



2016 Annual Report 

We provide financial ability with a human touch.

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Message from the Board Chair



At our Annual General Meeting I like to reflect on our past year and to send a message of thanks to all of our valued and loyal members. As Board Chair, I would like to assure you that the staff and management of VantageOne Credit Union have a primary mandate: ***strive to give our members the best possible service for a fair price.*** And hopefully, in some small way, we have also enhanced your experience in dealing with us as your financial institution. In today's busy world of cell phones, social media, Facebook, and Twitter, I can't help but feel that some of us miss direct human contact. At VantageOne Credit Union, we want to feel that we have achieved a merger of the two by providing some of the latest technology while maintaining that personal contact that is absent in so many of the large banks and other businesses today.

One of the key responsibilities of your board is setting and governing our strategic direction. In 2016, we fine-tuned our strategic direction and laid out three clear goals for our organization: improve efficiency, continue growing the businesses and build on the success in our subsidiary businesses. These three goals along with key financial measures are what we as a board will continue to monitor to ensure the ongoing success of your credit union.

In 2017, we would like to get the message out that we care about the community in which we live and work. That message is reflected in our Great Community Giveaway which replaced the turkey program in 2016. On April 20th, the Great Community Giveaway will have awarded a total of \$100,000 in donations. It was an exciting program with one \$50,000 donation and eleven smaller donations all to worthy organizations who reside in our communities. This forms a component of our Corporate Social Responsibility program that is aligned to our mission and the strategic development of your VantageOne Credit Union.

Also, new for 2017 is the newly formed Advisory Committee. As members, you currently have a varied representation on your Board of Directors. However, to increase our skill level we formed the Advisory Committee and just recently held our first meeting in March. We have 6 members on this board including a lawyer, doctor, national sales manager, IT Software Developer and two members with a tremendous background in charitable and not-for-profit organizations. We will meet approximately twice a year on various topics including but not limited to Corporate Social Responsibility and IT Solutions and Strategies. Advisory members do not have to be VantageOne Credit Union members but if they are members, this gives us an additional platform to attract qualified, knowledgeable directors with excellent skill sets for the future development and governance of VantageOne Credit Union.

So, lots of exciting news for 2017 as we look toward the future of our organization! Thank you all for your loyalty and continued patronage of VantageOne Credit Union.

Cheryl Turcotte

Board Chair

Message from the Chief Executive Officer



I am pleased to provide you an update on the financial results of your credit union for 2016 and provide you an update on key initiatives. In addition, I will provide an update on new products and services launched over the past year and am excited to announce the opening of a new location in the District of Peachland.

Competition continues to increase in the financial services sector placing pressure on the margins of existing organizations. We are seeing new technology companies entering our industry coupled with new credit unions entering the Okanagan market. This competition coupled with a low interest rate environment has put pressure on financial margins of financial institutions and VantageOne is no exception. We experienced strong growth over the past year, growing over 12% in assets or over \$33 million. This growth, however, only translated into 5% growth in financial margin. As a result, net operating earnings for the year are down slightly over previous year.

Sound financial management remains a priority at VantageOne. Faced with these competitive threats we continue to grow our organization. Our loan portfolio grew 11% and deposit portfolio grew 13% in 2016, both exceeding credit union system averages. This resulted in overall asset growth of 12%, with our assets reaching over \$320 Million. Our capital position, a key measure of the health of a financial institution, continues to remain strong at over 18%, more than double our regulatory requirements.

Our earnings statement showed a decline in net earnings and a comprehensive loss for the year. Given the growth we experienced, our revenue increased 4% over the year; however, operating expenses grew 6%, resulting in a decline in our earnings before tax. After tax, this resulted in a decline in net income for the year from core operations and a loss when we add in other comprehensive losses for the year. Gains and losses appear in other comprehensive income when they have not yet been realized. This can be a complicated concept to explain, put simply it is the change in the market value of our financial derivative instruments or other reporting requirements as specified by the International Financial Reporting Standards at the end of 2016. These can fluctuate with market and interest rate changes; however, we are required to report these items to you below our core business net earnings even though these losses were never realized for the year.

Faced with increasing competition we were pleased to launch new services for members over the past year. Mobile Alerts, tap to pay debit cards and business member direct are three services we added. Mobile Alerts allows members to setup notifications to a cell phone to be informed of different types of activity on their account. This can be setup in our online banking system. Tap to pay Membercards allow more convenient payment at retailers. For small transactions, tap to pay is safer and more convenient. Finally, Business Member Direct internet banking was launched, providing more functionality to our business members.

We are also pleased to announce that in May of this year, we will expand to the District of Peachland, a community of over 5,000 people with no local financial institution. We are pleased to be able to offer this community a local banking solution and expand our footprint in the Okanagan. The district is excited about our arrival and we are looking forward to strong membership growth in this new community.

In closing, I would like to thank our members for choosing VantageOne, your continued dedication and support to our organization is what makes us successful. I would like to thank the board for their continued dedicated leadership of the organization. Finally, thank you to all the staff for their continued energy and enthusiasm in all of our projects and making member service our number one priority.

Respectfully submitted,

Glenn Benischek

Chief Executive Officer

Independent auditors' report

Grant Thornton LLP
200 - 1633 Ellis Street
Kelowna, BC
V1Y 2A8
T (250) 712-6800
(800) 661-4244 (Toll Free)
F (250) 712-6850
www.GrantThornton.ca

To the members of VantageOne Credit Union

We have audited the accompanying consolidated financial statements of VantageOne Credit Union ("the Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statement of earnings and comprehensive loss, consolidated statement of changes in members' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation and fair presentation of the consolidated 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 Credit Union's internal control. 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of VantageOne Credit Union as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kelowna, Canada
February 22, 2017

Grant Thornton LLP
Chartered Professional Accountants

VantageOne Credit Union

Consolidated statement of financial position

December 31

2016

2015

Assets

Cash and cash equivalents (Note 5)	\$ 22,131,864	\$ 17,694,475
Receivables and other assets	675,823	699,634
Income taxes recoverable	509,190	41,490
Investments (Note 6)	23,800,354	21,141,549
Derivative financial instruments (Note 7)	1,349,469	2,518,969
Loans (Note 8)	266,884,033	240,889,265
Deferred income tax (Note 14)	269,000	323,000
Property and equipment (Note 10)	7,790,583	6,558,915
Accrued pension asset (Note 13)	232,100	235,500
Total assets	\$ 323,642,416	\$ 290,102,797

Liabilities

Deposits (Note 12)	\$ 299,552,070	\$ 266,026,085
Payables and other liabilities	890,060	770,081
Members' shares (Note 16)	42,779	51,063
Total liabilities	300,484,909	266,847,229


Members' equity

Members' shares (Note 16)	841,947	867,458
Retained earnings	21,758,579	20,911,698
Accumulated other comprehensive income	556,981	1,476,412
	23,157,507	23,255,568
	\$ 323,642,416	\$ 290,102,797

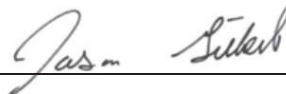
Commitments (Note 23)

Post reporting date events (Note 24)

