'D)**

**(iii) Hedge accounting**

The new hedge accounting model under IFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting.

The new standard does not explicitly address the accounting for macro hedging activities, which is being addressed by the IASB in a separate project. As a result, IFRS 9 includes an accounting policy choice to retain IAS 39 for hedge accounting requirements until the standard resulting from the IASB's project on macro hedge accounting is effective. The new hedge accounting disclosures, however, are required for the annual period beginning November 1, 2017.

**(iv) Transition**

The impairment and classification and measurement requirements of IFRS 9, once effective, will be applied retrospectively by adjusting the opening balance sheet at November 1, 2017. There is no requirement to restate comparative periods. Hedge accounting, if adopted, will be applied prospectively, with limited exceptions. At this stage, it is not possible to quantify the potential financial effect of adoption of IFRS 9 to the Credit Union.

**(b) IFRS 15 Revenue from Contracts with Customers**

*IFRS 15 Revenue from Contracts with Customers* specifies how an entity will recognize revenue from contracts with customers as well as additional disclosure requirements. It provides a five-step process for revenue recognition and is effective for periods beginning on or after January 1, 2018. The standard does not apply to financial instruments as these currently fall under IAS 39 and in the future under IFRS 9 above. Because the majority of the Credit Union's revenue is earned from financial instrument contracts, this standard is not expected to have a material impact on the financial statements.

**(c) IFRS 16 Leases**

*IFRS 16 Leases* specifies that all leases with the exception of very short term and small items may be required to be recognized on the statement of financial position. The effective date from IFRS 16 is for fiscal periods beginning on or after January 1, 2019. The Credit Union will assess what impact the application of IFRS 16 will have on amounts reported on the financial statements.

**6. CASH AND CASH EQUIVALENTS**

The Credit Union's cash and current accounts are held with Credit Union Central of Alberta. The effective yield on the current accounts is 0.25% (2017 - 0.25%).

Included in cash and cash equivalents is \$441,735 (2017 - \$435,662) denominated in US dollars.

A total of \$19,350,000 (2017 - \$28,050,000) are held in terms with an original maturity of less than or equal to three months. These terms have interest rates ranging from 1.70% to 2.30%.

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**7. INVESTMENTS**

	<u>2018</u>	<u>2017</u>
<b>Held-to-maturity</b>		
Central - term deposits	\$ 261,340	\$ 38,454
Other term deposits	3,920,000	5,640,000
Accrued interest	<u>69,903</u>	<u>71,011</u>
	<u>4,251,243</u>	<u>5,749,465</u>
<b>Available-for-sale</b>		
Credit Union Central - Shares	2,000,000	2,000,000
Concentra Financial - Shares	49,865	49,865
Cornerstone Co-operative - Equity	<u>3,251</u>	<u>3,234</u>
	<u>2,053,116</u>	<u>2,053,099</u>
	<u>\$ 6,304,359</u>	<u>\$ 7,802,564</u>

All term deposits mature within one year, with interest rates ranging from 1.80% to 2.60%. As required by the *Credit Union Act*, the Credit Union holds investments in Central to maintain its statutory liquidity requirements.

**8. MEMBER LOANS**

	<u>Recorded Loan</u>	<u>Individual Allowance</u>	<u>Collective Allowance</u>	<u>2018 Net</u>
Consumer loans	\$ 13,926,169	\$ 7,137	\$ 3,001	\$ 13,916,031
Residential mortgages	59,848,490	-	25,591	59,822,899
Commercial loans	30,533,755	-	13,807	30,519,948
Agricultural loans	<u>48,572,169</u>	-	<u>48,188</u>	<u>48,523,981</u>
	152,880,583	7,137	90,587	152,782,859
Accrued interest	<u>751,320</u>	-	-	<u>751,320</u>
	<u>\$ 153,631,903</u>	<u>\$ 7,137</u>	<u>\$ 90,587</u>	<u>\$ 153,534,179</u>
	<u>Recorded Loan</u>	<u>Individual Allowance</u>	<u>Collective Allowance</u>	<u>2017 Net</u>
Consumer loans	\$ 14,676,394	\$ 9,154	\$ 4,569	\$ 14,662,671
Residential mortgages	59,923,271	-	37,671	59,885,600
Commercial loans	25,988,461	-	18,866	25,969,595
Agricultural loans	<u>41,971,408</u>	-	<u>60,683</u>	<u>41,910,725</u>
	142,559,534	9,154	121,789	142,428,591
Accrued interest	<u>651,379</u>	-	-	<u>651,379</u>
	<u>\$143,210,913</u>	<u>\$ 9,154</u>	<u>\$ 121,789</u>	<u>\$143,079,970</u>

