



2017 Annual Report 

Financial ability with a human touch.

Consumer Banking | Commercial Banking | Equipment Leasing | Wealth Management | Real Estate





Message from the Board Chair

Generally, I wait for spring before I start my message to our members and community; however, this year it surprised me as spring has been uncharacteristically late. The past year has been about *'change'*. We have had a year of many changes and what we have discovered, but actually knew already, is that some of us aren't particularly fond of change. You can count me in that group. However, my previous training and schooling in accounting has always been consistently adamant that change is a necessary component for any business. In this competitive world we need to keep ahead of the competition so that we can remain viable and contribute value to our community. Our senior management, in concert with our staff, have been working through changes in personnel functions and duties, technology changes and business hour changes to name a few, all of which can affect our members. Change is needed to ensure our staff are meeting the ever-changing needs of our members, the impact of technology on our organization and to address changing traffic and visits to our branches.

The question is, *What impact have these changes made?* Our CEO is reporting on our past year results, and as a board, we are confident that the changes are resulting in positive outcomes and are performing as we had hoped. We will continue to monitor results and the impact of all changes made to ensure that we are on the right track. As we continue to grow, more change may become necessary and we must be ever mindful that our organization is not static and that we must remain on alert and always ready to change what is not working.

One of the big changes in 2017 was the re-introduction of dividends to members and the Great Community Give Away Program. The reintroduction of dividends was an important step to ensure you as members get value out of our organization. You will see for 2018 we increased our dividends back to members and will remain committed to ensuring we provide value back to our members.

The Great Community Give Away program allowed us to give back to our communities in 2017. We invested \$100,000 in the North Okanagan and \$10,000 in the District of Peachland. We had significant interest in our program and were able to help 11 organizations in the North Okanagan and 3 in the District of Peachland. Our Grand Prize winner of the program was a \$50,000 grant to the North Okanagan Youth and Family Services Society, who do a tremendous job of supporting families in the North Okanagan and needed funds to expand their facility. Overall, members of VantageOne can be proud of the support we have been able to provide in our communities!

For things such as technological change, our staff and service are excellent and will ensure that our members experience technology with a human touch so that you are able to embrace it with minimum stress. Stress free is great and though we may not have achieved that yet, we believe we have come close and will strive to get even closer.

Fortunately, we have patient and understanding staff and members and eventually the changes will become the new *'norm'*. On behalf of the entire board, we thank all of you for enduring these sometimes difficult changes. A great deal of thought and analysis goes into every decision and the board's top priority is to ensure that the credit union as a whole will benefit, if not in the short term, most certainly in the long term. Many thanks to all of our members for your continued loyalty and confidence in your credit union, its staff and management.

Cheryl Turcotte

Board Chair



Message from the Chief Executive Officer

2017 was another very busy year for your credit union. In this busy time our theme was focus – focus on business results, focus on our people and processes and focus on the future. I am pleased to provide an update on these three important areas.

Focus on Business Results

The Board approved three focus areas for the organization through our strategic plan—improve the efficiency of the credit union, grow our businesses and ensure all our subsidiary organizations grow and contribute to our success. We achieved the last two goals in 2017 and made significant progress on the first one, which we are still working towards.

The unusually low rate environment and increased competition in financial services has put pressures on financial margins in the banking industry. As a result, we are focused on our efficiency and managing our costs. 2017 was a year of putting in place process improvements to ensure we achieve our goals over the next few years. Although we were behind in meeting our goal for 2017, at the start of 2018 we are seeing positive results as we trend in the right direction.

2017 was a strong year for business growth. Our assets grew 9.7% (\$31 million) to \$354 million and was balanced with a gain of \$31 million in both deposit and loan portfolios. Our deposit portfolio grew over 10% to \$331 million and our loan portfolio grew over 11% to \$298 million. Overall, this growth resulted in earnings before taxes of just over \$1 million, up 9% over last year. Our capital position, a key strength measure of a financial institution, remains strong at over 17%— more than double the minimum regulatory requirements.

A key initiative to achieving our results included opening a branch in the District of Peachland, a small but growing community in the Central Okanagan. The branch opened in early summer 2017 and has contributed significantly to our deposit growth last year. We appreciate all the work our staff have done to open this location and our new team in Peachland for successfully launching us into the community.

All of our subsidiary businesses contributed to our success. Our equipment leasing business showed significant growth in lease financing as our economy remains strong in Canada. Our wealth management division continues to build our assets under management—now exceeding \$100 million—by providing valuable financial and insurance advice and direction to our members. Finally, our real estate subsidiary had strong commission revenues for the year and is benefiting from a robust real estate market in our region. All subsidiaries are contributing profitably to our organization.

