VantageOne
CREDIT UNION

2019 Annual Report

Consumer Banking

Wealth Management

Commercial Banking

Equipment Leasing

Report of the Chairman of the Board

Welcome members, guests and staff of VantageOne Credit Union to our 75th Year of Business. As some or all of you may be aware, our credit union is celebrating 75 years in business and have marked this anniversary with instituting 75 Acts of Kindness. 75 Acts of Kindness is meant to show our community the meaning of what it is to be a cooperative such as ours. We have had good response from members and staff and now more than ever with the world battling COVID-19, we find ourselves once again relating to what it means to be a cooperative. It is in times such as this, unprecedented in many of our lives, we must and will band together, show cooperation, support and empathy and serve our community to the best of our ability. This is not the time for panic and chaos, but rather a time when we all have the opportunity to be a 'mini-cooperative', an individual cooperative. Many of us are at low risk and therefore capable of helping our friends, family and community. Our community is a generous one, and there is no doubt that we will once again rise to this challenge through cooperation and assistance to those most in need. Likewise to all those who are challenged by this, we encourage you to reach out as I can assure you there are many in the wings who would like nothing more than to be able to assist in any way possible.

In the past 8 years, the composition of your board has changed 100% and just in the past term alone we added two new board members. We have a diverse composition and by the time this report hits publication, we will have had our first election for directors in several years. So, let it be said that the directors are here to work on your behalf as a member. Having served on the board with most of the recent past directors, this is unchanged. They have always had members at the front and center of their decision making. Sometimes decisions are extremely difficult as you cannot ensure any one decision will be good for every single member. The greater good is at the helm of tough decisions and unfortunately not everyone can win. Our business environment continues to throw more and more hurdles. Low interest environment… wonderful if you require a mortgage…not so wonderful if you are relying on your savings and investments to get through your senior years. Increased regulation has moved exponentially faster in this last decade than likely in the last 50 to 75 years. While no one is a fan of increased regulation, it is there to protect you, our member. Appreciate your VantageOne staff and the questions and processes they must put you through to satisfy these new regulations. The competitive landscape continually changes, with non-traditional banking services, no bricks and mortar, technology and the list goes on. Where we will shine, is that we are determined to provide technological advancements to our membership, but we will always have the human interaction you need to navigate through the mass of changes coming our way. We hope as your board that this will give you peace of mind and still allow us to grow our credit union and move into the future with new generations while ensuring all members are comfortable in their day to day banking needs. Thank you all so much for your continued loyalty.

Respectfully submitted,

C. Turcotte

Cheryl Turcott
Chairperson

Message from the Chief Executive Officer

It’s my honor to provide an update to the membership on what occurred last year and provide information on what is coming up for your credit union in this unprecedented year of 2020.

Focus on Business Results

After a year of balanced growth in 2018, the year 2019 proved to be an unbalanced year, with deposits growing and loan portfolios declining. We entered 2019 looking to grow our deposit base, and we succeeded; however, we did so at the expense of loan growth. Overall, assets grew 2.7% or $9.9 Million, with most of the growth occurring in our deposit portfolio. Our deposit portfolio grew $9.5 Million or 2.8%, bringing our cash levels up to a very strong level. In building our cash levels, we were less aggressive with loan portfolio growth, especially in the early part of the year, and this showed in our loan portfolio performance. Our loan portfolio declined 2.9% in 2019, further adding to our cash resources.

On the income statement, we showed lower net income as a result of increased deposit costs over the year. Interest revenue was up on loans by 2.3%, which is interesting given the decline in our loan portfolio. This is the result of loans repricing from lower rates to a slightly higher rate. Financial expense showed a significant increase of 33% and reflected the increase in deposits we generated during the year. As a result of the increase in deposit costs, the financial margin dropped 25%, negatively impacting our operating margin. Operating expenses are being well managed and were down 4.6% for the year. Despite these efforts, we experienced an overall decline in net income for the year.

We ended 2019 with less loan growth than expected; however, we were prepared for the coming challenges 2020 would bring. At the end of 2019 we remained in a strong capital position of 16% (double the minimum regulatory requirement) and a strong cash position which has prepared us well for the pandemic of 2020.

Focus on the Future

2020 has brought the world an unexpected pandemic. The impact to the world economy has been fast and sharp, with many questions still remaining on the long term impact it will have. VantageOne is proud to have entered this pandemic with a strong capital base, strong liquidity and very low delinquency. These factors, along with the agility of our staff, will assist with our efforts to manage our way through what is yet to come.

The pandemic has changed our whole economy and we are prepared to change with it. Here are some of the changes we have already seen:

- Changed our service delivery system with reduced branch hours, remote meetings and the introduction of digital signature solutions. A pandemic makes it challenging to meet person to person. We have been able to adapt by implementing technologies to assist with remote service delivery, and we are looking at even more solutions to ensure we can keep the “human touch” in all the services we provide you.

Message from the Chief Executive Officer Continued

- Worked hard to provide access to government programs. The pandemic has resulted in the implementation of government programs to help individuals and businesses get through the financial challenges this brings. We worked hard with the Canadian Credit Union system to offer the Canadian Emergency Business Account (CEBA) program and have now flowed funding of over $4 Million in government loans to businesses in our communities. This has been much needed funding for many of our businesses, some who have dealt with an entire shut down of their industry.
- Increased member communications. We are providing bi-weekly email, web site and social media updates to members to keep you informed on what is happening. For many, this means re-thinking how you bank, and we have used these communications to provide direction on how to bank differently. These have been well received by many members who are re-thinking their banking habits and taking advantage of calling us to pay bills versus having to visit us in-person.
- Preparing for the future. Your board and senior management are working hard to identify different paths into the future and having "what if" plans in place should various scenarios emerge. We can't predict what will happen; however, we can anticipate different scenarios and have built or are building response plans to ensure we adapt to the new normal.