On behalf of the Board



Director



Director

See accompanying notes to the consolidated financial statements



VantageOne Credit Union

Consolidated statement of earnings and comprehensive loss

Year ended December 31

2016

2015

Financial income

Loans	\$ 8,991,800	\$ 8,914,407
Cash and cash equivalents and investments	<u>1,594,456</u>	<u>1,294,171</u>
	<u>10,586,256</u>	<u>10,208,578</u>

Financial expense

Deposits	2,683,219	2,667,503
Borrowings	-	15,709
Share dividends	44,060	-
Provision for credit losses (Note 9)	<u>155,602</u>	<u>198,354</u>
	<u>2,882,881</u>	<u>2,881,566</u>

Financial margin

7,703,375 7,327,012

Other income (Note 17)

3,631,526 3,516,850

Operating margin

11,334,901 10,843,862

Operating expenses (Note 18)

10,371,931 9,713,084

Earnings before income taxes

962,970 1,130,778

Income taxes (Note 14)

Current income tax	62,089	111,309
Deferred income tax (recovery)	<u>54,000</u>	<u>(84,000)</u>
	<u>116,089</u>	<u>27,309</u>

Net earnings

846,881 1,103,469

Other comprehensive (loss) income, net of tax

Change in unrealized (loss) gain on cash flow hedges, net of (recovery) tax of \$(316,719) (2015 - \$118,703)	(901,431)	506,051
Unrealized actuarial (loss) gain on defined benefit pension plan (Note 13)	<u>(18,000)</u>	<u>98,300</u>

Comprehensive (loss) income

\$ (72,550) \$ 1,707,820

See accompanying notes to the consolidated financial statements



VantageOne Credit Union

Consolidated statement of changes in members' equity

Year ended December 31

	Members' shares	Retained earnings	Accumulated other comprehensive income	Total
Balance on December 31, 2014	\$ 915,107	\$ 19,808,229	\$ 872,061	\$ 21,595,397
Net earnings	-	1,103,469	-	1,103,469
Change in members' shares, net	(47,649)	-	-	(47,649)
Other comprehensive income				
Change in unrealized gain on cash flow hedges	-	-	624,754	624,754
Deferred income tax on unrealized gain on cash flow hedges	-	-	(118,703)	(118,703)
Unrealized actuarial gain on defined benefit pension plan	-	-	98,300	98,300
Balance on December 31, 2015	\$ 867,458	\$ 20,911,698	\$ 1,476,412	\$ 23,255,568
Net earnings	-	846,881	-	846,881
Change in members' shares, net	(25,511)	-	-	(25,511)
Other comprehensive loss				
Change in unrealized loss on cash flow hedges	-	-	(1,218,150)	(1,218,150)
Deferred income tax recovery on unrealized loss on cash flow hedges	-	-	316,719	316,719
Unrealized actuarial loss on defined benefit pension plan	-	-	(18,000)	(18,000)
Balance on December 31, 2016	\$ 841,947	\$ 21,758,579	\$ 556,981	\$ 23,157,507

See accompanying notes to the consolidated financial statements



VantageOne Credit Union

Consolidated statement of cash flows

Year ended December 31

2016

2015

Increase (decrease) in cash and cash equivalents

Operating activities		
Earnings before income taxes	\$ 962,970	\$ 1,130,778
Adjustments for non-cash items		
Provision for credit losses	155,602	198,354
Depreciation	618,590	446,538
Ineffective portion of gain on derivatives	(48,650)	-
Loss on disposal of property and equipment	58,374	36,131
Change in interest accruals	54,946	102,205
Receivables and other assets	23,811	(222,661)
Payables and other liabilities	105,379	163,561
	<u>1,931,022</u>	<u>1,854,906</u>
Change in member activities		
Change in loans, net of repayments	(37,104,221)	(16,155,767)
Change in deposits, net of withdrawals	35,981,041	17,739,918
Cash flows related to interest, dividends and income taxes		
Interest received on loans	11,008,845	9,645,109
Interest received on investments	1,451,651	1,328,168
Interest paid on deposits	(2,573,279)	(2,610,681)
Income taxes paid	(213,071)	(223,040)
Dividends received on investments	40,719	56,954
	<u>10,522,707</u>	<u>11,635,567</u>
Financing activities		
Change in members' shares, net	<u>(25,511)</u>	<u>(47,649)</u>
Investing activities		
Change in investments	(4,151,175)	(2,680,740)
Purchase of property and equipment	<u>(1,908,632)</u>	<u>(446,799)</u>
	<u>(6,059,807)</u>	<u>(3,127,539)</u>
Net increase in cash and cash equivalents	4,437,389	8,460,379
Cash and cash equivalents, beginning of year	<u>17,694,475</u>	<u>9,234,096</u>
Cash and cash equivalents, end of year	<u>\$ 22,131,864</u>	<u>\$ 17,694,475</u>

See accompanying notes to the consolidated financial statements

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

1. Governing legislation and operations

The Credit Union is incorporated under the Credit Union Incorporation Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia. The Credit Union serves members principally in the North Okanagan. The products and services offered to its members include personal, commercial and other loans and mortgages; chequing and savings accounts; term, demand and other deposits. The Credit Union's head office is located at 3108 - 33rd Avenue, Vernon BC.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on February 22, 2017.

2. Basis of presentation and 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 were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments measured at fair value.

The Credit Union and its subsidiaries' functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

3. Summary of significant accounting policies

Basis of consolidation

The Credit Union financial statements consolidate those of the parent company and all of its subsidiaries up to December 31, 2016. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries controlled through 100% ownership include VantageOne Financial Corp., VantageOne Leasing Inc., and VantageOne Realty Inc. All subsidiaries have a reporting date of December 31.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

All transactions and balances between the Credit Union and its subsidiaries are eliminated on consolidation. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Credit Union.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less, and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

Financial instruments

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are initially measured at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are initially measured at fair value.

Subsequent measurement of financial assets and financial liabilities is as described below.

Financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

At least at each reporting date, all financial assets except for those at fair value through profit or loss are subject to a review for impairment. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within 'financial income' or 'financial expense'.

Loans and receivables

All member loans, cash and cash equivalents and receivables 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.

Loans and receivables are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans and receivables are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest for all loans is accounted for on the accrual basis.

If there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate. Short-term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Loans and receivables (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net earnings.

The accounting treatment for loan fees varies depending on the transaction. Significant fees that would result in an adjustment to the overall loan yield are capitalized and amortized using the effective interest method. Mortgage prepayment fees are recognized in other income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are capitalized and amortized over the average remaining term of the original mortgage.

Loans written off

Loans are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Loans are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net earnings.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit and loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which hedge accounting requirements apply.

Assets in this category are measured at fair value with gains and losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Credit Union currently has no financial assets classified as fair value through profit and loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables.

Investments are classified as held-to-maturity if the Credit Union has the intention and ability to hold them until maturity. The Credit Union currently holds liquidity term deposits designated into this category.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Held-to-maturity investments (continued)

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows.

Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union's investments held with CEDA, Central 1 Credit Union, CUPP Services Ltd., and Stabilization Central Credit Union have been classified as available for sale.

These share investments are measured at cost less any impairment charges, as their fair value cannot currently be estimated reliably. Impairment charges are recognized in net earnings.