Reporting on income taxes and net earnings is more challenging as we must follow International Financial Reporting Standards (IFRS), which have imposed certain rules making our financial statements more difficult to quickly understand. It looks like we paid 50% in taxes; however, this is an accounting of the tax impact of activity that occurred both in the credit union operation and the Other Comprehensive Income (OCI) statements. The OCI reports unrealized gains and losses in financial instruments and the tax implications of these unrealized gains or losses. It's important to note that the gains and losses in the OCI are “unrealized”, we never sold the items or had a loss; however, our taxing authority wants us to calculate if we would have made a gain or loss and taxes financial institutions on these items and gives credit when there are unrealized losses. With interest rates moving up we had “unrealized” losses in our instruments, causing a tax credit in the OCI statement and a tax debit in the statement of earnings. This is the mandate we must follow for IFRS reporting, which shows we paid 50% tax when in fact we got a credit under the OCI statement. The result is net earnings reported are 50% lower than earnings before taxes. In order for members to quickly assess the profitability of the credit union operations, we encourage you to focus on the earnings before income taxes as this number reflects credit union operations and isn't impacted by the OCI statement activity.

Message from the Chief Executive Officer, Continued

Focus on People and Processes

Our people are key to our success as we move forward. To meet the challenges the future holds, we re-structured our organization—providing new leadership opportunities and branch staffing structure. We are now working to improve our overall training and development system to ensure we leverage the talents and skills of our people and prepare our teams for the future. With more and more technology being implemented in our industry, we see the jobs of our people changing and we are now structured to meet these changes.

Everything our people do is a business process. Over the past couple of years, we spent a significant amount of time documenting and analyzing our business processes. Our challenge is how can we improve service to members and make the process the most efficient as possible, a challenge in a world where regulatory authorities continue to push more expectations on us. In 2017, we were able to leverage our learning from our business process work and have implemented a business process software system where all our staff can find how to do things. Our goal is to provide strong, consistent, efficient service to all members and ensure we are managing the efficiency of our organization.

Focus on the Future

As we look into the future, we see more technology impacting our business. Our vision is to provide “*Service and Advice with a Human Touch in a Technology Driven World*”. What this means is simply providing you “*Financial Ability with a Human Touch*”, our new tag line. This means providing you the financial ability to achieve your goals while recognizing that our people are our difference, especially for complex financial transactions. As we work on new processes, we will be asking ourselves “How can we keep the human touch?” rather than just moving everything to digital. So, rest assured technology will continue to impact our industry; however, we remain committed to being there with the human touch to help you achieve your financial goals!

Thank You to Our Team and Members

In closing, I would like to thank our teams for working with us through all our changes over the past year. We realize there have been lots of changes; however, you have stepped up and delivered! I would like to thank the board for their continued and dedicated leadership of the organization. Finally, thank you to all our members! You are the reason we are here and we will continue to stay focused on delivering you *Financial Ability with a Human Touch*.

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, 2017, 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, 2017, 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 28, 2018

Grant Thornton LLP
Chartered Professional Accountants

VantageOne Credit Union

Consolidated statement of financial position

December 31

2017

2016

Assets

Cash and cash equivalents (Note 5)	\$ 20,057,466	\$ 22,131,864
Receivables and other assets	606,559	675,823
Income taxes recoverable	-	509,190
Investments (Note 6)	26,408,274	23,800,354
Derivative financial instruments (Note 14)	-	1,349,469
Loans (Note 7)	298,206,296	266,884,033
Deferred income tax (Note 13)	201,000	269,000
Property and equipment (Note 9)	9,448,995	7,790,583
Accrued pension asset (Note 12)	-	232,100

Total assets

\$ 354,928,590 **\$ 323,642,416**

Liabilities

Deposits (Note 11)	\$ 331,070,656	\$ 299,552,070
Payables and other liabilities	1,028,093	890,060
Income taxes payable (Note 13)	14,464	-
Derivative financial instruments (Note 14)	366,307	-
Members' shares (Note 16)	40,490	42,779
Accrued pension liability (Note 12)	105,700	-

Total liabilities

332,625,710 **300,484,909**

Members' equity

Members' shares (Note 16)	833,668	841,947
Retained earnings	22,298,703	21,758,579
Accumulated other comprehensive (loss) income	(829,491)	556,981
	22,302,880	23,157,507

\$ 354,928,590 **\$ 323,642,416**

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

2017

2016

Financial income

Loans	\$ 9,593,290	\$ 8,991,800
Cash and cash equivalents and investments	1,387,784	1,594,456
	<u>10,981,074</u>	<u>10,586,256</u>

Financial expense

Deposits	2,659,378	2,683,219
Share dividends	101,948	44,060
Provision for credit losses (Note 8)	29,681	155,602
	<u>2,791,007</u>	<u>2,882,881</u>

Financial margin

8,190,067 7,703,375

Other income (Note 17)

3,922,433 3,631,526

Operating margin

12,112,500 11,334,901

Operating expenses (Note 18)

11,062,020 10,371,931

Earnings before income taxes

1,050,480 962,970

Income taxes (Note 13)

Current income tax	510,356	62,089
Deferred income tax	-	54,000
	<u>510,356</u>	<u>116,089</u>

Net earnings

540,124 846,881

Other comprehensive loss, net of tax

Change in unrealized loss on cash flow hedges, net of recovery of \$427,295 (2016 - \$316,719)	(1,216,146)	(901,431)
Change in fair value of Central 1 shares, net of deferred tax of \$68,000	184,574	-
Unrealized actuarial loss on defined benefit pension plan (Note 12)	<u>(354,900)</u>	<u>(18,000)</u>