Thank You to Our Team and Members

In closing, I would like to thank you, our members, for choosing VantageOne for your financial services! We know you have many choices in the world and believe our model of providing *Financial Ability with a Human Touch* is what is needed in banking and our staff are committed to delivering it! I would like to thank our teams for working with us through all our changes that continue to happen in our business. I would like to thank the Board for their expertise, guidance, direction and commitment to making tough decisions to help us move forward.

Respectfully submitted,

Glenn Benischek
Chief Executive Officer

Grant Thornton

Independent Auditor’s Report

Grant Thornton LLP
200-1633 Ellis Street
Kelowna, BC
V1Y 2A8

T +1 250 712 6800
F +1 250 712 6850

To the members of VantageOne Credit Union

Opinion

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, 2019, the consolidated statement of earnings and comprehensive income, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of VantageOne Credit Union as at December 31, 2019, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Credit Union’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLP

Kelowna, Canada
February 21, 2020

Chartered Professional Accountants

VantageOne Credit Union
Consolidated Statement of Financial Position

December 31	2019	2018
Assets		
Cash and cash equivalents (Note 6)	**$ 36,902,348**	$ 21,344,359
Receivables and other assets	**158,566**	63,469
Investments (Note 7)	**30,832,664**	27,332,441
Loans (Note 8)	**300,182,691**	309,220,294
Deferred income tax (Note 15)	**150,000**	288,000
Property and equipment (Note 10)	**9,255,598**	9,171,335
Accrued pension asset (Note 14)	**1,700**	205,400
Income taxes recoverable (Note 15)	**100,275**	-
Total assets	**$ 377,583,842**	$ 367,625,297
Liabilities		
Deposits (Note 12)	**$ 351,865,317**	$ 342,361,132
Payables and other liabilities (Note 13)	**1,436,478**	1,345,920
Income taxes payable	**-**	51,608
Derivative financial instruments (Note 16)	**142,500**	488,245
Members' shares	**-**	6,916
Lease liability (Note 11)	**328,673**	-
Total liabilities	**353,772,968**	344,253,821
Members' equity		
Members' shares (Note 18)	**899,633**	885,535
Retained earnings	**23,759,763**	23,325,225
Accumulated other comprehensive loss	**(848,522)**	(839,284)
	23,810,874	23,371,476
	$ 377,583,842	$ 367,625,297

Commitments (Note 25)

Post-reporting date events (Note 26)

On behalf of the Board

Turcotte Chairperson

Chief Executive Officer

See accompanying notes to the consolidated financial statements.

VantageOne Credit Union
Consolidated Statement of Earnings and Comprehensive Income

Year ended December 31	2019	2018
Financial income		
Loans	$ **11,245,871**	$ 10,819,123
Cash and cash equivalents and investments	**1,013,533**	1,161,959
	12,259,404	11,981,082
Financial expense		
Deposits	**4,582,296**	3,242,227
Share dividends	**24,331**	63,816
Provision for credit losses (Note 9)	**117,503**	241,074
	4,724,130	3,547,117
Financial margin	**7,535,274**	8,433,965
Other income (Note 19)	**3,538,540**	3,750,587
Operating margin	**11,073,814**	12,184,552
Operating expenses (Note 20)	**10,413,153**	10,909,050
Earnings before income taxes	**660,661**	1,275,502
Income taxes (Note 15)	**221,623**	248,980
Net earnings	**439,038**	1,026,522
Other comprehensive loss, net of tax		
Change in unrealized gain (loss) on cash flow hedges, net of (expense) recovery of ($54,576) (2018 – $31,704)	**266,462**	(85,718)
Reclassification of Central 1 shares into earnings, net of deferred tax recovery of $nil (2018 – $68,000)	**-**	(184,575)
Unrealized actuarial gain (loss) on defined benefit pension plan (Note 14)	**(275,700)**	260,500
Comprehensive income	$ **429,800**	$ 1,016,729

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, 2017	**$ 833,668**	**$ 22,298,703**	**$ (829,491)**	**$ 22,302,880**
Net earnings	-	1,026,522	-	1,026,522
Change in members' shares, net	51,867	-	-	51,867
Other comprehensive loss				
Change in unrealized loss on cash flow hedges	-	-	(117,422)	(117,422)
Income tax recovery on unrealized loss on cash flow hedges	-	-	31,704	31,704
Reclassification of Central 1 shares into retained earnings	-	-	(252,575)	(252,575)
Deferred income recovery on reclassification of Central 1 shares into earnings	-	-	68,000	68,000
Unrealized actuarial gain on defined benefit pension plan	$ -	$ -	$ 260,500	$ 260,500
Balance on December 31, 2018	**$ 885,535**	**$ 23,325,225**	**$ (839,284)**	**$ 23,371,476**
Net earnings	-	439,038	-	439,038
Change in members' shares, net	14,098	-	-	14,098
Transition adjustment (Note 3)	-	(4,500)	-	(4,500)
Other comprehensive loss				
Change in unrealized gain on cash flow hedges	-	-	321,038	321,038
Income tax expense on unrealized loss on cash flow hedges	-	-	(54,576)	(54,576)
Unrealized actuarial loss on defined benefit pension plan	-	-	(275,700)	(275,700)
Balance on December 31, 2019	**$ 899,633**	**$ 23,759,763**	**$ (848,522)**	**$ 23,810,874**

See accompanying notes to the consolidated financial statements.