Financial liabilities

The Credit Union's financial liabilities include deposits, payables and other liabilities, and members' shares classified as liabilities.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through net earnings that are carried subsequently at fair value with gains or losses recognized in net earnings. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in net earnings are included within financial income or financial expense.

Derivative financial instruments

Derivative financial instruments are contracts that are utilized to manage financial risk such as changes in interest rates or other financial indices.

Derivative financial instruments are accounted for at fair value through profit and loss except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Hedges (continued)

The Credit Union, in accordance with its risk management strategies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the statement of financial position.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net earnings;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of floating rate commercial and personal loans.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in net earnings, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in net earnings as cash and cash equivalents and investments income.

If the Credit Union closes out its hedge position early, the cumulative gains and losses recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve within other comprehensive income to net earnings using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognized in net earnings within interest expense or interest revenue.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

3. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land and buildings under construction which are not depreciated. Depreciation is recognized in net earnings and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings, renovations and HVAC system	15 to 40 years
Office equipment and computers	2 and 5 years
Furniture and fixtures	15 years
Leasehold improvements	10 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. 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 earnings, except to the extent they reverse gains previously recognized in other comprehensive income.

Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax liabilities comprise those obligations to fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

(continued)



VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

3. Summary of significant accounting policies (continued)

Income taxes (continued)

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless it affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Credit Union and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Credit Union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

3. Summary of significant accounting policies (continued)

Post employment benefit and short-term employee benefits

Post employment benefit

The Credit Union sponsors a defined benefit pension plan which is administered by CUMIS. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement in return for their service in the current and prior periods. It is funded through payments to trustee administered funds which are determined by actuarial valuations.

The asset (liability) recognized in the statement of financial position for the defined benefit plan is the present value of the fair value of plan assets at the reporting date less the defined benefit obligation ("DBO"). The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that have terms to maturity approximating to the terms of the related pension liability. The defined benefit obligation is determined using the project unit credit method on an annual basis by an independent actuary. The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality and investment returns assumptions. Different assumptions could significantly alter the amount of difference between plan assets and obligations, and the pension cost charged to the statement of earnings and comprehensive income.

Actuarial gains and losses related to the defined benefit pension plan are recorded directly in equity through other comprehensive income as they arise. Post employment benefit expenses are included in 'salaries and benefits'.

Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'payables and other liabilities', measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement.

Provisions

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Credit Union and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognized for future operating losses.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

3. Summary of significant accounting policies (continued)

Provisions (continued)

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Membership shares

Membership shares are classified as liabilities or as members' equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union Board of Directors, the shares are classified as equity.

Distributions to members

Patronage rebates and dividends on shares classified as liabilities are charged against earnings, when approved by the Board of Directors.

Revenue recognition

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

Leased assets

Amounts due from lessees under finance leases are recorded as loans and receivables at the amount of the Credit Union's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Credit Union's net investment outstanding in respect of the leases.

All leases in which the Credit Union is the lessee are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

3. Summary of significant accounting policies (continued)

Foreign currency translation

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income.

Standards and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2016 or later periods that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union are:

- **IFRS 9 Financial Instruments:** The IASB published IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, substantially overhauls accounting requirements related to hedging and introduces a new credit loss impairment model. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact of the new standard.
- **IFRS 15 Revenue from Contracts with Customers** replaces IAS 18 Revenue, IAS 11 Construction Contracts and some revenue-related interpretations; establishes a new control-based revenue recognition model; changes the basis for deciding whether revenue is to be recognized over time or at a point in time; provides new and more detailed guidance on specific topics; and expands and improves disclosures about revenue. IFRS 15 applies to contracts with customers to provide goods or services, including construction contracts and licencing of intellectual property. It will not apply to certain contracts within the scope of other IFRSs such as lease contracts, insurance contracts, financing arrangements, financial instruments, guarantees other than product warranties, and non-monetary exchanges between entities in the same line of business to facilitate sales to third-party customers. The effective date for this standard is for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact of the new standard.
- **IFRS 16 Leases:** The IASB released IFRS 16 Leases, completing its long running project on lease accounting. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure for leases for both parties to a contract (the lessee and lessor). The effective date for this standard is for annual periods beginning on or after January 1, 2019. The Company is in the process of evaluating the impact of the new standard.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

4. Judgments and estimates

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these judgments, estimates and assumptions.

- **Judgments**

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Credit Union's future taxable income against which the deferred tax assets can be utilized.

- **Estimates**

The effect of a change in an accounting estimate is recognized prospectively by including it in net earnings in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Member loan loss provision

In determining whether an impairment loss should be recorded the Credit Union makes estimates on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union groups member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 9.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2016, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 10. Actual results, however, may vary due to technical obsolescence, particularly for software and IT equipment.

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VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

4. Judgments and estimates (continued)

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

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 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 income taxes payable.

Accrued pension asset (liability)

Under the Credit Union's defined benefit plans, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The legal obligation for any benefits remains with the Credit Union, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

Management estimates the defined benefit asset (liability) annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The defined benefit asset (liability) is based on standard rates of inflation and mortality. It also takes into account the Credit Union's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension asset (liability).

5. Cash and cash equivalents

The Credit Union's cash and cash equivalents are held with Central 1. The average yield on the accounts at December 31, 2016 is 1.03% (2015 - 0.77%).

	<u>2016</u>	<u>2015</u>
Cash and current accounts	\$ 14,859,566	\$ 17,490,401
Callable term deposits and accrued interest	<u>7,272,298</u>	<u>204,074</u>
	<u>\$ 22,131,864</u>	<u>\$ 17,694,475</u>



VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

6. Investments

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below.

	<u>2016</u>	<u>2015</u>
Term deposits and accrued interest		
Non-callable or original maturities greater than three months	\$ 22,527,564	\$ 19,958,085
Shares		
CEDA	10	10
Central 1 Credit Union	1,171,047	1,081,721
CUPP Services Ltd.	101,475	101,475
Stabilization Central Credit Union	258	258
	<u>\$ 23,800,354</u>	<u>\$ 21,141,549</u>

Non-callable term deposits are due between one month and five years. The carrying amounts for deposits at approximate fair value due to having similar characteristics as cash and cash equivalents.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

Dividends on these shares are at the discretion of the Board of Directors of Central 1.

7. Derivative financial instruments

As at December 31, 2016, the Credit Union had entered into interest rate swap contracts for a total of \$75 million of notional principal (\$20 million of this being in forward starting agreements). Related to the \$55 million of non-forward starting agreements, the Credit Union has agreed to pay at floating interest rates based on Banker's Acceptance rates and receive at fixed interest rates. These pre-existing swaps contracts have fixed interest rates ranging from 2.030% to 3.165% and mature from January 30, 2017 to February 15, 2019. The remaining \$20 million of forward starting swaps will replace the pre-existing contracts. These forward swaps have fixed interest rates ranging from 2.120% to 2.880% and mature from January 30, 2018 to February 18, 2020. The agreements are secured by a general security agreement covering all assets of the Credit Union.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

8. Loans

	<u>2016</u>	<u>2015</u>
Personal loans		
Residential mortgages	\$ 186,714,118	\$ 165,718,959
Other	6,097,435	5,480,376
Commercial loans		
Mortgages	56,264,673	51,153,830
Other	6,157,246	7,776,745
Leases	11,949,942	11,047,497
	<u>267,183,414</u>	<u>241,177,407</u>
Accrued interest receivable	705,316	650,323
Deferred loan fees	(58,012)	(30,954)
	<u>267,830,718</u>	<u>241,796,776</u>
Allowance for impaired loans (Note 9)	<u>(946,685)</u>	<u>(907,511)</u>
Net loans to members	<u>\$ 266,884,033</u>	<u>\$ 240,889,265</u>

Terms and conditions

Member loans can have either a variable or fixed rate of interest with a maturity date of up to ten years.