Comprehensive loss

\$ (846,348) \$ (72,550)

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 (loss)	Total
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 income				
Change in unrealized loss on cash flow hedges	-	-	(1,218,150)	(1,218,150)
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
Net earnings	-	540,124	-	540,124
Change in members' shares, net	(8,279)	-	-	(8,279)
Other comprehensive loss				
Change in unrealized loss on cash flow hedges	-	-	(1,643,442)	(1,643,442)
Income tax recovery on unrealized loss on cash flow hedges	-	-	427,295	427,295
Change in fair value of Central 1 shares	-	-	252,575	252,575
Deferred income taxes on change in fair value of Central 1 shares	-	-	(68,000)	(68,000)
Unrealized actuarial loss on defined benefit pension plan	-	-	(354,900)	(354,900)
Balance on December 31, 2017	\$ 833,668	\$ 22,298,703	\$ (829,491)	\$ 22,302,880

See accompanying notes to the consolidated financial statements

VantageOne Credit Union

Consolidated statement of cash flows

Year ended December 31

2017

2016

Increase (decrease) in cash and cash equivalents

Operating activities

Earnings before income taxes	\$ 1,050,480	\$ 962,970
Adjustments for non-cash items		
Provision for credit losses	29,681	155,602
Depreciation	693,057	618,590
Ineffective portion of loss (gain) on derivatives	72,334	(48,650)
Loss on disposal of property and equipment	2,482	58,374
Change in interest accruals	69,264	54,946
Receivables and other assets	56,749	23,811
Payables and other liabilities	120,933	105,379
	<u>2,094,980</u>	<u>1,931,022</u>

Change in member activities

Change in loans, net of repayments	(41,861,055)	(37,104,221)
Change in deposits, net of withdrawals	34,172,706	35,981,041

Cash flows related to interest, dividends and income taxes

Interest received on loans	10,474,079	11,008,845
Interest received on investments	1,181,141	1,451,651
Interest paid on deposits	(2,637,661)	(2,573,279)
Income taxes recovered (paid)	440,593	(213,071)
Dividends received on investments	45,911	40,719
	<u>3,910,694</u>	<u>10,522,707</u>

Financing activities

Change in members' shares, net	(8,279)	(25,511)
Dividends paid to members	(40,466)	-
	<u>(48,745)</u>	<u>(25,511)</u>

Investing activities

Change in investments	(3,582,397)	(4,151,175)
Purchase of property and equipment	(2,353,950)	(1,908,632)
	<u>(5,936,347)</u>	<u>(6,059,807)</u>

Net (decrease) increase in cash and cash equivalents (2,074,398) 4,437,389

Cash and cash equivalents, beginning of year 22,131,864 17,694,475

Cash and cash equivalents, end of year \$ 20,057,466 \$ 22,131,864

Non-cash transactions

Change in fair value of Central 1 shares	\$ 252,575	\$ -
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See accompanying notes to the consolidated financial statements

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

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 and Peachland. 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 28, 2018.

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, 2017. 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, 2017

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, 2017

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (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, 2017

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.

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.

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.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

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. Share investments whose fair value can be estimated reliably are measured at fair value with any changes to fair value recorded in other comprehensive income. 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.

Hedges

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.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Hedges (continued)

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, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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 January 1, 2018, 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 15 Revenue from Contracts with Customers will replace IAS 18 *Revenue*, IAS 11 Construction Contracts and some revenue related interpretations. IFRS 15 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, and improves disclosures about revenue. IFRS 15 provides more detailed guidance on contracts involving the delivery of two or more goods and services as to when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price and when to combine contracts. The Credit Union has not early adopted this standard and has determined the impact that this standard will have on the Credit Union's consolidated financial statements is immaterial.
- IFRS 16 Leases: IFRS 16 *Leases* will replace IAS 17 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments. The IASB has set the effective date to annual period beginning on or after January 1, 2019. Early adoption of the standard is permitted. The Credit Union has not early adopted this standard and is in the process of evaluating the impact of the new standard.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

3. Summary of significant accounting policies (continued)

Standards and interpretations not yet effective (continued)

- IFRS 9 Financial Instruments: IFRS 9 *Financial Instruments* is the first of a multi-phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. It addresses the classification, measurement and derecognition of financial assets and financial liabilities.

IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortized cost and those measured at fair value. Classification is made at the time the financial asset is initially recognised when the entity becomes a party to the contractual provisions of the instrument. The transition guidance is complex and mainly requires retrospective application.

Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward unchanged to IFRS 9. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the issuing entity's own credit risk to be presented in other comprehensive income. An exception to the new approach is made where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss.

The requirements in IAS 39 related to derecognition of financial assets and financial liabilities have been incorporated unchanged into the new version of IFRS 9.

IFRS 9 does not require the restatement of comparative-period non-consolidated financial statements for the initial application of the classification and measurement requirements, but instead requires modified disclosures on transition.