(CONT'D)

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**8. MEMBER LOANS (CONT'D)**

Allowance for Loan Impairment

Details of the changes in the allowance for loan impairment are as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 130,943	\$ 185,181
Provision for loan impairment	(13,315)	24,112
Loans written off during the year	<u>(19,904)</u>	<u>(78,350)</u>
Balance, end of year	<u>\$ 97,724</u>	<u>\$ 130,943</u>

Loans and Advances Individually Impaired

	<u>2018</u>	<u>2017</u>
Consumer loans	<u>\$ 7,137</u>	<u>\$ 9,154</u>

Loans Past Due but Not Impaired

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

	<u>30 to 59</u> <u>days</u>	<u>60 to 89</u> <u>days</u>	<u>Over 90</u> <u>days</u>	<u>2018</u> <u>Total</u>
Residential mortgages	\$ 206,449	\$ 131,537	\$ 387,237	\$ 725,223
Consumer loans	<u>536</u>	<u>8,512</u>	<u>26,525</u>	<u>35,573</u>
Total	<u>\$ 206,985</u>	<u>\$ 140,049</u>	<u>\$ 413,762</u>	<u>\$ 760,796</u>
	<u>30 to 59</u> <u>days</u>	<u>60 to 89</u> <u>days</u>	<u>Over 90</u> <u>days</u>	<u>2017</u> <u>Total</u>
Residential mortgages	\$ 146,791	\$ 56,908	\$ -	\$ 203,699
Consumer loans	<u>23,111</u>	<u>27,893</u>	<u>19,195</u>	<u>70,199</u>
Total	<u>\$ 169,902</u>	<u>\$ 84,801</u>	<u>\$ 19,195</u>	<u>\$ 273,898</u>

(CONT'D)

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**8. MEMBER LOANS (CONT'D)**

Credit Quality of Loans

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

Concentration of Risk

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

There was no member or related groups of members for which loans exceed 3% of total assets at October 31, 2018.

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

**9. ASSETS HELD FOR RESALE**

At October 31, 2018, the Credit Union had property held for sale valued at \$NIL (2017 - \$64,864). The balance consist of residential property acquired by the Credit Union upon foreclosure of the related residential mortgage.

The Credit Union disposed of the residential property that was held for resale at October 31, 2017, for net sale proceeds of \$53,565 during 2018.

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**10. INCOME TAXES**

**Income Tax Expense**

Reasons for the difference between income tax expense for the year and the expected income taxes based on the statutory rate of 26.99% (2017 - 26.85%) are as follows:

	<u>2018</u>	<u>2017</u>
Net income before income taxes	<u>\$ 1,669,036</u>	<u>\$ 1,404,765</u>
Computed income tax expense	\$ 450,473	\$ 377,179
Adjustments for income tax treatment of allowance for loan impairment, property and equipment and intangible assets	380	1,046
Non-deductible expenses and other	<u>1,963</u>	<u>1,565</u>
Total provision for income taxes	<u>\$ 452,816</u>	<u>\$ 379,790</u>

**Deferred Income Taxes**

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

	<u>2018</u>	<u>2017</u>
Property and equipment	\$ 47,425	\$ 46,830
Intangible assets	10,852	24,317
Allowance for loan impairment	<u>(24,651)</u>	<u>(32,946)</u>
	<u>\$ 33,626</u>	<u>\$ 38,201</u>

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**11. PROPERTY AND EQUIPMENT**