The Credit Union's prime rate at December 31, 2016 was 3.25% (2015 - 3.25%) and is formulated on the Bank of Canada prime rate. Loan rates are based on current Credit Union prime rate with a range based on lending criteria.

The interest rate offered on fixed rate loans being advanced at December 31, 2016 ranges from 1.00% to 15.25% (2015 - 0.00% to 15.25%).

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Personal loans consist of term loans and lines of credit that are non-real estate secured and have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

(continued)



VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

8. Loans (continued)

Average yields to maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	<u>2016</u>		<u>2015</u>	
	<u>Principal</u>	<u>Yield</u>	<u>Principal</u>	<u>Yield</u>
Variable rate	\$ 85,411,042	3.89 %	\$ 95,073,271	3.84 %
Fixed rate due less than one year	44,977,518	4.01 %	44,466,717	4.20 %
Fixed rate due between one and five years	<u>136,794,854</u>	3.51 %	<u>101,637,419</u>	3.91 %
	<u>\$ 267,183,414</u>	3.71 %	<u>\$ 241,177,407</u>	3.93 %

Credit quality of loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	<u>2016</u>	<u>2015</u>
Unsecured loans	\$ 5,584,262	\$ 5,202,140
Loans, secured by real estate or insured by government	247,208,327	222,427,774
Loans, otherwise secured	2,205,105	2,041,366
Loans, secured by deposit and government securities	235,778	458,630
Leases	<u>11,949,942</u>	<u>11,047,497</u>
	<u>\$ 267,183,414</u>	<u>\$ 241,177,047</u>

Fair value

The fair value of member loans and leases at December 31, 2016 was \$268,881,000 (2015 - \$243,084,000).

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

9. Allowance for impaired loans	<u>2016</u>	<u>2015</u>
Collective allowance	\$ 123,703	\$ 112,534
Specific allowance	822,981	794,977
Total allowance	<u>\$ 946,684</u>	<u>\$ 907,511</u>

Change in specific allowance and collective allowance for impairment:

	Beginning balance	Provision	(Write-offs net of recoveries)	2016 Ending balance	2015 Ending balance
Residential mortgages	\$ 135,356	\$ 29,649	\$ (36,200)	\$ 128,805	\$ 135,356
Commercial mortgages	611,601	108,405	(79,224)	640,782	611,601
Leases	160,554	16,543	-	177,097	160,554
	<u>\$ 907,511</u>	<u>\$ 154,597</u>	<u>\$ (115,424)</u>	<u>\$ 946,684</u>	<u>\$ 907,511</u>

	<u>2016</u>	<u>2015</u>
Percentage of total loans and accrued interest	<u>0.35%</u>	<u>0.38%</u>

In addition to the adjustments to the above noted provisions, during the year \$nil (2015-\$30,496) was directly written off to the provision for credit losses and \$116,428 (2015 – 349,644) was recovered from loans and leases previously written-off.

Impaired loans and related allowances

	Loan balance and accrued interest	Specific allowance	2016 Carrying amount	2015 Carrying amount
Residential mortgages	\$ 10,644	\$ 5,102	\$ 5,542	\$ 86,859
Commercial mortgages	2,068,290	640,782	1,427,508	1,110,853
Leases	209,949	177,097	32,852	53,518
	<u>\$ 2,288,883</u>	<u>\$ 822,981</u>	<u>\$ 1,465,902</u>	<u>\$ 1,251,230</u>

(continued)



VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

9. Allowance for impaired loans (continued)

Analysis of individual loans that are impaired or potentially impaired based on age of repayments outstanding:

	2016		2015	
	Carrying value	Individual specific provision	Carrying value	Individual specific provision
Period of delinquency				
Less than 30 days	\$ 1,110,433	\$ -	\$ 1,847,581	\$ -
30 to 90 days	246,190	-	428,479	3,830
Over 90 days	2,524,530	817,879	2,034,428	768,276
Total loans in arrears	3,881,153	817,879	4,310,488	772,106
Total loans not in arrears	263,302,261	5,102	236,578,777	22,871
	<u>\$ 267,183,414</u>	<u>\$ 822,981</u>	<u>\$ 240,889,265</u>	<u>\$ 794,977</u>

Key assumptions in determining the allowance for impaired loans collective provision

A collective provision is established to cover estimated loan losses which have not yet been specifically identified as impaired. In determining the allowance for impaired loans, management considers factors such as the composition and credit quality of the portfolio, current economic conditions and trends and historical loss experience.

For purposes of the collective provision loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security. The information below which details the total non-impaired loans and lease balance by classification as at year-end was used in the calculation of the collective allowance.

	2016			
	Residential Mortgage	Personal	Commercial	Total
Balance at December 31, 2016	<u>\$ 186,703,455</u>	<u>\$ 6,097,435</u>	<u>\$ 72,661,059</u>	<u>\$ 265,461,949</u>
	2015			
	Residential Mortgage	Personal	Commercial	Total
Balance at December 31, 2015	<u>\$ 165,612,526</u>	<u>\$ 5,480,376</u>	<u>\$ 68,560,514</u>	<u>\$ 239,653,416</u>

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

10. Property and equipment

	Land	Building and renovations	Leasehold improvement	Office equipment and computers	Furniture and fixtures	Total
Cost						
Balance at December 31, 2015	\$ 1,395,487	\$ 6,952,039	\$ 1,396,813	\$ 2,014,988	\$ 506,223	\$ 12,265,550
Additions	-	1,722,729	36,789	144,271	4,843	1,908,632
Disposals	-	(77,380)	-	(12,443)	-	(89,823)
Balance on December 31, 2016	<u>1,395,487</u>	<u>8,597,388</u>	<u>1,433,602</u>	<u>2,146,816</u>	<u>511,066</u>	<u>14,084,359</u>
Accumulated depreciation						
Balance at December 31, 2015	-	3,674,002	580,737	1,229,609	222,287	5,706,635
Depreciation	-	211,144	72,719	303,108	31,619	618,590
Disposals	-	(19,120)	-	(12,329)	-	(31,449)
Balance on December 31, 2016	<u>\$ -</u>	<u>\$ 3,866,026</u>	<u>\$ 653,456</u>	<u>\$ 1,520,388</u>	<u>\$ 253,906</u>	<u>\$ 6,293,776</u>
Net book value						
December 31, 2016	<u>\$ 1,395,487</u>	<u>\$ 4,731,362</u>	<u>\$ 780,146</u>	<u>\$ 626,428</u>	<u>\$ 257,160</u>	<u>\$ 7,790,583</u>
December 31, 2015	<u>\$ 1,395,487</u>	<u>\$ 3,278,037</u>	<u>\$ 816,076</u>	<u>\$ 785,379</u>	<u>\$ 283,936</u>	<u>\$ 6,558,915</u>

Leasehold improvements includes \$36,790 related to a new branch currently under construction. Depreciation of these assets will commence when the branch is opened.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

11. Leases

Operating leases as lessee

The Credit Union's future minimum operating lease payments including sales tax are as follows:

	Minimum lease payments due			Total
	Within 1 year	1 to 5 years	After 5 years	
December 31, 2016	\$ 181,837	\$ 542,020	\$ 66,150	\$ 790,007

Lease payments recognized as an expense during the period amount to \$214,833 (2015 - \$205,075). This amount consists of minimum lease payments. No sublease payments or contingent rent payments were made or received. No sublease income is expected as all assets held under lease agreements are used exclusively by the Credit Union.