VantageOne Credit Union
Consolidated Statement of Cash Flows

Year ended December 31	2019	2018
Increase (decrease) in cash and cash equivalents		
Operating activities		
Earnings before income taxes	**$ 660,661**	$ 1,275,502
Adjustments for non-cash items		
Provision for credit losses	**117,503**	241,074
Depreciation	**824,091**	711,683
Ineffective portion of (gain) loss on derivatives	**(24,707)**	4,516
Loss on disposal of property and equipment	-	104,058
Change in interest accruals	**233,806**	547,029
Receivables and other assets	**(95,097)**	543,870
Payables and other liabilities	**18,558**	267,226
	1,734,815	3,694.958
Change in member activities		
Change in loans, net of repayments	**(3,244,455)**	(23,397,880)
Change in deposits, net of withdrawals	**13,582,090**	13,788,627
Cash flows related to interest, dividends and income taxes		
Interest received on loans	**12,139,835**	11,907,043
Interest received on investments	**791,120**	940,759
Interest paid on deposits	**(4,373,211)**	(2,922,506)
Income taxes paid	**(290,082)**	(199,132)
Dividends received on investments	**107,002**	291,575
	20,447,114	4,103,444
Financing activities		
Change in members' shares, net	**14,098**	51,867
Dividends paid to members	**79,304**	78,738
Repayment of lease liability	**(131,980)**	-
	(38,578)	130,605
Investing activities		
Change in investments, net	**(4,398,346)**	(2,409,076)
Purchase of property and equipment	**(452,200)**	(538,081)
	(4,850,546)	(2,947,157)
Net increase in cash and cash equivalents	**15,557,990**	1,286,892
Cash and cash equivalents, beginning of year	**21,344,358**	20,057,466
Cash and cash equivalents, end of year	**$ 36,902,348**	$ 21,344,358

Non-cash transactions		
Recognition of right-of-use assets by way of lease liability, net of transition adjustment	**$ 456,154**	$ -

See accompanying notes to the consolidated financial statements.

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 21, 2020.

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").

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 5.

In 2019 the Credit Union has adopted new guidance for accounting for leased assets as disclosed in Note 3. This guidance was applied using a modified retrospective approach, with the cumulative effect of adoption as at January 1, 2019 being recognized as a single adjustment to retained earnings. Accordingly, the Credit Union is not required to present a third statement of financial position as at that date.

3. Changes to accounting policies

Leases

IFRS 16 replaces IAS 17 'Leases' and three related Interpretations. Leases, previously accounted for as operating leases under IAS 17, are being recorded by the Credit Union in the statement of financial position in the form of a right-of-use asset and a lease liability. The Credit Union adopted IFRS 16 effective January 1, 2019 using the Standard's modified retrospective approach with the option to record the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4. A single adjustment to retained earnings was made at the date of initial application. Comparative information has not been restated. The Credit Union has also applied two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months. The Credit Union has also used the following practical expedients on transition, the ability to use a single discount rate to a portfolio of leases with similar characteristics and the use of hindsight when determining the lease term if the contract option to extend or terminate the lease. The most significant impact to the Credit Union is the requirement to recognize a right-of-use asset and a lease liability for the office building and branch locations previously treated as operating leases. Under IFRS 16, the nature of the expense of the Credit Union's leases have changed from an operating lease expense to depreciation and interest expense.

(*continued*)

VantageOne Credit Union
Notes to the Consolidated Financial Statements
December 31, 2019

3. Changes to accounting policies (*continued*)

At January 1, 2019, the date of initial application of IFRS 16, the Credit Union has initially measured the right-of-use assets at an amount equal to the lease liability determined as described below. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those as buildings directly owned by the Credit Union. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability. Right-of-use assets have been included with property and equipment (Note 10).

The lease liability is initially measured at the present value of the lease payments that are not paid at the date of initial adoption, discounted using the Credit Union's incremental borrowing rate. On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 1.25%. The lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments or the Credit Union changes its assessment of whether it will exercise an extension or termination option. Such adjustment necessitates a corresponding adjustment to the carrying amount of the right-of-use asset.

On the date of initial application, January 1, 2019, the financial statement line items of the Credit Union were reclassified as follows:

	Closing balance Dec 31, 2018	*Adoption of*	*Closing balance Jan 1, 2019*
Property and equipment	$ 9,171,335	$ 456,154	$ 9,627,489
Lease liabilities	-	(460,654)	(460,654)
Total	**$ 9,171,335**	**$ (4,500)**	**$ 9,166,835**

The following is a reconciliation of total operating lease commitments at December 31, 2018 to the lease liabilities recognized at January 1, 2019:

Total operating lease commitments disclosure at December 31, 2018		***$*** **1,665,931**
Recognition exemptions:		
- Leases with non-identifiable assets	452,408	
Variable lease payments not recognized	740,000	
		1,192,408
Operating lease liabilities before discounting		473,523
Discounted using incremental borrowing rate		(12,869)
Total lease liabilities recognized under IFRS 16 at January 1, 2019		**$ 460,654**

4. 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, 2019. 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. and VantageOne Leasing Inc. All subsidiaries have a reporting date of December 31.

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

Recognition and derecognition

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 the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and measurement of financial assets and financial liabilities

All financial assets are initially measured at fair value. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost;
- fair value through other comprehensive income (“FVOCI”); or
- fair value through profit or loss (“FVTPL”).

In the periods presented, the Credit Union does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the Credit Union’s business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(*continued*)

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

Subsequent measurement of financial assets

After initial recognition, these are measured at amortized cost using the effective interest method. The Credit Union's cash and cash equivalents, term deposits and accrued interest, loans and receivables and other assets, fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply, as disclosed below.

The Credit Union accounts for its investments in CEDA, Central 1, CUPP Services Ltd and Stabilization Central Credit Union at FVTPL and did not make the irrevocable election to account for these investments at fair value through other comprehensive income (FVOCI).

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

Impairment of financial assets

IFRS 9's impairment requires the use of more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. Recognition of credit losses requires the Credit Union consider a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second and third categories.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Classification and measurement of financial liabilities

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

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

(*continued*)

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

Classification and measurement of financial liabilities (*continued*)

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

Hedge Accounting

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.