	<u>Land</u>	<u>Building</u>	<u>Parking Lot</u>	<u>Furniture and Equipment</u>	<u>Information Technology</u>	<u>Total</u>
<b>COST:</b>						
Balance at October 31, 2017	\$ 229,800	\$ 1,527,259	\$ 82,080	\$ 280,880	\$ 95,693	\$ 2,215,712
Additions	-	-	-	13,331	29,947	43,278
Disposals	-	-	-	-	(34,448)	(34,448)
Balance at October 31, 2018	<u>\$ 229,800</u>	<u>\$ 1,527,259</u>	<u>\$ 82,080</u>	<u>\$ 294,211</u>	<u>\$ 91,192</u>	<u>\$ 2,224,542</u>
<b>ACCUMULATED DEPRECIATION:</b>						
Balance at October 31, 2017	\$ -	\$ 602,112	\$ 40,471	\$ 197,253	\$ 70,790	\$ 910,626
Depreciation expense	-	31,001	5,540	32,897	17,909	87,347
Disposals	-	-	-	-	(34,448)	(34,448)
Balance at October 31, 2018	<u>\$ -</u>	<u>\$ 633,113</u>	<u>\$ 46,011</u>	<u>\$ 230,150</u>	<u>\$ 54,251</u>	<u>\$ 963,525</u>
<b>NET BOOK VALUE:</b>						
October 31, 2017	<u>\$ 229,800</u>	<u>\$ 925,147</u>	<u>\$ 41,609</u>	<u>\$ 83,627</u>	<u>\$ 24,903</u>	<u>\$ 1,305,086</u>
October 31, 2018	<u>\$ 229,800</u>	<u>\$ 894,146</u>	<u>\$ 36,069</u>	<u>\$ 64,061</u>	<u>\$ 36,941</u>	<u>\$ 1,261,017</u>



**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**12. INTANGIBLE ASSETS**

**COST:**

Balance at October 31, 2017	\$ <u>511,437</u>
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Balance at October 31, 2018	\$ <u>511,437</u>
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**ACCUMULATED DEPRECIATION:**

Balance at October 31, 2017	\$ 420,873
Depreciation expense	<u>50,371</u>

Balance at October 31, 2018	\$ <u>471,244</u>
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**NET BOOK VALUE:**

October 31, 2017	\$ <u>90,564</u>
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October 31, 2018	\$ <u>40,193</u>
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**13. OPERATING DEMAND LOAN**

The Credit Union has an approved \$5,200,000 revolving operating demand facility with Credit Union Central Alberta Limited ("Central") which is secured by a general assignment of book debts, investments and deposits held at Central. Interest is payable at Central's prime rate less 0.5%. No amount was drawn at October 31, 2018.

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**14. MEMBER DEPOSITS**

	<u>2018</u>	<u>2017</u>
Demand deposits	\$ 93,584,733	\$ 95,573,695
Term deposits	42,869,386	45,258,424
Registered Retirement Savings Plans (RRSPs)	13,350,772	14,270,407
Tax-Free Savings Accounts (TFSAs)	9,361,068	8,222,284
Registered Retirement Income Funds (RRIFs)	<u>3,342,721</u>	<u>3,035,084</u>
	<b>162,508,680</b>	166,359,894
Accrued interest payable	<u>566,135</u>	<u>461,389</u>
	<b><u>\$163,074,815</u></b>	<b><u>\$166,821,283</u></b>

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

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

**Concentration of Risk**

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

There was one member whose deposits amounted to 3.77% of total assets, no other member or related groups of members for which deposits exceed 3% of total assets at October 31, 2018.

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**15. ALLOCATION DISTRIBUTABLE**

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

	<u>2018</u>	<u>2017</u>
Income before patronage allocation and income taxes	<u>\$ 1,843,336</u>	<u>\$ 1,568,115</u>
Less: Income taxes	<u>452,816</u>	379,790
Income tax recovery, dividends declared	<u>(85,552)</u>	<u>(68,805)</u>
	<u>367,264</u>	<u>310,985</u>
Income after income taxes and before patronage allocation	<u>\$ 1,476,072</u>	<u>\$ 1,257,130</u>
Patronage allocation distributable:		
Dividend on common shares	<u>\$ 327,335</u>	\$ 261,363
Patronage rebate	<u>174,300</u>	<u>163,350</u>
	<u>\$ 501,635</u>	<u>\$ 424,713</u>

**16. MEMBER SHARES**

**Authorized**

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

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

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

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

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

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**17. RELATED PARTY TRANSACTIONS**

**(a) Member Loans**

Directors and management of the Credit Union have loans totaling \$5,807,042 (2017 - \$4,668,395) which is 3.80% (2017 - 3.28%) of total loans. The aggregate value of loans disbursed to directors and management is \$1,177,376 (2017 - \$845,339). The aggregate value of unadvanced loans to directors and management is \$152,251 (2017 - \$545,403). The Credit Union, in accordance with its policy, grants loans to its management and staff at rates from 0% to 2% below member rates. Directors pay regular member rates on loans. All loans are in good standing. Interest and other revenue earned on these related party loans is \$183,303 (2017 - \$161,554).