The Credit Union's operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt.

Finance leases as lessor

The Credit Union's future minimum finance lease receivables are as follows:

	Minimum lease payments due					Total
	Within 1 year	1 to 5 years	After 5 years	Non- performing leases	Unearned finance income	
December 31, 2016	\$ 4,518,014	\$ 8,043,460	\$ 169,989	\$ 209,949	\$ (1,204,798)	\$ 11,736,614

The interest rate inherent in the leases is fixed at the contract date for all of the lease term.

Finance lease receivable balances are secured over the equipment leased. The Credit Union is not permitted to sell or repledge the collateral in the absence of default by the lessee.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

12. Deposits	<u>2016</u>	<u>2015</u>
Term	\$ 82,477,285	\$ 71,838,590
Demand	152,502,653	134,969,522
Registered savings plans	63,449,872	58,249,712
	<u>298,429,810</u>	<u>265,057,824</u>
Accrued interest and dividends	<u>1,122,260</u>	<u>968,261</u>
	<u>\$ 299,552,070</u>	<u>\$ 266,026,085</u>

Terms and conditions

Term and demand deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semiannually, monthly or upon maturity. The interest rates offered on term deposits and demand deposits issued on December 31, 2016 range from 0.2% to 2.89% (2015 – 0.20% to 3.25%).

The registered retirement savings plans (“RRSP”) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to 1.95% at December 31, 2016 (2015 – 2.1%).

Registered retirement income funds (“RRIFs”) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in demand deposits is an amount of \$1,490,778 (2015 - \$1,133,955) denominated in US dollars which has been translated to Canadian dollars as per policy at December 31.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

12. Deposits (continued)

Average yields to maturity

Members' deposits bear interest at fixed rates with the following average yields at:

	<u>2016</u>		<u>2015</u>	
	<u>Principal</u>	<u>Yield</u>	<u>Principal</u>	<u>Yield</u>
Fixed rate due less than one year	\$ 121,003,922	1.26%	\$ 91,497,051	1.30%
Fixed rate due between one and seven years	47,381,205	1.81%	59,441,872	1.90%
Non interest sensitive	<u>130,044,683</u>	<u>0.00%</u>	<u>114,118,901</u>	<u>0.00%</u>
	<u>\$ 298,429,810</u>	<u>0.89%</u>	<u>\$ 265,057,824</u>	<u>0.99%</u>

All member deposits are with members located in and around the North Okanagan region, British Columbia.

Fair value

The fair value of member deposits at December 31, 2016 was \$300,011,000 (2015 - \$266,523,000).

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

13. Accrued pension asset (liability)

The Credit Union makes contributions to CUMIS on behalf of their employees which participate in the defined benefit pension plan. CUMIS administers the plan including the payment of the pension benefits on behalf of employers and employees. Contributions are paid into the plan in accordance with the recommendations of an independent actuary. The latest formal actuarial valuation for contribution purposes was carried out as at June 30, 2014.

The DBO was determined using the following actuarial assumptions:

	<u>2016</u>	<u>2015</u>
Discount rate	4.00%	4.20%
Expected rate of return on plan assets	4.00%	4.20%
Expected rate of salary increases	2.00%	2.00%
Inflationary increases	2.00%	2.00%

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

13. Accrued pension asset (liability) (continued)

Statement of financial position

The reconciliation of the Credit Union's defined benefit obligation and plan assets to the amounts presented on the statement of financial position for each of the reporting periods are presented below:

	<u>2016</u>	<u>2015</u>
Fair value of plan assets	\$ 4,301,600	\$ 4,020,800
Defined benefit obligation	<u>4,069,500</u>	<u>3,785,300</u>
Surplus (deficit)	<u>\$ 232,100</u>	<u>\$ 235,500</u>

Reconciliation of change in plan assets:

	<u>2016</u>	<u>2015</u>
Fair value of plan assets January 1	\$ 4,020,800	\$ 3,736,600
Expected investment return	169,300	153,200
Benefit payments	(98,800)	(98,200)
Employer contributions	94,800	257,700
Member contributions	26,600	28,600
Actuarial gains (losses)	<u>88,900</u>	<u>(57,100)</u>
Fair value of plan assets December 31	<u>\$ 4,031,600</u>	<u>\$ 4,020,800</u>

Expected returns on plan assets are based on a weighted average of expected returns of various assets in the plan, and include an analysis of historical returns and predictions about future returns. The actual return on plan assets, net of expenses, was \$258,200 (2015 - \$96,100).

Plan assets can be broken down into the following major categories of investments:

	<u>2016</u>	<u>2015</u>
Retirement Security Fund	58.91%	62.45%
Large Cap Canadian Equity Fund	5.24%	4.51%
Small Cap Canadian Equity Fund	19.14%	16.71%
Non North American Equity Fund	3.59%	3.61%
US Equity Fund	<u>13.12%</u>	<u>12.72%</u>
Total plan assets	<u>100%</u>	<u>100%</u>

(continued)



VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

13. Accrued pension asset (liability) (continued)

Statement of financial position (continued)

Reconciliation of change in defined benefit obligation:

	<u>2016</u>	<u>2015</u>
Defined benefit obligation January 1	\$ 3,785,300	\$ 3,771,100
Interest on liabilities	161,700	153,500
Benefit payments	(98,800)	(98,200)
Contributions	26,600	28,600
Service cost	87,800	85,700
Actuarial losses (gains)	<u>106,900</u>	<u>(155,400)</u>
Defined benefit obligation December 31	<u>\$ 4,069,500</u>	<u>\$ 3,785,300</u>

Statement of comprehensive income

The charge to the income statement comprises:

	<u>2016</u>	<u>2015</u>
Service cost	\$ 87,800	\$ 85,700
Interest on assets	(169,300)	(153,200)
Interest on liabilities	<u>161,700</u>	<u>153,500</u>
Expense	<u>\$ 80,200</u>	<u>\$ 86,000</u>

The expense is grouped with salaries and benefits within operating expenses.