Derivative financial instruments are account for at fair value through profit and loss (FVTPL) 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 all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

For the reporting periods under review, the Credit Union has designated the interest rate swap contracts as hedging instruments in cash flow hedge relationships. These arrangements have been entered into to 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 hedges are primarily hedges of floating rate commercial and personal loans. The Credit Union has not entered into any fair value hedges at this time.

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the statement of financial position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognized immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognized as a result of the hedged transaction, the gains and losses previously recognized in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

(*continued*)

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

Revenue

Revenue arises mainly from interest earned on loans.

The accounting treatment for loan fees varies depending on the transaction. Loan administration fees are deferred and amortized over the term of the loans using the effective interest method. Significant fees that would result in an adjustment to the overall loan yield are capitalized and amortized using the effective interest method.

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.

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.

(*continued*)

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

Income taxes (*continued*)

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.

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*)

4. 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.

Leased assets

The Credit Union as a lessee

For any new contracts entered into on or after January 1, 2019, the Credit Union considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Credit Union assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Credit Union;
- the Credit Union has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Credit Union has the right to direct the use of the identified asset throughout the period of use. The Credit Union assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Credit Union, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

(*continued*)

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

Measurement and recognition of leases as a lessee (*continued*)

The Credit Union depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Credit Union also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Credit Union has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment.

The Credit Union as a lessor

The Credit Union's accounting policy under IFRS 16 has not changed from the comparative period.

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.

As a lessor the Credit Union classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Accounting policy applicable before January 1, 2019

Finance leases

The Credit Union did not have any finance leases in the comparative period.

Operating leases

All other leases are treated as operating leases. Where the Credit Union is a lessee, 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*)

4. 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.

Standards and interpretations not yet effective

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Credit Union.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Credit Union's financial statements

5. Judgments and estimates

When preparing the consolidated 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.

Allowance for impaired loans

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account many different factors and varies by loan type and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination, and certain other criteria, such as 90-days past due and delinquency status. The assessment of a significant increase in credit risk requires experienced credit judgment.

(*continued*)

5. Judgments and estimates (*continued*)

Allowance for impaired loans (*continued*)

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, the Credit Union must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2019, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 10. Actual results, however, may vary due to technical obsolescence, particularly for software and IT equipment.

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

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.

6. 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, 2019 is 1.77% (2018 – 1.81%).

	2019	2018
Cash and current accounts	**$ 36,494,000**	$ 20,919,338
Callable term deposits and accrued interest	**408,348**	425,020
	$ 36,902,348	$ 21,344,358

7. 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:

	2019	2018
Term deposits and accrued interest	**$ 29,053,252**	$ 25,725,875
Shares		
CEDA	**10**	10
Central 1 Credit Union class A shares	**132,513**	138,511
Central 1 Credit Union class E shares	**76**	76
Central 1 Credit Union class F shares	**1,457,623**	1,338,057
Central 1 accrued dividends	**87,457**	28,179
CUPP Services Ltd.	**101,475**	101,475
Stabilization Central Credit Union	**258**	258
	$ 30,832,664	$ 27,332,441

The Credit Union must maintain liquidity reserves with Central 1 at 8% of total deposits and debt liabilities at December 31 each year. The assets can be withdrawn only if there is a sufficient reduction in the Credit Union's total deposits and debt liabilities or upon withdrawal of membership from Central 1. The liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms.

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

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

Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. All such shares are classified as fair value through profit or loss. Central 1 shares are not available for trade in an active market therefore the market values are not readily available and the potential variability in the range of fair value estimates based on valuation models is significant. Therefore, shares in Central 1 are reported at their original cost, which is representative of their fair value.

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.

8. Loans

	2019	2018
Personal loans		
Residential mortgages	**$ 210,746,298**	$ 216,700,458
Other	**5,246,602**	6,272,674
Commercial loans		
Mortgages	**60,299,752**	63,198,963
Other	**8,006,497**	7,265,512
Leases	**15,941,368**	15,778,901
	300,240,517	309,216,508
Accrued interest receivable	**413,095**	437,815
Deferred loan fees	**(55,543)**	(63,096)
	300,598,069	309,591,227
Allowance for impaired loans (Note 9)	**(415,378)**	(370,933)
Net loans to members	**$ 300,182,691**	$ 309,220,294

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, 2019 was 3.95% (2018 – 3.95%) 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, 2019 ranges from 2.00% to 15.95% (2018 – 2.00% to 15.25%). The interest rate offered on fixed rate leases being advanced at December 31, 2019 range from 4.50% to 14.65% (2018 – 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*)

8. Loans (*continued*)

Average yields to maturity

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

	2019		2018	
	Principal	**Yield**	Principal	Yield
Variable rate	**$ 72,102,980**	**4.60%**	$ 79,004,062	4.60%
Fixed rate due less than one year	**62,408,112**	**3.91%**	54,698,959	3.96%
Fixed rate due between one and five years	**165,729,425**	**3.68%**	175,513,487	3.60%
	$ 300,240,517	**3.95%**	$ 309,216,508	3.92%

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:

	2019	2018
Unsecured loans	**$ 5,446,350**	$ 6,234,516
Loans, secured by real estate or insured by government	**275,916,809**	283,923,539
Loans, otherwise secured	**1,364,075**	1,869,024
Loans, secured by deposit and government securities	**1,571,915**	1,410,528
Leases	**15,941,368**	15,778,901
	$ 300,240,517	$ 309,216,508

Fair value

The fair value of member loans and leases at December 31, 2019 was $297,439,000 (2018 – $310,460,000).

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.