The Credit Union has not early adopted this standard and has determined the impact the standard will have on the Credit Union's consolidated financial statements is immaterial. The above assessment is preliminary because not all transition work has been finalized. The actual impact of adopting IFRS 9 on January 1, 2018 may change because IFRS 9 will require the Credit Union to revise its accounting processes and internal controls and these changes are not yet complete. The new systems and associated controls in place have not been operational for a more extended period and the Credit Union has not finalized the testing and assessment of controls over the operations and changes to its governance framework. The Credit Union is refining and finalizing its models for expected loss calculations and the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Credit Union finalizes its first consolidated financial statements that include the date of initial application.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

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 8.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2017, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 9. Actual results, however, may vary due to technical obsolescence, particularly for software and IT equipment.

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

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, 2017 is 1.35% (2016 – 1.03%).

	<u>2017</u>	<u>2016</u>
Cash and current accounts	\$ 8,131,696	\$ 14,859,566
Callable term deposits and accrued interest	<u>11,925,770</u>	<u>7,272,298</u>
	<u>\$ 20,057,466</u>	<u>\$ 22,131,864</u>

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

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>2017</u>	<u>2016</u>
Term deposits and accrued interest		
Non-callable or original maturities greater than three months	\$ 24,829,445	\$ 22,527,564
Shares		
CEDA	10	10
Central 1 Credit Union class A shares	1,185,410	1,171,047
Central 1 Credit Union class E shares	252,676	-
Central 1 accrued dividends	39,000	-
CUPP Services Ltd.	101,475	101,475
Stabilization Central Credit Union	258	258
	<u>\$ 26,408,274</u>	<u>\$ 23,800,354</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.

Certain 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. Other Central 1 shares have been recorded at their fair value as a result of during the year Central 1's board approved the future redemption of approximately 25% of the class E shares at a redemption value of \$100 per share, the resulting adjustment to fair value and the corresponding deferred tax effect has been recorded in other comprehensive income.

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

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

7. Loans

	<u>2017</u>	<u>2016</u>
Personal loans		
Residential mortgages	\$ 210,810,032	\$ 186,714,118
Other	6,036,087	6,097,435
Commercial loans		
Mortgages	60,057,233	56,264,673
Other	6,837,833	6,157,246
Leases	14,464,436	11,949,942
	<u>298,205,621</u>	<u>267,183,414</u>
Accrued interest receivable	669,647	705,316
Deferred loan fees	(36,953)	(58,012)
	<u>298,838,815</u>	<u>267,830,718</u>
Allowance for impaired loans (Note 8)	<u>(632,019)</u>	<u>(946,685)</u>
Net loans to members	<u>\$ 298,206,296</u>	<u>\$ 266,884,033</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, 2017 was 3.25% (2016 - 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, 2017 ranges from 1.00% to 15.25% (2016 - 1.00% to 15.25%). The interest rate offered on fixed rate leases being advanced at December 31, 2017 range from 4.50% to 15.09% (2016 - 4.50% to 15.09%).

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, 2017

7. Loans (continued)

Average yields to maturity

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

	<u>2017</u>		<u>2016</u>	
	<u>Principal</u>	<u>Yield</u>	<u>Principal</u>	<u>Yield</u>
Variable rate	\$ 86,398,767	3.86 %	\$ 85,411,042	3.89 %
Fixed rate due less than one year	43,231,004	3.83 %	44,977,518	4.01 %
Fixed rate due between one and five years	<u>168,575,850</u>	3.44 %	<u>136,794,854</u>	3.51 %
	<u>\$ 298,205,621</u>	3.62 %	<u>\$ 267,183,414</u>	3.71 %

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>2017</u>	<u>2016</u>
Unsecured loans	\$ 6,452,147	\$ 5,584,262
Loans, secured by real estate or insured by government	275,023,510	247,208,327
Loans, otherwise secured	1,852,375	2,205,105
Loans, secured by deposit and government securities	413,153	235,778
Leases	<u>14,464,436</u>	<u>11,949,942</u>
	<u>\$ 298,205,621</u>	<u>\$ 267,183,414</u>

Fair value

The fair value of member loans and leases at December 31, 2017 was \$298,346,000 (2016 - \$268,881,000).

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, 2017

8. Allowance for impaired loans	<u>2017</u>	<u>2016</u>
Collective allowance	\$ 134,780	\$ 123,703
Specific allowance	<u>497,239</u>	<u>822,981</u>
Total allowance	<u>\$ 632,019</u>	<u>\$ 946,684</u>

Change in specific allowance and collective allowance for impairment:

	Beginning balance	Provision	(Write-offs net of recoveries)	<u>2017</u> Ending balance	2016 Ending balance
Residential mortgages	\$ 128,805	\$ 75,502	\$ (34,652)	\$ 169,655	\$ 128,805
Commercial mortgages	640,782	52,970	(413,485)	280,267	640,782
Leases	<u>177,097</u>	<u>5,000</u>	<u>-</u>	<u>182,097</u>	<u>177,097</u>
	<u>\$ 946,684</u>	<u>\$ 133,472</u>	<u>\$ (448,137)</u>	<u>\$ 632,019</u>	<u>\$ 946,684</u>

	<u>2017</u>	<u>2016</u>
Percentage of total loans and accrued interest	<u>0.21%</u>	<u>0.35%</u>

In addition to the adjustments to the above noted provisions \$344,348 (2016 – \$116,428) was recovered from loans and leases previously written-off.