**(b) Member Deposits**

Directors and management of the Credit Union have deposits totaling \$2,861,322 (2017 - \$3,479,604) which is 1.76% (2017 - 2.09%) of total deposits. Interest paid on these related party member deposits was \$28,310 (2017 - \$27,848).

**(c) Directors' Fees**

Directors' remuneration was \$19,550 (2017 - \$17,450) and expenses reimbursed to Directors were \$20,964 (2017 - \$17,250). Remuneration paid to Directors ranges from \$100 to \$2,775 with an average of \$2,172. The Credit Union retained nine (2017 - nine) directors for the year.

**(d) Compensation of Key Management Personnel**

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

	<u>2018</u>	<u>2017</u>
Salaries and short-term benefits	<u>\$ 745,559</u>	<u>\$ 749,849</u>

There was no compensation for post employment benefits, long-term benefits, termination benefits or share-based compensation during 2018 or 2017. The Credit Union management is comprised of six (2017 - six) employees for the year.

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**18. COMMITMENTS**

**(a) Retail Banking Services Agreement**

The Credit Union recently entered into an amended *eroWORKS* Retail Banking Services Agreement with Celero Solutions Inc. The Agreement is effective for a ten year term commenced on January 1, 2016. Under the terms of this Agreement the Credit Union is committed to annual operating fees of approximately \$150,000.

**(b) Deposit Agreements**

The Credit Union has \$1,519,034 (2017 - \$1,808,708) of index-linked deposits outstanding to its members at October 31, 2018. These deposits mature between 2019 and 2023 and pay bonus interest to the depositors, at the end of the term, based upon the performance of the related index. The Credit Union has entered into deposit agreements with Central to offset the exposure on these deposits related to the performance of the underlying index. Consequently, at the end of the term, the Credit Union will receive payments from Central which will offset the amounts that will be paid to the depositors based on the performance of the underlying index.

The deposit agreements with Central are recorded in member deposits at cost less accumulated depreciation at October 31, 2018 of \$28,126 (2017 - \$51,207). Depreciation is calculated on a straight-line basis over the term of the deposits and amounted to \$31,185 (2017 - \$37,204).

**(c) Credit Commitments**

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

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

	<u>2018</u>	<u>2017</u>
Guarantees and stand-by letters of credit	\$ 199,000	\$ 193,250
Commitments to extend credit:		
Original term to maturity of one year or less	5,903,181	6,882,559
Original term to maturity of more than one year	<u>43,191,748</u>	<u>34,346,040</u>
	<u>\$ 49,293,929</u>	<u>\$ 41,421,849</u>

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**19. RISK MANAGEMENT**

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

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

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

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

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

**(a) Interest Rate Risk**

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

(CONT'D)

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**19. RISK MANAGEMENT (CONT'D)**

**(a) Interest Rate Risk (CONT'D)**

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

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

Interest rate risk is measured by:

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

*(CONT'D)*



**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**19. RISK MANAGEMENT (CONT'D)**

**a) Interest Rate Risk (CONT'D)**

The following schedule shows the Credit Union's sensitivity to interest rate changes as at October 31, 2018. Fixed rate assets and fixed rate liabilities are reported based on scheduled repayments. Variable rate assets and liabilities that are linked to prime rate are reported in the floating rate category. Non-interest bearing assets and non-interest bearing liabilities are reported in the non-rate sensitive category.

**As at October 31, 2018**

	<u>Floating Rate</u>	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Non-Rate Sensitive</u>	<u>Total</u>
<b>Assets</b>					
Cash	\$ 2,576,443	\$ 19,350,000	\$ -	\$ 446,751	\$ 22,373,194
<i>Effective Yield</i>	<i>0.25%</i>	<i>1.81%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>1.03%</i>
Investments	2,000,000	3,920,000	-	384,359	6,304,359
<i>Effective Yield</i>	<i>2.52%</i>	<i>1.85%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>1.37%</i>
Member loans	38,152,000	33,381,000	81,347,000	654,179	153,534,179
<i>Effective Yield</i>	<i>4.87%</i>	<i>3.74%</i>	<i>3.56%</i>	<i>0.00%</i>	<i>3.72%</i>
Other	-	-	-	1,516,681	1,516,681
	<u>42,728,443</u>	<u>56,651,000</u>	<u>81,347,000</u>	<u>3,001,970</u>	<u>183,728,413</u>
<b>Liabilities</b>					
Deposits	68,150,000	39,433,000	24,884,000	30,069,000	162,536,000
<i>Effective Yield</i>	<i>0.90%</i>	<i>1.45%</i>	<i>2.19%</i>	<i>0.00%</i>	<i>0.89%</i>
Equity	-	-	-	20,007,231	20,007,231
Other	-	-	-	1,185,182	1,185,182
	<u>68,150,000</u>	<u>39,433,000</u>	<u>24,884,000</u>	<u>51,261,413</u>	<u>183,728,413</u>
Net gap	<u>\$(25,421,557)</u>	<u>\$ 17,218,000</u>	<u>\$ 56,463,000</u>	<u>\$(48,259,443)</u>	<u>\$ -</u>