Finance leases as lessor

The information below describes the nature of the Credit Unions leasing activities by type of right-of-use asset recognized on the balance sheet:

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

	Minimum lease payments due					
	Within 1 year	1 to 5 years	After 5 years	Non-performing leases	Unearned finance income	Total
December 31, 2019	$ 6,227,536	$10,963,499	$ 203,582	$ 130,369	$ (1,583,618)	$ 15,941,368

(*continued*)

8. Loans (*continued*)

Finance leases as lessor (*continued*)

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.

9. Allowance for impaired loans

The Credit Union classifies a loan as impaired when one or more loss events have occurred, such as bankruptcy, default or delinquency. Generally, consumer loans are classified as impaired when payment is contractually 90 days past due, or one year past due for residential mortgages if guaranteed by the Government of Canada. Personal loans and some small business loans are normally written off when they are one year past due. For the purpose of measuring the amount to be written off, the determination of the recoverable amount includes an estimate of future recoveries.

Commercial loans are classified as impaired when the Credit Union determines there is no longer reasonable assurance that principal or interest will be collected in their entirety on a timely basis. Generally, the Credit Union considers commercial loans to be impaired when payments are 90 days past due. Commercial loans are written off following a review on an individual loan basis that confirms all recovery attempts have been exhausted.

A loan will be reclassified to performing status when the Credit Union determines that there is reasonable assurance of full and timely repayment of interest and principal in accordance with the terms and conditions of the loan, and that none of the criteria for classification of the loan as impaired continue to apply.

Loans are in default when the borrower is unlikely to pay its credit obligations in full without recourse, such as realizing security, or when the borrower’s payments are past due more than 90 days.

Once a loan is identified as impaired, the Credit Union will continue to recognize interest income based on the original effective interest rate on the loan amount net of its related allowance. In the periods following the recognition of impairment, adjustments to the allowance for these loans reflecting the time value of money.

(continued)

VantageOne Credit Union
Notes to the Consolidated Financial Statements

December 31, 2019

9. Allowance for impaired loans (*continued*)

Total allowance for impaired loans as at December 31, 2019:

				2019
	Stage 1	Stage 2	Stage 3	**Total**
Residential mortgages				
Allowance for credit losses	$ 127,659	$ 10,349	$ 21,242	**$ 159,250**
Carrying amount	165,947,386	1,963,023	300,638	**168,211,047**
Personal loans and lines of credit				
Allowance for credit losses	68,840	30,081	-	**98,921**
Carrying amount	47,613,626	159,791	-	**47,773,417**
Commercial loans				
Allowance for credit losses	14,203	56,545	-	**70,748**
Carrying amount	66,622,321	1,692,364	-	**68,314,685**
Commercial Leases				
Allowance for credit losses	12,157	-	74,302	**86,459**
Carrying amount	15,804,745	-	136,623	**15,941,368**
Total allowance for credit losses	$ 242,694	$ 77,140	$ 95,544	**$ 415,378**
Total carrying amount	$295,988,078	$ 3,815,178	$ 437,261	**$300,240,517**

(*continued*)

9. Allowance for impaired loans (*continued*)

The following table shows the continuity in the loss allowance by each product type as at December 31, 2019:

Change in allowance:

	Beginning balance	(Write-offs net of recoveries)	Provisions	**Ending balance**
Residential mortgages				
Stage 1	$ 155,083	$ -	$ (27,424)	**$ 127,659**
Stage 2	-	-	10,349	**10,349**
Stage 3	-	-	21,242	**21,424**
	155,083	-	4,167	**159,250**
Personal loans and lines of credit				
Stage 1	72,073	(16,568)	13,334	**68,839**
Stage 2	373	(18)	29,727	**30,082**
Stage 3	23,167	(23,150)	(17)	**-**
	95,613	(39,736)	43,043	**98,921**
Commercial loans				
Stage 1	13,766	-	437	**14,203**
Stage 2	9,838	(1,459)	48,166	**56,545**
Stage 3	-	-	-	**-**
	23,604	(1,459)	48,603	**70,748**
Commercial leases				
Stage 1	12,112	-	45	**12,157**
Stage 2	-	-	-	**-**
Stage 3	84,521	(53,208)	42,989	**74,302**
	96,633	(53,208)	43,034	**86,459**
Total provision	$ 370,933	$ (94,403)	$ 138,848	**$ 415,378**
Percentage of total loans and accrued interest	0.12%			**0.14%**

In addition to the adjustments to the above noted provisions $73,058 (2018 – $502,160) was recovered from loans and leases previously written-off.

Key inputs and assumptions

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in the expected credit losses include the following:

Probability of default ("PD")

Probability of default is a forward-looking estimate of the realized default rate over either a 12-month or lifetime time horizon. It determines the probability a financial asset will default over the period considered.

- Retail: Based on default data from Credit Unions reported to Equifax; and
- Non-Retail: Based on mapping to external default data (no credit union data available).

(*continued*)

9. Allowance for impaired loans (*continued*)

Exposure of default ("EAD")

EAD is a forward-looking estimate of the realized EAD. It determines the proportion of a loan that will be in default if the account defaults over its expected remaining lifetime. These inputs include:

- The current outstanding balance of the loan at the reporting date;
- The payment amounts, assumed to be constant; and
- The interest rate payed per payment period.

The EAD for an amortizing loan decreases as payments are received. For loans that are only required to pay principal and interest by the end of the project, the EAD is assumed to be the outstanding balance at the reporting date.

For retail revolving loans, the assumptions are to be provided by the Credit Union. For non-retail revolving loans, the assumptions are based on data from large banks. Term loans and mortgages use contractual conditions and construction loans use the outstanding balance.

Loss given default ("LGD")

LGD is the proportion of the defaulted balance that is considered an accounting loss following a recovery period. The recovery period used in the model is 24 months. Accounts that are not in default as at an observation point, but subsequently default within a given time horizon, are used to develop LGD estimates for non-defaulted exposures.