Impaired loans and related allowances

	Loan balance and accrued interest	Specific allowance	<u>2017</u> Carrying amount	2016 Carrying amount
Residential mortgages	\$ 310,959	\$ 34,874	\$ 276,085	\$ 5,542
Commercial mortgages	1,316,286	280,267	1,036,019	1,427,508
Leases	<u>205,948</u>	<u>182,098</u>	<u>23,850</u>	<u>32,852</u>
	<u>\$ 1,833,193</u>	<u>\$ 497,239</u>	<u>\$ 1,335,954</u>	<u>\$ 1,465,902</u>

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

8. Allowance for impaired loans (continued)

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

	2017		2016	
	Carrying value	Individual specific provision	Carrying value	Individual specific provision
Period of delinquency				
Less than 30 days	\$ 1,427,980	\$ -	\$ 1,110,433	\$ -
30 to 90 days	328,661	-	246,190	-
Over 90 days	1,834,737	497,239	2,524,530	817,879
Total loans in arrears	3,591,378	497,239	3,881,153	817,879
Total loans not in arrears	294,614,243	-	263,302,261	5,102
	<u>\$ 298,205,621</u>	<u>\$ 497,239</u>	<u>\$ 267,183,414</u>	<u>\$ 822,981</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.

	2017			
	Residential Mortgage	Personal	Commercial	Total
Balance at December 31, 2017	<u>\$ 210,542,703</u>	<u>\$ 6,036,087</u>	<u>\$ 81,359,502</u>	<u>\$ 297,938,292</u>
	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>

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

9. Property and equipment

	Land	Building and renovations	Leasehold improvement	Office equipment and computers	Furniture and fixtures	Total
Cost						
Balance at December 31, 2016	\$ 1,395,487	\$ 8,597,388	\$ 1,433,602	\$ 2,146,816	\$ 511,066	\$ 14,084,359
Additions	-	1,110,484	502,742	689,075	51,649	2,353,950
Disposals	-	(11,629)	-	(16,577)	-	(28,206)
Balance on December 31, 2017	<u>1,395,487</u>	<u>9,696,243</u>	<u>1,936,344</u>	<u>2,819,314</u>	<u>562,715</u>	<u>16,410,103</u>
Accumulated depreciation						
Balance at December 31, 2016	-	3,866,026	653,456	1,520,388	253,906	6,293,776
Depreciation	-	235,019	83,958	342,766	31,314	693,057
Disposals	-	(10,570)	-	(15,155)	-	(25,725)
Balance on December 31, 2017	<u>\$ -</u>	<u>\$ 4,090,475</u>	<u>\$ 737,414</u>	<u>\$ 1,847,999</u>	<u>\$ 285,220</u>	<u>\$ 6,961,108</u>
Net book value						
December 31, 2017	<u>\$ 1,395,487</u>	<u>\$ 5,605,768</u>	<u>\$ 1,198,930</u>	<u>\$ 971,315</u>	<u>\$ 277,495</u>	<u>\$ 9,448,995</u>
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>

Buildings and renovations includes \$184,670 related to renovations that are currently in progress at December 31, 2017. Depreciation of these assets will commence when the renovations are complete.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

10. 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, 2017	\$ 234,129	\$ 592,599	\$ 58,800	\$ 885,528

Lease payments recognized as an expense during the period amount to \$224,606 (2016 - \$214,833). 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, 2017	\$ 5,496,920	\$ 10,061,671	\$ 157,859	\$ 201,432	\$ (1,459,621)	\$ 14,458,261

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, 2017

11. Deposits	<u>2017</u>	<u>2016</u>
Term	\$ 101,765,433	\$ 82,477,285
Demand	162,952,514	152,502,653
Registered savings plans	<u>65,147,250</u>	<u>63,449,872</u>
	329,865,197	298,429,810
 Accrued interest and dividends	 <u>1,205,459</u>	 <u>1,122,260</u>
	<u>\$ 331,070,656</u>	<u>\$ 299,552,070</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, 2017 range from 0.2% to 2.50% (2016 - 0.20% to 2.89%).

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 1.85% at December 31, 2017 (2016 - 1.95%).

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 \$2,013,788 (2016 - \$1,490,778) 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, 2017

11. Deposits (continued)

Average yields to maturity

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

	<u>2017</u>		<u>2016</u>	
	<u>Principal</u>	<u>Yield</u>	<u>Principal</u>	<u>Yield</u>
Fixed rate due less than one year	\$ 133,550,661	1.23%	\$ 121,003,922	1.26%
Fixed rate due between one and seven years	48,071,701	1.69%	47,381,205	1.81%
Non interest sensitive	<u>142,242,835</u>	<u>0.00%</u>	<u>130,044,683</u>	<u>0.00%</u>
	<u>\$ 329,825,197</u>	<u>0.84%</u>	<u>\$ 298,429,810</u>	<u>0.89%</u>

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

Fair value

The fair value of member deposits at December 31, 2017 was \$331,414,000 (2016 - \$300,011,000).

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.

12. 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 and updated to December 31, 2017 for the following actuarial assumptions.