Amounts recognized in other comprehensive income:

	<u>2016</u>	<u>2015</u>
Actuarial gain (loss) on plan assets	\$ 88,900	\$ (57,100)
Actuarial (loss) gain on liabilities	<u>(106,900)</u>	<u>155,400</u>
Amount recognized in other comprehensive (loss) income	<u>\$ (18,000)</u>	<u>\$ 98,300</u>

Other defined benefit plan information

Based on historical data, the Credit Union expects contributions of approximately \$91,400 to be paid for 2017.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

14. Income taxes

The significant components of tax expense included in net earnings are composed of:

	<u>2016</u>	<u>2015</u>
Current tax expense		
Based on current year taxable income	\$ 62,089	\$ 111,309
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	<u>54,000</u>	<u>(84,000)</u>
Income taxes	<u>\$ 116,089</u>	<u>\$ 27,309</u>

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	<u>2016</u>	<u>2015</u>
Current tax		
Change in unrealized (loss) gain on derivative instruments	<u>\$ (316,719)</u>	<u>\$ 118,703</u>
Total tax effect of amounts recorded in other comprehensive income	<u>\$ (316,719)</u>	<u>\$ 118,703</u>

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26% (2015 – 26%) are as follows:

	<u>2016</u>	<u>2015</u>
Earnings before income taxes	<u>\$ 962,970</u>	<u>\$ 1,130,778</u>
Expected taxes based on the statutory rate	<u>\$ 250,372</u>	<u>\$ 294,002</u>
Tax rate reductions	-	(82,033)
Capital cost allowance in excess of depreciation	(1,414,862)	(1,298,513)
Lease payments in excess of lease interest	1,129,218	1,154,015
Other	<u>(219,358)</u>	<u>162,541</u>
Total income tax (recovery) expense	<u>(254,630)</u>	<u>230,012</u>
Included in other comprehensive income	<u>316,719</u>	<u>(118,703)</u>
Current tax expense	<u>\$ 62,089</u>	<u>\$ 111,309</u>

(continued)



VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

14. Income taxes (continued)

The movement in 2016 deferred tax assets are:

	Opening balance at January 1, 2016	Recognized in net earnings	Closing Balance December 31, 2016
Deferred income tax asset			
Property, equipment, and intangible assets	\$ 71,000	\$ 12,000	\$ 83,000
Allowance for loan losses	46,000	3,300	49,300
Non-capital losses	203,000	(9,000)	194,000
Prepayment penalty reserve	3,000	-	3,000
Accrued pension asset	-	(60,300)	(60,300)
Net deferred income tax asset	\$ 323,000	\$ 54,000	\$ 269,000

The Credit Union has consolidated losses carried forward for tax purposes expiring in the following years:

2030	\$ 103,389
2031	198,041
2032	158,648
2033	120,754
2034	84,795
2035	82,642
	<u>\$ 748,269</u>

The potential tax benefits of the losses carried forward have been recorded in the deferred income taxes asset.

15. Borrowings

The Credit Union has available to it, through the Central 1 Credit Union, an operating line and term facility of \$10,000,000 secured by an assignment of loans to members, accounts receivable and a demand debenture in favour of Central 1 Credit Union. At year end, the balance outstanding was \$nil (2015 - \$nil).

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

16. Members' shares

Membership shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union Board of Directors, the shares are classified as equity.

The Credit Union may issue four classes of shares designated as membership equity of \$1 par value.

Class A and Class C Equity Shares

As a condition of membership, which is required to use the services of the Credit Union, each standard member is required to hold \$25 in membership shares. These membership shares are non-transferable and redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Class D Allocation Equity Shares

Allocation shares can be issued to members of the Credit Union through dividends and patronage rebates. They are non-voting and redeemable at par at the discretion of the Board of Directors.

Class B Non-Equity Shares

Shares can be issued to members of the Credit Union. They are non-voting and pay dividends at the discretion of the Board of Directors. Shares are available for redemption by the member and are classified as liabilities.

Equity shares are not insured by Credit Union Deposit Insurance Corporation of B.C. ("CUDIC"). During the year, the Credit Union declared dividends on the membership shares, allocation equity shares and non-equity share savings of \$42,000 (2015 - \$nil).

17. Other income	2016	2015
Account service fees	\$ 924,863	\$ 910,170
Foreign exchange	106,894	154,178
Insurance commissions, fees and lease revenue	2,250,023	2,011,918
Loan administration fees	148,366	133,682
Loss on disposal of property and equipment	(58,374)	(36,131)
Rental income	224,368	308,201
Safety deposit rentals	35,386	34,832
	<u>\$ 3,631,526</u>	<u>\$ 3,516,850</u>

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

18. Operating expenses	<u>2016</u>	<u>2015</u>
Advertising	\$ 159,672	\$ 175,503
Depreciation	618,590	446,538
Data processing	427,625	452,568
Dues and assessments	699,135	640,490
Human resource and administration	266,234	222,449
Maintenance, supplies and security	460,913	478,633
Member relations and community support	113,803	171,121
Premises, occupancy and office	1,091,805	1,065,286
Professional fees and insurance	707,163	501,600
Salaries and benefits	5,826,991	5,558,896
	<u>\$ 10,371,931</u>	<u>\$ 9,713,084</u>

19. Related party transactions

The Credit Union's related parties include key management, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management, post-employment benefit plans for the Credit Union's employees and others as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24 *Related Party Disclosures*.

	<u>2016</u>	<u>2015</u>
Compensation		
Salaries and other short-term employee benefits	\$ 580,760	\$ 552,739
Total pension and other post-employment benefits	\$ 115,193	\$ 203,575
Loans and leases to key management personnel		
Aggregate value of loans and leases advanced	\$ 1,672,891	\$ 2,088,907
Interest received on loans and leases advanced	\$ 39,925	\$ 40,354
Aggregate value of un-advanced loans and leases	\$ 599,093	\$ 547,026

The Credit Union's policy for lending to key management personnel is that all such loans and leases were granted in accordance with normal lending terms.

	<u>2016</u>	<u>2015</u>
Deposits from key management personnel		
Aggregate value of term and savings deposits	\$ 1,096,803	\$ 1,402,706
Total interest paid on term and saving deposits	\$ 11,153	\$ 9,224

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted in accordance with the same conditions which apply to Members for each type of deposit.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

20. Financial instrument classification and fair value

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified, is determined based on the lowest level of significant input to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

The only financial instruments carried at fair value were Level 2 derivative financial instruments.

There were no transfers between Level 1 and 2 for the years ended December 31, 2016 and 2015.

The Credit Union has considered whether its investments have incurred a significant or prolonged decline in their fair market value and it has determined that there is no objective evidence of impairment of its investments.

21. Financial instrument risk management

General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives quarterly reports from the Credit Union's Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

21. Financial instrument risk management (continued)

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors reviews and updates the credit risk policy annually. The maximum exposure of the Credit Union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the statement of financial position.

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 indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the Credit Union due to its primary service area being Vernon BC and surrounding areas.

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

21. Financial instrument risk management (continued)

Credit risk (continued)

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is \$nil (2015 - \$nil).