12-month LGD only considers losses related to default events that occur in the 12-month time horizon following the observation date. For lifetime, LGD is estimated over the subsequent 12-month time horizons.

Estimating the LGD requires:

- Estimating the exposure at default, which is done as noted above; and
- Estimating the proceeds from the liquidation of the property.

For residential loans and real estate secured lines of credits, estimating the proceeds from the liquidation of the property considers the following:

- The value of the property at its last valuation date and the corresponding Home Price Index ("HPI") as of the valuation date;
- The HPI at the reporting date and projected values in the future;
- The type of property – single family, multi-family or condo;
- The average regional property value; and
- The recovery rate.

For commercial loans, estimating the proceeds from the liquidation of the collateral considers the following:

- The potential that there may be more than one type of collateral; and
- Collateral might be shared among many different loans.

The recovered amount of uncollateralized exposure is assumed to be 51.7%, which is an average value obtained in two studies performed by Moody's and JP Morgan Chase.

(*continued*)

9. Allowance for impaired loans (*continued*)

Staging

Changes in staging occur when the following events take place:

- Retail: Changes in beacon score of greater than 30 DPD
- Non-Retail: Changes in borrower risk rating of greater than 30 DPD

The lifetime of a product is based on the following data:

- Term and non-retail revolving: Contractual term of the product
- Retail revolving: Based on Credit Union data provided by Equifax

Forward-looking information

The model takes into consideration forward-looking information as follows:

- Residential loans and real estate secured lines of credits LGD: Collateral value adjustments based on property index projections
- Retail and non-retail PD: Relationships with macro drivers derived from bank industry data series and pay net

10. Property and equipment

	Land	Building and renovations	Leasehold improvement	Office equipment and computers	Furniture and fixtures	**Total**
Cost						
Balance at December 31, 2018	$ 1,395,487	$ 9,725,271	$ 1,880,288	$ 2,587,458	$ 600,534	$16,189,038
Additions	5,175	102,002	9076	323,988	11,959	452,200
Disposals	-	-	-	(20,021)	-	(20,021)
Adjustment from transition to IFRS 16	-	722,434	-	-	-	722,434
Balance on December 31, 2019	**1,400,662**	**10,549,707**	**1,889,364**	**2,891,425**	**612,493**	**17,343,651**
Accumulated depreciation						
Balance at December 31, 2018	-	4,294,890	801,653	1,618,217	302,943	7,017,703
Depreciation	-	373,592	92,398	323,875	34,326	824,091
Disposals	-	-	-	(20,021)	-	(20,021)
Adjustment from transitions to IFRS 16	-	266,280	-	-	-	266,280
Balance on December 31, 2019	**$ -**	**$ 4,934,762**	**$ 893,951**	**$ 1,922,071**	**$ 337,269**	**$ 8,088,053**
Net book value						
December 31, 2019	**$ 1,400,662**	**$ 5,614,945**	**$ 995,413**	**$ 969,354**	**$ 275,224**	**$ 9,255,598**
December 31, 2018	$ 1,395,487	$ 5,430,381	$ 1,078,635	$ 969,241	$ 297,591	$ 9,171,335

Included in the net carrying amount of buildings and renovations are right-of-use assets of $323,522.

11. Leases

The Credit Union has leases for the multiple branch locations. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Credit Unions sales) are excluded from the initial measurement of the lease liability and asset. The Credit Union classifies its right-of-use assets in a consistent manner to its property and equipment (see Note 10).

Each lease generally imposes a restriction that, unless there is a contractual right for the Credit Union to sublet the asset to another party, the right-of-use asset can only be used by the Credit Union. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Credit Union is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings the Credit Union must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Credit Union must insure items of property and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Credit Union's leasing activities by type of right-of-use asset recognized on balance sheet:

Right of use asset (ROU)	No. of ROU assets leased	Range of remaining term	Average remaining lease term	No. of leases with options to purchase	No. of leases with termination option
Office buildings	3	2-8 years	4 years	-	-

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at December 31, 2019 were as follows:

2020	$ 137,106
2021	111,905
2022	28,606
2023	12,600
2024	12,600
Subsequent years	33,600
Total future minimum lease payments	336,416
Less amount representing finance charges	7,744
Net present value	**$ 328,673**

Lease payments not recognized as a liability

The Credit Union has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

(*continued*)

11. Leases (*continued*)

Lease payments not recognized as a liability (*continued*)

The 2019 expense relating to payments not included in the measurement of the lease liability is as follows:

Leases of non-identifiable assets	$ 104,402
Variable lease payments	402,117
Total	**$ 516,519**

At December 31, 2019, the Credit Union was committed to leases of low value assets and the total commitment at that date was $348,006 for future periods.

Variable lease payments expensed on the basis that they are not recognized as a lease liability include rentals based on revenue from the use of the underlying asset and excess use charges on office equipment. Variable payment terms are used for a variety of reasons, including minimizing costs for IT equipment with infrequent use. Variable lease payments are expensed in the period they are incurred.

At December 31, 2019 the Credit Union had committed to leases which had not yet commenced. The total future cash outflows for leases that had not yet commenced were $nil.

Total cash outflow for leases for the year ended December 31, 2019 was $643,625.

Additional information on the right of use assets by class of assets is as follows:

	Carrying amount (Note 10)	Depreciation Expense	Impairment
Buildings and renovations	**$ 323,522**	**$ 132,632**	**$ -**

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

12. Deposits

	2019	2018
Term	**$ 114,800,537**	$ 115,443,480
Demand	**162,643,148**	157,495,741
Registered savings plans	**72,764,939**	67,919,331
	350,208,624	340,858,552
Accrued interest and dividends	**1,656,693**	1,502,580
	$ 351,865,317	$ 342,361,132

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, 2019 range from 0.3% to 3.30% (2018 – 0.3% to 5.0%).

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 0.6% at December 31, 2019 (2018 – 0.6%).