The DBO was determined using the following actuarial assumptions:

	<u>2017</u>	<u>2016</u>
Discount rate	3.50%	4.00%
Expected rate of return on plan assets	3.50%	4.00%
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, 2017

12. 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>2017</u>	<u>2016</u>
Fair value of plan assets	\$ 4,562,200	\$ 4,301,600
Defined benefit obligation	<u>4,667,900</u>	<u>4,069,500</u>
(Deficit) surplus	<u>\$ (105,700)</u>	<u>\$ 232,100</u>

Reconciliation of change in plan assets:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets January 1	\$ 4,301,600	\$ 4,020,800
Expected investment return	172,700	169,300
Benefit payments	(102,100)	(98,800)
Employer contributions	106,700	94,800
Member contributions	25,800	26,600
Actuarial gains	<u>57,500</u>	<u>88,900</u>
Fair value of plan assets December 31	<u>\$ 4,562,200</u>	<u>\$ 4,031,600</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 \$230,200 (2016 - \$258,200).

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

	<u>2017</u>	<u>2016</u>
Retirement Security Fund	56.88%	58.91%
Large Cap Canadian Equity Fund	5.62%	5.24%
Small Cap Canadian Equity Fund	18.83%	19.14%
Non North American Equity Fund	4.42%	3.59%
US Equity Fund	<u>14.25%</u>	<u>13.12%</u>
Total plan assets	<u>100%</u>	<u>100%</u>

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

12. Accrued pension asset (liability) (continued)

Statement of financial position (continued)

Reconciliation of change in defined benefit obligation:

	<u>2017</u>	<u>2016</u>
Defined benefit obligation January 1	\$ 4,069,500	\$ 3,785,300
Interest on liabilities	165,600	161,700
Benefit payments	(102,100)	(98,800)
Contributions	25,800	26,600
Service cost	96,700	87,800
Actuarial losses	<u>412,400</u>	<u>106,900</u>
Defined benefit obligation December 31	\$ <u>4,667,900</u>	\$ <u>4,069,500</u>

Statement of comprehensive income

The charge to the income statement comprises:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 96,700	\$ 87,800
Interest on assets	(172,700)	(169,300)
Interest on liabilities	<u>165,600</u>	<u>161,700</u>
Expense	\$ <u>89,600</u>	\$ <u>80,200</u>

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

Amounts recognized in other comprehensive income:

	<u>2017</u>	<u>2016</u>
Actuarial gain on plan assets	\$ 57,500	\$ 88,900
Actuarial loss on liabilities	<u>(412,400)</u>	<u>(106,900)</u>
Amount recognized in other comprehensive loss	\$ <u>(354,900)</u>	\$ <u>(18,000)</u>

Other defined benefit plan information

Based on historical data, the Credit Union expects contributions of approximately \$130,000 to be paid for 2018.

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

13. Income taxes

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

	<u>2017</u>	<u>2016</u>
Current tax expense		
Based on current year taxable income	\$ 510,356	\$ 62,089
Deferred tax expense		
Origination and reversal of temporary differences	<u>-</u>	<u>54,000</u>
Income taxes	<u>\$ 510,356</u>	<u>\$ 116,089</u>

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

	<u>2017</u>	<u>2016</u>
Current tax		
Change in unrealized loss on derivative instruments	\$ (427,295)	\$ (316,719)
Deferred tax		
Change in fair value of Central 1 shares	<u>68,000</u>	<u>-</u>
Total tax effect of amounts recorded in other comprehensive loss	<u>\$ (359,295)</u>	<u>\$ (316,719)</u>

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26% (2016 – 26%) are as follows:

	<u>2017</u>	<u>2016</u>
Earnings before income taxes	\$ <u>1,050,480</u>	\$ <u>962,970</u>
Expected taxes based on the statutory rate	\$ 273,125	\$ 250,372
Capital cost allowance in excess of depreciation	(1,396,753)	(1,414,862)
Lease payments in excess of lease interest	1,410,573	1,129,218
Other	<u>(203,884)</u>	<u>(219,358)</u>
Total income tax expense (recovery)	83,061	(254,630)
Included in other comprehensive income	<u>427,295</u>	<u>316,719</u>
Current tax expense	<u>\$ 510,356</u>	<u>\$ 62,089</u>

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

13. Income taxes (continued)

The movement in 2017 deferred tax assets are:

	Opening Balance at January 1, 2017	Recognized in net earnings	Recognized in other comprehensive loss	Closing Balance December 31, 2017
Deferred income tax asset				
Property, equipment, and intangible assets	\$ 83,000	\$ (84,000)	\$ -	\$ (1,000)
Allowance for loan losses	49,300	(4,300)	-	45,000
Non-capital losses	194,000	-	-	194,000
Prepayment penalty reserve	3,000	(1,000)	-	2,000
Accrued pension (asset) liability	(60,300)	89,300	-	29,000
Fair value of Central 1 shares	-	-	(68,000)	(68,000)
Net deferred income tax asset	\$ 269,000	\$ -	\$ (68,000)	\$ 201,000

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

2030	\$ 76,281
2031	198,041
2032	158,648
2033	120,754
2034	84,795
2035	82,642
	<u>\$ 721,161</u>

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

14. Derivative financial instruments

As at December 31, 2017, the Credit Union had entered into interest rate swap contracts for a total of \$115 million of notional principal (\$55 million of this being in forward starting agreements). Related to the \$60 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 1.377% to 3.165% and mature from January 30, 2018 to April 26, 2022. The remaining \$55 million of forward starting swaps will replace the pre-existing contracts. These forward swaps have fixed interest rates ranging from 1.780% to 2.120% and mature from February 18, 2020 to October 5, 2021. 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, 2017

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 (2016 - \$nil).