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity risk

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

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties. The Financial Institutions Act specifies that a minimum liquidity ratio of 8% must be maintained.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;
- Monitoring the maturity profiles of financial assets and liabilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements at year end.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

21. Financial instrument risk management (continued)

Liquidity risk (continued)

As at December 31, the position of the Credit Union is as follows:

	2016 Maximum exposure	2015 Maximum exposure
Qualifying liquid assets on hand	\$ 31,364,539	\$ 21,635,317
Total liquidity requirement 8% minimum	<u>(24,014,706)</u>	<u>(21,336,924)</u>
Excess liquidity – actual less requirement	<u>\$ 7,349,833</u>	<u>\$ 298,393</u>
	<u>2016</u>	<u>2015</u>
Total cash and cash equivalents	\$ 22,131,864	\$ 17,694,475
Total term deposits and accrued interest	<u>22,527,564</u>	<u>19,958,085</u>
Total liquid assets on hand	<u>44,659,428</u>	<u>37,652,560</u>
Total liquidity requirement 8%	<u>(24,014,706)</u>	<u>(21,336,924)</u>
Excess liquidity (including non-qualifying assets)	<u>\$ 20,644,722</u>	<u>\$ 16,315,636</u>
	<u>2016</u>	<u>2015</u>
Total liquidity ratio (including non-qualifying assets)	<u>14.9%</u>	<u>14.1%</u>

The maturities of liabilities are shown below under market risk. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Credit Union segregates market risk into two categories: fair value risk and interest rate risk. The Credit Union is not significantly exposed to currency risk or other price risk.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

21. Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments. At December 31, 2016, the Credit Union had outstanding interest rate swap contracts in the notional principal amount of \$75 million, \$20 million of this being in forward starting agreements (2015 - \$30,000,000) maturing at various times through to 2020 and 2019, respectively. As at December 31, 2016, the interest rate swaps have a fair market value of \$1,349,469 (2015 - \$2,518,969). Interest rate swaps involve the exchange of interest flows between two parties on a specified notional principal amount for a pre-determined period at agreed upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure. The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off balance sheet instruments scheduled to re-price on particular dates. The following table details the Credit Union's exposure to interest rate risk.

Maturity dates substantially coincide with interest adjustment dates. Amounts that are not interest sensitive are grouped together, regardless of maturity.

The table below does not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual date.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

21. Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk (continued)

		Interest sensitive balances in \$000's					
	Average Rates	Within 3 Months	4 months to 1 year	Over 1 Year	Not interest sensitive		Total
Assets							
Cash and cash equivalents	0.63%	\$ 17,510	\$ -	\$ 4,039	\$ 583	\$	22,132
Loans	3.71%	96,969	33,419	136,858	(362)		266,884
Other	0.93%	1,543	4,238	16,549	12,296		34,626
		<u>116,022</u>	<u>37,657</u>	<u>157,446</u>	<u>12,517</u>		<u>323,642</u>
Liabilities							
Deposits	0.88%	65,916	54,427	47,381	131,828		299,552
Other	0.00%	-	-	-	932		932
		<u>69,516</u>	<u>54,427</u>	<u>47,381</u>	<u>132,760</u>		<u>300,484</u>
Balance sheet mismatch		50,106	(16,770)	110,065	(120,243)		23,158
Derivatives		<u>(45,000)</u>	<u>-</u>	<u>45,000</u>	<u>-</u>		<u>-</u>
Interest sensitivity position 2016		<u>\$ 5,106</u>	<u>\$ (16,770)</u>	<u>\$ 155,065</u>	<u>\$ (120,243)</u>	\$	<u>23,158</u>
Interest sensitivity position 2015		\$ 16,297	\$ 10,235	\$ 100,157	\$ (103,433)	\$	23,256

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a Credit Union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in a decrease to net earnings of \$444,000 while a decrease in interest rates of 1% could result in an increase to net earnings of \$593,000.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

21. Financial instrument risk management (continued)

Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Credit Union's foreign exchange risk is related to United States dollar deposits and loans denominated in United States dollars. Foreign currency changes are continually monitored by the investment committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to 5% in U.S. funds.

For the year ended December 31, 2016, the Credit Union's exposure to foreign exchange risk is within policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Equity risk

The Credit Union's investment policy allows investments in the following categories:

Central1 Credit Union shares and deposits, equity shares, assets/liability hedges, mortgage backed securities, subsidiaries, real property, bonds, bankers' acceptances, and commercial paper. There are no limits to investment to Central1 investments, and hedges; all other investments are limited to 5% of total assets.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

22. Capital management

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

In the management of capital, the Credit Union included retained earnings, accumulated other comprehensive income, and equity shares totaling \$23,157,507 (2015 - \$23,255,568).

The Credit Union is required under provincial legislation to maintain a minimum capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

The Credit Union's current capital base is equal to 18.86% (2015 – 17.87%) of the total value of risk-weighted assets.

The Credit Union employs a Capital Management Plan and a Capital Appreciation Plan that are reviewed by management and the Board of Directors. The Capital Appreciation Plan forecasts the Credit Union's capital position over a five year period.

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, dividend/patronage rebate policy and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the Credit Union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2016.

Management will continue to develop business plans targeting capital adequacy ratio which exceed the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets.

Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2016

23. Commitments

Member loans

The Credit Union has the following commitments to its members at the year-end date on account of loans and unused lines of credit:

Unadvanced loans	\$ 7,319,644
Unused lines of credit	\$ 49,281,684

Contractual obligations

The Credit Union leases land and building for their Armstrong, Okanagan Landing and Peachland Branches at annual rentals of \$60,480, \$59,535 and \$12,600 respectively with no inflation adjustments. The leases expire for Armstrong Branch in 2021, for Okanagan Landing Branch in 2017, and for Peachland Branch in 2027.

Off balance sheet

Funds under administration

Off balance sheet funds under administration by the Credit Union is comprised of a loan that has been syndicated and is administered in the capacity as an agent. Off balance sheet funds are not included in the balance sheet and the balance as at year end is as follows:

	<u>2016</u>	<u>2015</u>
Syndicated loans	<u>\$ 3,642,352</u>	<u>\$ 3,823,878</u>

Letters of credit

In the normal course of business, the Credit Union enters into various off balance sheet commitments such as letters of credit. Letters of credit are not reflected on the balance sheet. At December 31, 2016, the Credit Union has outstanding letters of credit on behalf of members in the amount of \$524,000 (2015 - \$588,903). These letters of credit have various levels of security.

Data processing services

The Credit Union is committed to acquiring online data processing services until December 31, 2020 at an approximate cost of \$240,000 per year. Data processing charges are based on the level of equipment and services utilized and on the number of Credit Union members.

24. Post reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

Corporate Governance

Board of Directors

The Board of Directors of VantageOne Credit Union is comprised of 7 elected representatives. All have a professional or business background including financial, accounting, engineering, governance and Enterprise Wide Risk Management that contributes significant expertise at the board table.

All of VantageOne's directors participate in the national system's Credit Union Director Achievement (CUDA) program. In addition, all directors have opportunities to attend conferences, workshops and take courses to enhance the knowledge and expertise in areas of governance.