**As at October 31, 2017**

Net gap	<u>\$(21,138,676)</u>	<u>\$ 23,158,000</u>	<u>\$ 44,363,000</u>	<u>\$(46,382,324)</u>	<u>\$ -</u>
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The following table provides the potential before-tax impact of a 1% increase or decrease in the Credit Union's financial margin before provision for loan impairment. These measures are based on assumptions made by management and validated by experience. All interest rate risk measures are based upon interest rate exposures at specific time continuously changing as a result of business activities and management's risk initiatives.

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

	<u>2018</u>	<u>2017</u>
1% increase in rates	\$ 570,000	\$ 630,000
1% decrease in rates	\$ (560,000)	\$ (620,000)

(CONT'D)

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**19. RISK MANAGEMENT (CONT'D)**

**(b) Credit Risk**

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

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

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

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

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

*(CONT'D)*

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**19. RISK MANAGEMENT (CONT'D)**

**(b) Credit Risk (CONT'D)**

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

	<u>2018</u>	<u>2017</u>
On balance sheet exposure		
Cash and cash equivalents	\$ 22,373,194	\$ 33,681,637
Investments	6,304,359	7,802,564
Member loans	<u>153,534,179</u>	<u>143,079,970</u>
	<u>\$182,211,732</u>	<u>\$184,564,171</u>
Off balance sheet exposure		
Guarantees and stand-by letters of credit	\$ 199,000	\$ 193,250
Commitments to extend credit		
Original term to maturity of one year or less	5,903,181	6,882,559
Original term to maturity of more than one year	<u>43,191,748</u>	<u>34,346,040</u>
	<u>\$ 49,293,929</u>	<u>\$ 41,421,849</u>

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

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

**(c) Market Risk**

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

**(d) Fair Value Risk**

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its member loans, investments and member deposits. The Credit Union does hedge its fair value risk regarding its equity linked derivatives. For further information on fair value of financial instruments see Note 22.

(CONT'D)

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**19. RISK MANAGEMENT (CONT'D)**

**(e) Liquidity Risk**

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity at all times as described in Note 20. The Credit Union has established policies which include minimum liquidity requirements, eligibility requirements for liquid assets, investments with counterparties, deposit concentration and diversification limits. The Credit Union monitors expected cash inflows and outflows on a daily, cyclical and long-term basis. The Credit Union's preferred source of funding is member deposits; however, borrowing from Central is permitted during periods where loan demand exceeds deposit growth. Other sources of funding such as sale of assets, deposits from other credit unions and wholesale deposits are acceptable.

On a periodic basis management ensures that it has adhered to the regulatory requirement of the *Credit Union Act* of Alberta's minimum liquidity ratio of 6% of total assets. The Credit Union's liquidity ratio was 7.35% at October 31, 2018 (2017 – 7.35%).

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

**(f) Foreign Exchange Risk**

Foreign exchange risk is the risk that arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. Foreign exchange risk is not considered significant as at the date of the statement of financial position, as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financed investments for an extended period.

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**20. CAPITAL MANAGEMENT**

The Credit Union's objectives when managing capital are:

- (a) To ensure the long term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses.
- (b) To comply at all times with the capital requirements set out in the *Credit Union Act*.

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

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

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

- (a) Setting policies for capital management, monitoring and reporting;
- (b) Setting policies for related areas such as asset liability management;
- (c) Reporting to the Board of Directors or its committees regarding financial results and capital adequacy;
- (d) Reporting to the Corporation on its capital adequacy; and
- (e) Setting budgets and reporting variances to those budgets.