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 \$103,482 (2016 - \$42,000).

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

17. Other income	<u>2017</u>	<u>2016</u>
Account service fees	\$ 943,445	\$ 924,863
Foreign exchange	100,512	106,894
Insurance commissions, fees and lease revenue	2,453,539	2,250,023
Loan administration fees	177,961	148,366
Loss on disposal of property and equipment	(2,482)	(58,374)
Rental income	215,758	224,368
Safety deposit rentals	33,700	35,386
	<u>\$ 3,922,433</u>	<u>\$ 3,631,526</u>

18. Operating expenses	<u>2017</u>	<u>2016</u>
Advertising	\$ 195,439	\$ 159,672
Depreciation	693,057	618,590
Data processing	479,522	427,625
Dues and assessments	744,638	699,135
Human resource and administration	315,737	266,234
Maintenance, supplies and security	577,572	460,913
Member relations and community support	-	113,803
Premises, occupancy and office	1,095,848	1,091,805
Professional fees and insurance	611,745	707,163
Salaries and benefits	6,348,462	5,826,991
	<u>\$ 11,062,020</u>	<u>\$ 10,371,931</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>2017</u>	<u>2016</u>
Compensation		
Salaries and other short-term employee benefits	\$ 578,763	\$ 580,760
Total pension and other post-employment benefits	\$ 109,983	\$ 115,193
Loans and leases to key management personnel		
Aggregate value of loans and leases advanced	\$ 2,967,407	\$ 1,672,891
Interest received on loans and leases advanced	\$ 67,987	\$ 39,925
Aggregate value of un-advanced loans and leases	\$ 470,665	\$ 599,093

(continued)

VantageOne Credit Union

Notes to the consolidated financial statements

December 31, 2017

19. Related party transactions (continued)

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>2017</u>	<u>2016</u>
Deposits from key management personnel		
Aggregate value of term and savings deposits	\$ 2,443,460	\$ 1,096,803
Total interest paid on term and saving deposits	\$ 11,841	\$ 11,153

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.

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, 2017 and 2016.

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, 2017

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 including Peachland BC.

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, 2017

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 (2016 - \$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, 2017

21. Financial instrument risk management (continued)

Liquidity risk (continued)

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

	2017 Maximum exposure	2016 Maximum exposure
Qualifying liquid assets on hand	\$ 38,718,148	\$ 31,364,539
Total liquidity requirement 8% minimum	<u>(26,531,683)</u>	<u>(24,014,706)</u>
Excess liquidity – actual less requirement	<u>\$ 12,186,465</u>	<u>\$ 7,349,833</u>
	<u>2017</u>	<u>2016</u>
Total cash and cash equivalents	\$ 20,057,466	\$ 22,131,864
Total term deposits and accrued interest	<u>24,829,446</u>	<u>22,527,564</u>
Total liquid assets on hand	<u>44,886,912</u>	<u>44,659,428</u>
Total liquidity requirement 8%	<u>(26,531,683)</u>	<u>(24,014,706)</u>
Excess liquidity (including non-qualifying assets)	<u>\$ 18,355,229</u>	<u>\$ 20,644,722</u>
	<u>2017</u>	<u>2016</u>
Total liquidity ratio (including non-qualifying assets)	<u>13.6%</u>	<u>14.9%</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, 2017

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, 2017, the Credit Union had outstanding interest rate swap contracts in the notional principal amount of \$115 million, \$55 million of this being in forward starting agreements (2016 - \$20,000,000) maturing at various times through to 2021 and 2022, respectively. As at December 31, 2017, the interest rate swaps have a fair market value liability of (\$366,607) (2016 - asset of \$1,349,469). 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, 2017

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	1.05%	\$ 6,031	\$ 11,576	\$ -	\$ 2,451	\$ 20,058	
Loans	3.61%	94,266	35,363	168,603	(25)	298,207	
Other	1.05%	3,625	5,201	16,132	11,705	36,663	
		<u>103,922</u>	<u>52,140</u>	<u>184,735</u>	<u>14,131</u>	<u>354,928</u>	
Liabilities							
Deposits	0.83%	48,686	84,864	48,072	149,449	331,071	
Other	0.00%	-	-	-	1,554	1,554	
		<u>48,686</u>	<u>84,864</u>	<u>48,072</u>	<u>151,003</u>	<u>332,625</u>	
Balance sheet mismatch		55,236	(32,724)	136,663	(136,872)	22,303	
Derivatives		<u>(35,000)</u>	<u>20,000</u>	<u>15,000</u>	<u>-</u>	<u>-</u>	
Interest sensitivity position 2017		<u>\$ 20,236</u>	<u>\$ (12,724)</u>	<u>\$ 151,663</u>	<u>\$ (136,872)</u>	<u>\$ 22,303</u>	
Interest sensitivity position 2016		\$ 5,106	\$ (16,770)	\$ 155,065	\$ (120,243)	\$ 23,158	

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 \$31,000 while a decrease in interest rates of 1% could result in an increase to net earnings of \$697,000.