Terms of Office



Cheryl Turcotte

Chairperson
2016 – 2019
Director Since 2012



Jason Gilbert

Vice-Chair
2015 – 2018
Director Since 2012



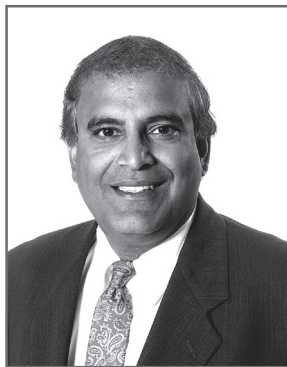
Simo Korpisto

Executive Director
2014–2017
Director Since 1990



Millie Barker

Director
2015 – 2018
Director Since 2006



Akbal Mund

Director
2014 – 2017
Director Since 2014



Dennis Mori

Director
2016 – 2019
Director Since 2004



Bruce Acton

Director
2013 – 2016
Resigned October, 2016

Committees

Each of VantageOne's committees has its own terms of reference and workplan. Committees are run as Committee of the Whole with the exception of the Executive and Nominating committees.

Executive Committee

10 Meetings

Cheryl Turcotte, Chairperson

Jason Gilbert, Vice-Chairperson

Simo Korpisto, Executive Director

The Executive Committee is the delegated authority of the Board of Directors between board meetings and monitor and act on urgent items between board meetings. Their mandate is to oversee the composition of the board, as well as appoint and monitor the performance and compensation of the CEO.

Conduct Review Committee

4 Meetings

Simo Korpisto, Chairperson

The Conduct Review Committee is responsible for establishing policies and procedures to address conflict of interest, standards of conduct and to maintain sensitive information confidential.

Nominating & Board Development Committee

2 Meetings

Dennis Mori, Chairperson

Jason Gilbert, Director

Millie Barker, Director

Cheryl Turcotte, Director

The Nominating Committee oversees the director election process, including ensuring that qualified candidates are nominated for director positions.

Audit Committee

6 Meetings

Cheryl Turcotte, Chairperson

The Audit Committee's responsibilities include oversight of the activities of the external auditor, assessment of accounting policies and the adequacy of internal controls. In addition the oversight of ERM which include ensuring the organization has effective risk management processes in place.

Investment & Lending Committee

5 Meetings

Simo Korpisto, Chairperson

Glenn Benischek, (Management)*

The Investment & Lending Committee is responsible for ensuring there is an appropriate, prudent policy to govern the employment of funds entrusted to the organization and to oversee the employment of those funds.

*The CEO is a Voting Officer Member of the Investment & Lending Committee.

Remuneration

VantageOne Credit Union provides directors with the following compensation:

- Board Meetings - \$225/Chairman, \$200/Vice-Chairman, \$175/Executive Director, and \$150/Director
- \$1,500 Basic Remuneration
- Annual Fees Paid: Board Chair \$3,500, Vice-Chair \$2,500, Executive \$2,000, Audit Committee Chair \$700, Investment & Lending Committee Chair \$700
- Reimbursement of expenses including travel, accommodation, parking, meals for meetings, training and for expenses related to approved representation of the credit union.
- In 2016 there was a total of 13 board meetings and 30 committee meetings as well as the AGM.

Section 11.26 of the Credit Union Rules states that the remuneration, if any, of the Directors in relation to their service as Directors may be established, from time to time, by the Board of Directors.

For the fiscal year 2016, the total expense for VantageOne Credit Union Directors was \$53,583. The expense for each director is summarized alongside.

Cheryl Turcotte **Chairperson**

Director Remuneration
\$10,383

Training, Travel & Expenses
\$5,652

Jason Gilbert **Vice-Chairperson**

Director Remuneration
\$9,025

Training, Travel & Expenses
\$974

Simo Korpisto **Executive Director**

Director Remuneration
\$5,350

Training, Travel & Expenses
\$1,149

Bruce Acton **Director**

Director Remuneration
\$4,933

Training, Travel & Expenses
\$1,649

Millie Barker **Director**

Director Remuneration
\$4,925

Training, Travel & Expenses
\$1,049

Dennis Mori **Director**

Director Remuneration
\$3,850

Training, Travel & Expenses
\$520

Akbal Mund **Director**

Director Remuneration
\$3,800

Training, Travel & Expenses
\$324

Director Attendance (*Attended / Required*)

Directors	Board & AGM Meeting	Executive Committee	Conduct Review Committee	Investment & Lending Committee	Audit Committee	Nominating Committee	Board Development Committee
Bruce Acton (resigned October, 2016)	8/9	4/4	4/4	4/4	3/4	1/1	2/2
Millie Barker	13/13		3/4	4/5	5/6	2/2	2/3
Jason Gilbert	12/13	10/10	4/4	4/5	6/6	2/2	3/3
Simo Korpisto	10/13	5/5	2/4	4/5	5/6	1/1	1/3
Dennis Mori	9/13		2/4	3/5	4/6	1/1	1/3
Akbal Mund	9/13		3/4	2/5	3/6	0/1	2/3
Chery Turcotte	12/13	10/10	4/4	5/5	6/6	1/1	3/3

Senior Management Compensation

As a part of improved governance reporting and communication to members this section outlines the compensation philosophy for Senior Managers of VantageOne Credit Union and the aggregate direct salaries paid to our senior managers.

Organization Structure

The Board of Directors is responsible for governing the direction of VantageOne Credit Union. A key part of this is the hiring of a CEO who in turn is responsible for hiring the Senior Management Team for the organization. Given the complexity of our organization, our senior management team consists of our Chief Executive Officer, Chief Financial Officer, Commercial & Credit Manager, Marketing & Customer Experience Manager and Human Resource Manager. Under the direction of the CEO this team is responsible for executing strategy approved by the board of directors and managing the day to day activities of the credit union.

Compensation Philosophy

Our compensation and benefit strategy is to provide competitive, cost effective benefits that will help to attract and retain employees.

VantageOne intends to maintain our employee compensation program in a way that will help us attract the necessary talent we need to grow and further the strategic interests of our business. We will provide a compensation program that will be attractive and provide talented employees with good reason for remaining with the VantageOne and continuing in their efforts to improve the value to the organization and the community we serve

In practical application, our philosophy is to provide direct compensation for senior managers in the mid-range of the market for these positions in the Canadian Credit Union System while also reflecting our local market conditions.

Direct Compensation Disclosure

The total direct compensation (salary and incentives, if any) provided to our senior managers is \$559,711. We report that all Senior Managers are at or below the mid-range of the Canadian Credit Union market for their positions.

Who we are

We are a Credit Union dedicated to the financial well-being of our members, clients, employees and communities. Part of what's extraordinary about VantageOne is that while we offer traditional banking and borrowing solutions, we have also strategically diversified our services in ways to meet our members' expanding financial needs.

At VantageOne you *Experience More!*

What we do

Provide financial
ability

How we do it

Our values drive our behaviours:
pride, integrity, enthusiasm,
service innovation

Why we do it

We truly care about
our members

 **VantageOne**
CREDIT UNION
250-545-9251 / 1-888-339-8328

Commercial Banking
Consumer Banking

 **VantageOne**
LEASING INC.
250-260-4527

Equipment Leasing

 **VantageOne**
FINANCIAL CORP.
250-260-4513

Wealth Management

 **VantageOne**
REALTY INC.
250-260-4549

Real Estate



Armstrong | Arrow Lake | Okanagan Landing | North Vernon | Peachland | Vernon Main

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