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

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

As of October 31, 2018 the Credit Union's available capital as a percentage of total assets was 10.94% (2017 - 10.17%) and the available capital as a percent of risk weighted assets was 14.79% (2017 - 15.62%). Therefore, the Credit Union has exceeded its minimum capital requirement at October 31, 2018.

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

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

*(CONT'D)*

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**21. DERIVATIVES**

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

The fair value of the equity-linked option contract is \$133,214 (2017 - \$175,384). The fair value of the embedded derivative is \$133,214 (2017 - \$175,384). Both items are marked to market through income. This had no effect on income for the year ended October 31, 2018.

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

	<u>2018</u>	<u>2017</u>
Within 1 year	\$ 1,048,406	\$ 385,344
Within 2 years	180,547	1,048,406
Within 3 years	118,041	180,547
Within 4 years	123,166	71,245
Within 5 years	<u>48,874</u>	<u>123,166</u>
	<u>\$ 1,519,034</u>	<u>\$ 1,808,708</u>

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

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**22. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE**

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in the current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates.

Fair values have not been determined for property and equipment or any other asset or liability that is not a financial instrument. The fair values of cash resources, variable rate loans and deposits, other assets and liabilities are assumed to equal their book values. 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.

**(a) Methods and Assumptions**

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

- i) The stated value for cash and cash equivalents, investments, other assets, other liabilities, accrued income or expense and certain other assets and liabilities approximate their fair value due to their short-term nature.
- ii) Estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments.
- iii) For variable interest rate loans that are frequently re-priced, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates.
- iv) Fair value of deposits with no specified maturity term is their stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.
- v) Fair value of derivative financial instruments is established by referring to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

The most significant assumption relates to the discount rates utilized. If the forward yield curve of such instruments would increase by 10 basis points then the fair value of financial assets would decrease by \$22,700 (2017 - \$207,000) and the fair value of financial liabilities would decrease by \$8,200 (2017 - \$77,000). A corresponding decrease of 10 basis points in the forward yield curve would result in a \$22,700 (2017 - \$207,000) increase in the fair value of financial assets and a \$8,200 (2017 - \$77,000) increase in the fair value of financial liabilities.

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**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**22. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (CONT'D)**

Estimated fair values of financial instruments are summarized as follows:

	<u>2018</u>			<u>2017</u>		
	<u>Fair Value (FV)</u>	<u>Carrying Value (CV)</u>	<u>Change</u>	<u>Fair Value (FV)</u>	<u>Carrying Value (CV)</u>	<u>Change</u>
<b>Assets</b>						
Cash and cash equivalents	\$ 22,373,194	\$ 22,373,194	\$ -	\$ 33,681,637	\$ 33,681,637	\$ -
Investments	6,302,359	6,304,359	(2,000)	7,802,564	7,802,564	-
Member loans	151,039,179	153,534,179	(2,495,000)	141,544,970	143,079,970	(1,535,000)
Other	<u>133,214</u>	<u>133,214</u>	<u>-</u>	<u>175,384</u>	<u>175,384</u>	<u>-</u>
	<u>\$ 179,847,946</u>	<u>\$ 182,344,946</u>	<u>\$ (2,497,000)</u>	<u>\$ 183,204,555</u>	<u>\$ 184,739,555</u>	<u>\$ (1,535,000)</u>
<b>Liabilities</b>						
Member deposits	\$ 163,603,815	\$ 163,074,815	\$ 529,000	\$ 167,154,283	\$ 166,821,283	\$ 333,000
Other liabilities	<u>612,741</u>	<u>612,741</u>	<u>-</u>	<u>568,544</u>	<u>568,544</u>	<u>-</u>
	<u>\$ 164,216,556</u>	<u>\$ 163,687,556</u>	<u>\$ 529,000</u>	<u>\$ 167,722,827</u>	<u>\$ 167,389,827</u>	<u>\$ 333,000</u>
<b>Equity</b>	<u>\$ 15,631,390</u>	<u>\$ 18,657,390</u>	<u>\$ (3,026,000)</u>	<u>\$ 15,481,728</u>	<u>\$ 17,349,728</u>	<u>\$ (1,868,000)</u>

(CONT'D)



**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**22. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (CONT'D)**

**(b) Classification**

The carrying amount of the Credit Union's financial instruments by classification are as follows:

	October 31, 2018					
	Fair Value Through Profit or Loss	Available-for- Sale	Held-to Maturity	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 3,023,194	\$ -	\$ 19,350,000	\$ -	\$ -	\$ 22,373,194
Investments	-	2,053,116	4,251,243	-	-	6,304,359
Member loans	-	-	-	153,534,179	-	153,534,179
Derivative assets	133,214	-	-	-	-	133,214
Accounts payable and accrued liabilities	-	-	-	-	(251,845)	(251,845)
Member deposits	-	-	-	-	(163,074,815)	(163,074,815)
Allocation payable	-	-	-	-	(174,300)	(174,300)
Income tax payable	-	-	-	-	(53,382)	(53,382)
Derivative liabilities	(133,214)	-	-	-	-	(133,214)
<b>Net Financial Assets (Liabilities)</b>	<b><u>\$ 3,023,194</u></b>	<b><u>\$ 2,053,116</u></b>	<b><u>\$ 23,601,243</u></b>	<b><u>\$ 153,534,179</u></b>	<b><u>\$ (163,554,342)</u></b>	<b><u>\$ 18,657,390</u></b>
	October 31, 2017					
	Fair Value Through Profit or Loss	Available-for- Sale	Held-to Maturity	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 5,631,637	\$ -	\$ 28,050,000	\$ -	\$ -	\$ 33,681,637
Investments	-	2,053,099	5,749,465	-	-	7,802,564
Member loans	-	-	-	143,079,970	-	143,079,970
Derivative assets	175,384	-	-	-	-	175,384
Accounts payable and accrued liabilities	-	-	-	-	(215,005)	(215,005)
Member deposits	-	-	-	-	(166,821,283)	(166,821,283)
Allocation payable	-	-	-	-	(163,350)	(163,350)
Income tax payable	-	-	-	-	(14,805)	(14,805)
Derivative liabilities	(175,384)	-	-	-	-	(175,384)
<b>Net Financial Assets (Liabilities)</b>	<b><u>\$ 5,631,637</u></b>	<b><u>\$ 2,053,099</u></b>	<b><u>\$ 33,799,465</u></b>	<b><u>\$ 143,079,970</u></b>	<b><u>\$ (167,214,443)</u></b>	<b><u>\$ 17,349,728</u></b>

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

**VERMILION CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**22. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (CONT'D)**

**(c) Fair Value Hierarchy**

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique.

The inputs used for fair value measurements, including their classification with the required three levels of the fair value hierarchy that prioritizes the inputs used for fair value measurement are as follows:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;

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

Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - inputs that are not based on observable market data.

Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. There are no assets measured at fair value classified as Level 3.

There were no transfers between fair value hierarchy levels for the years ended October 31, 2018 and 2017.

**VERMILION CREDIT UNION LIMITED**  
**SCHEDULE OF OPERATING EXPENSES**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**SCHEDULE I**

	<u>2018</u>	<u>2017</u>
<b>Personnel</b>		
Salaries	\$ 1,828,393	\$ 1,795,272
Benefits	240,991	235,255
Training and other	<u>92,361</u>	<u>109,261</u>
	<u>2,161,745</u>	<u>2,139,788</u>
<b>Occupancy</b>		
Repairs and maintenance	49,002	42,972
Depreciation	36,542	36,228
Utilities	36,236	35,356
Property taxes	<u>26,799</u>	<u>25,958</u>
	<u>148,579</u>	<u>140,514</u>
<b>Security</b>		
Deposit guarantee assessment	150,324	146,614
Bonding	27,836	24,901
Insurance	<u>2,821</u>	<u>3,005</u>
	<u>180,981</u>	<u>174,520</u>
<b>Organization</b>		
Central dues	42,323	45,292
Directors' expenses	20,964	17,250
Other	20,346	9,753
Directors' fees	<u>19,550</u>	<u>17,450</u>
	<u>103,183</u>	<u>89,745</u>
<b>General</b>		
Computer, cash and service charges	542,993	494,698
Office	116,156	113,671
Advertising and community support	81,995	60,516
Office equipment, rental and maintenance	57,053	61,750
Professional fees	55,839	58,522
Depreciation	50,806	63,819
Depreciation of intangible assets	50,371	50,780
Courier and postage	33,866	34,957
Telephone	30,762	31,637
Travel	23,268	18,550
Loan associated expenses	19,522	23,487
Insurance	17,769	17,212
Loss on disposal of property and equipment	<u>11,299</u>	<u>-</u>
	<u>1,091,699</u>	<u>1,029,599</u>
	<u>\$ 3,686,187</u>	<u>\$ 3,574,166</u>

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