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, 2017

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, 2017, 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, 2017

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 \$22,298,703 (2016 - \$23,157,507).

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 17.64% (2016 - 18.86%) 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, 2017.

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, 2017

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	\$ 5,933,665
Unused lines of credit	\$ 50,084,469

Contractual obligations

The Credit Union leases land and building for their Armstrong, Okanagan Landing and Peachland Branches at annual rentals of \$60,480, \$64,025 and \$12,600 respectively with no inflation adjustments. The leases expire for Armstrong Branch in 2021, for Okanagan Landing Branch in 2022, 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>2017</u>	<u>2016</u>
Syndicated loans	<u>\$ 3,668,981</u>	<u>\$ 3,642,352</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, 2017, the Credit Union has outstanding letters of credit on behalf of members in the amount of \$979,000 (2016 - \$524,000). 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.

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
Current Term 2016 – 2019
Director Since 2012



Akbal Mund
Vice-Chairperson
2017 – 2020
Director Since 2014



Simo Korpisto
Executive Director
2017–2019
Director Since 1990



Millie Barker
Director
2015 – 2018
Director Since 2006



Jason Gilbert
Director
2015 – 2018
Director Since 2012



Dennis Mori
Director
2016 – 2019
Director Since 2004



Wilf Mulder
Director
2017 – 2020
Director Since 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

9 Meetings

Cheryl Turcotte, Chairperson

Akbal Mund, 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

Wilf Mulder, 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 Committee

4 Meetings

Dennis Mori, Chairperson

Simo Korpisto, Director

Akbal Mund, Director

Wilf Mulder, Director

Cheryl Turcotte, Director

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

Audit Committee

7 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

Jason Gilbert, 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.

Board Development Committee

4 Meetings

Simo Korpisto, Chairperson

The Board Development Committee is responsible for ensuring the board continually develops its skills and knowledge, as well as assessing the skill and knowledge strengths and weaknesses of board members.

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

Remuneration

VantageOne Credit Union provides directors with the following compensation:

- Board Meetings - \$300/Chairman, \$275/Vice-Chairman, \$250/Executive Director, and \$225/Director
- \$1,500 Basic Remuneration
- Annual Fees Paid: Board Chair \$3,500, Vice-Chair \$2,500, Executive \$2,000, Audit Committee Chair \$750, Investment & Lending Committee Chair \$750
- Reimbursement of expenses including travel, accommodation, parking, meals for meetings, training and for expenses related to approved representation of the credit union.
- In 2017 there was a total of 12 board meetings, 33 committee meetings held, as well as the AGM.

Section 11.26 of the Credit Union Rules state 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 2017, the total expense for VantageOne Credit Union Directors was \$62,371. The expense for each director is summarized alongside.

Cheryl Turcotte
Chairperson

Director Remuneration
\$8,550

Training, Travel & Expenses
\$6,578

Millie Barker
Director

Director Remuneration
\$4,425

Training, Travel & Expenses
\$3,611

Jason Gilbert
Director

Director Remuneration
\$6,433

Training, Travel & Expenses
\$3,590

Akbal Mund
Vice-Chairperson

Director Remuneration
\$5,642

Training, Travel & Expenses
\$187

Dennis Mori
Director

Director Remuneration
\$4,950

Training, Travel & Expenses
\$3,107

Wilf Mulder
Director

Director Remuneration
\$3,550

Training, Travel & Expenses
\$3,101

Simo Korpisto
Executive Director

Director Remuneration
\$6,500

Training, Travel & Expenses
\$2,147

Director Attendance (Attended / Required)

Directors	Board Meeting Attendance	Executive Committee	Conduct Review Committee	Investment & Lending Committee	Audit Committee	Nominating Committee	Board Development Committee
Millie Barker	9/12	N/A	3/4	4/5	6/7	2/2	3/4
Jason Gilbert	12/12	4/4	3/4	5/5	6/7	1/2	4/4
Simo Korpisto	11/12	9/9	4/4	5/5	6/7	2/2	4/4
Dennis Mori	10/12	N/A	4/4	5/5	7/7	4/4	4/4
Wilf Mulder	8/12	N/A	3/3	3/3	4/4	2/4	3/3
Akbal Mund	11/12	5/5	4/4	4/5	4/7	2/2	4/4
Cheryl Turcotte	10/12	8/9	3/4	4/5	6/7	2/4	3/4

NOTE: Meeting numbers may differ depending on when a director came on board. New terms begin in May.

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, VP Credit & Risk, VP Sales & Service, VP Human Resources. 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 five senior managers is \$601,028. 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



250-545-9251 / 1-888-339-8328



250-260-4527



250-260-4513



250-260-4549

Commercial Banking
Consumer Banking

Equipment Leasing

Wealth Management

Real Estate



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

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