(*continued*)

12. Deposits (*continued*)

Terms and conditions (*continued*)

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

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

Included in demand deposits is an amount of $1,609,988 (2018 – $1,685,547) denominated in US dollars which has been translated to Canadian dollars as per policy at December 31.

Average yields to maturity

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

	2019		2018	
	Principal	**Yield**	Principal	Yield
Fixed rate due less than one year	**$ 115,772,739**	**1.65%**	$ 119,866,268	1.61%
Fixed rate due between one and seven years	**81,701,122**	**2.50%**	73,686,163	2.48%
Non-interest sensitive	**152,734,760**	**0.00%**	147,306,121	0.00%
	$ 350,208,624	**1.24%**	$ 340,858,552	1.20%

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, 2019 was $352,586,000 (2018 – $342,896,000).

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

13. Payables and other liabilities

Included in payables and other liabilities is an advance from World Source Financial Management. The Company was advanced $181,562 (2018 – $278,500) during the year for an accumulated total of $460,062 bearing interest at 0% and is forgivable over 60 months. During the year, $89,322 (2018 – $18,567) was forgiven for an accumulated total of $107,889.

14. 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, 2017 and updated to December 31, 2019 for the following actuarial assumptions.

The DBO was determined using the following actuarial assumptions:

	2019	2018
Discount rate	**3.20%**	4.00%
Expected rate of return on plan assets	**3.20%**	4.00%
Expected rate of salary increases	**2.00%**	2.00%
Inflationary increases	**2.00%**	2.00%

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:

	2019	2018
Fair value of plan assets	**$ 5,200,100**	$ 4,588,600
Defined benefit obligation	**5,198,400**	4,383,200
Surplus	**$ 1,700**	$ 205,400

Reconciliation of change in plan assets:

	2019	2018
Fair value of plan assets January 1	**$ 4,888,600**	$ 4,562,200
Expected investment return	**184,500**	160,500
Benefit payments	**(122,800)**	(122,000)
Employer contributions	**141,500**	146,600
Member contributions	**28,200**	23,000
Actuarial gains (losses)	**380,100**	(181,700)
Fair value of plan assets December 31	**$ 5,200,100**	$ 4,588,600

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 $564,600 (2018 – $21,200).

(*continued*)

14. Accrued pension asset (liability) (*continued*)

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

	2019	2018
Retirement Security Fund	**50.95%**	56.77%
US Equity Fund	**18.34%**	16.09%
Canadian Equity Fund	**6.07%**	5.39%
International Equity Fund	**4.75%**	4.58%
New Canada Equity Fund	**19.89%**	17.17%
Total plan assets	**100%**	100%

Reconciliation of change in defined benefit obligation:

	2019	2018
Defined benefit obligation January 1	**$ 4,383,200**	$ 4,667,900
Interest on liabilities	**177,100**	165,200
Benefit payments	**(122,800)**	(122,000)
Contributions	**28,200**	23,000
Service cost	**76,900**	91,300
Actuarial losses (gains)	**655,800**	(442,000)
Defined benefit obligation December 31	**$ 5,198,400**	$ 4,383,200

Statement of comprehensive income

The charge to the income statement comprises:

	2019	2018
Service cost	**$ 76,900**	$ 91,300
Interest on assets	**(184,500)**	(160,500)
Interest on liabilities	**177,100**	165,200
Expense	**$ 69,500**	$ 96,000

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

Amounts recognized in other comprehensive income:

	2019	2018
Actuarial gain (loss) on plan assets	**$ 380,100**	$ (181,700)
Actuarial (loss) gain on liabilities	**(655,800)**	442,200
Amount recognized in other comprehensive income	**$ (275,700)**	$ 260,500

Other defined benefit plan information

Based on historical data, the Credit Union expects contributions of approximately $155,800 to be paid for 2019.

15. Income taxes

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

	2019	2018
Current tax expense based on current year taxable income	**$ 83,623**	$ 267,980
Deferred tax recovery of origination and reversal of temporary differences	**138,000**	(19,000)
Income taxes	**$ 221,623**	$ 248,980

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

	2019	2018
Current tax expense (recovery)		
Change in unrealized gain (loss) on derivative instruments	**$ 54,576**	$ (31,704)
Deferred tax recovery		
Reclassification of Central 1 shares into earnings	**-**	(68,000)
Total tax effect of amounts recorded in other comprehensive loss	**$ 54,576**	$ (99,704)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27% (2018 – 27%) are as follows:

	2019	2018
Earnings before income taxes	**$ 660,661**	$ 1,275,502
Expected taxes based on the statutory rate	**$ 178,378**	$ 344,385
Rate differentials	**(3,550)**	(17,629)
Specified leasing tax treatment	**31,715**	(76,342)
Other	**15,080**	(1,434)
Income Taxes	**$ 221,623**	$ 248,980

The movement in 2019 deferred tax assets are:

Deferred income tax asset	Opening Balance at January 1, 2019	Recognized in net earnings	Recognized in other comprehensive loss	Closing Balance December 31, 2019
Property, equipment, and intangible assets	$ 87,000	$ (126,000)	$ -	**$ (39,000)**
Allowance for loan losses	43,000	10,000	-	**53,000**
Non-capital losses	140,000	(60,000)	-	**80,000**
Other temporary differences	18,000	(17,000)	-	**1,000**
Finance lease obligation	-	55,000	-	**55,000**
	$ 288,000	$ (138,000)	$ -	**$ 150,000**

(*continued*)

15. Income taxes (*continued*)

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

2032	$	76,428
2033	$	120,754
2034	$	84,795
2035	$	82,642
2038	$	101,732
	$	466,351

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

16. Derivative financial instruments

As at December 31, 2019, the Credit Union had entered into interest rate swap contracts for a total of $60 million of notional principal ($10 million of this being in forward starting agreements). Related to the $50 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 1.378% to 2.120% and mature from February 18, 2020 to April 26, 2022. The remaining $10 million of forward starting swaps will replace the pre-existing contracts. These forward swaps have fixed interest rates of 2.005% and mature February 16, 2021. The agreements are secured by a general security agreement covering all assets of the Credit Union.

17. Borrowings

The Credit Union has available to it, through the Central 1 Credit Union, an operating line and term facility of $9,000,000 and a $1,000,000 capital markets facility. The facilities bear interest at Bank of Canada overnight lending rates plus 0.95% and are 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 (2018 – $nil) on the operating facility and $nil (2018 – $530,123) on the capital markets facility.

18. 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.

(*continued*)

18. Members' shares (*continued*)

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 $33,587 (2018 – $88,560).

19. Other income	**2019**	2018
Account service fees	**$ 863,207**	$ 957,394
Foreign exchange	**92,818**	149,684
Insurance commissions, fees and lease revenue	**2,126,448**	2,398,247
Loan administration fees	**134,753**	157,788
Loss on disposal of property and equipment	**-**	(104,058)
Rental income	**290,347**	259,849
Safety deposit rentals	**30,967**	31,683
Settlement of provision	**-**	(100,000)
	$ 3,538,540	$ 3,750,587

20. Operating expenses	**2019**	2018
Advertising	**$ 161,779**	$ 190,769
Depreciation	**824,091**	711,682
Data processing	**536,433**	557,477
Dues and assessments	**558,739**	844,782
Human resource and administration	**227,045**	290,213
Maintenance, supplies and security	**537,477**	536,029
Premises, occupancy and office	**1,010,291**	1,161,304
Professional fees and insurance	**455,905**	569,724
Salaries and benefits	**6,101,393**	6,047,070
	$ 10,413,153	$ 10,909,050

21. 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.*

		2019		2018
Compensation				
Salaries and other short-term employee benefits to directors and management (2019 – 15 and 2018 – 12)	**$**	**915,276**	$	658,573
Total pension and other post-employment benefits	**$**	**130,101**	$	127,603
Loans and leases to key management personnel				
Aggregate value of loans and leases advanced	**$**	**3,104,639**	$	2,281,510
Interest received on loans and leases advanced	**$**	**89,435**	$	64,898
Aggregate value of un-advanced loans and leases	**$**	**761,563**	$	361,448

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.

		2019		2018
Deposits from key management personnel				
Aggregate value of term and savings deposits	**$**	**1,955,934**	$	2,547,744
Total interest paid on term and saving deposits	**$**	**8,161**	$	9,820

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.

22. 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 and investments in CEDA, Central 1, CUPP Services Ltd and Stabilization Central Credit Union.

There were no transfers between Level 1 and 2 for the years ended December 31, 2019 and 2018.

(*continued*)

22. Financial instrument classification and fair value (*continued*)

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.

23. 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.

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*)

23. 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 (2018 – $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.

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

	2019 Maximum exposure	2018 Maximum exposure
Qualifying liquid assets on hand	**$ 31,648,557**	$ 28,269,239
Total liquidity requirement 8% minimum	**(28,213,625)**	(27,459,093)
Excess liquidity – actual less requirement	**$ 3,434,932**	$ 810,146

(*continued*)

23. Financial instrument risk management (*continued*)

Liquidity risk (*continued*)

	2019	2018
Total cash and cash equivalents	**$ 36,902,348**	$ 21,344,358
Total term deposits and accrued interest	**29,053,252**	25,725,875
Total liquid assets on hand	**65,955,600**	47,070,233
Total liquidity requirement 8%	**(28,213,625)**	(27,459,093)
Excess liquidity (including non-qualifying assets)	**$ 37,741,975**	$ 19,611,140

	2019	2018
Total liquidity ratio (including non-qualifying assets)	**18.7%**	13.7%

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.

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, 2019, the Credit Union had outstanding interest rate swap contracts in the notional principal amount of $60 million, $10 million of this being in forward starting agreements (2018 – $20 million) maturing at various times through to 2021 and 2022, respectively. As at December 31, 2019, the interest rate swaps have a fair market value liability of ($142,500) (2018 – liability of $488,245). 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.

(*continued*)

23. Financial instrument risk management (*continued*)

Interest rate risk (*continued*)

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.

	Average Rates	Within 3 Months	4 months to 1 year	Over 1 Year	Not interest sensitive	Total
		Interest sensitive balances in $000's				
Assets						
Cash and cash equivalents	1.65%	$ 34,246	$ -	$ -	$ 2,656	$ 36,902
Loans	3.95%	86,437	48,071	165,729	(55)	300,182
Other	1.29%	2,225	4,322	22,653	11,299	40,499
		122,908	52,393	188,382	13,900	377,583
Liabilities						
Deposits	1.23%	50,477	64,648	81,261	155,479	351,865
Other	0.00%	-	-	-	1,908	1,908
		50,477	64,648	81,261	157,387	353,773
Balance sheet mismatch		72,431	(12,255)	107,121	(143,487)	23,810
Derivatives		(40,000)	-	40,000	-	-
Interest sensitivity position 2019		**$ 32,431**	**$ (12,255)**	**$ 147,121**	**$ (143,487)**	**$ 23,810**
Interest sensitivity position 2018		$ 23,363	$ (23,427)	$ 161,363	$ (137,928)	$ 23,371

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 increase to net earnings of $174,000 while a decrease in interest rates of 1% could result in an decrease to net earnings of $297,000.

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.

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.

(*continued*)

23. Financial instrument risk management (*continued*)

Currency risk (*continued*)

The Credit Union's foreign exchange risk is related to US dollar deposits and loans denominated in US 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 US funds.

For the year ended December 31, 2019, 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:

Central 1 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 Central 1 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.

24. Capital management

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

In the management of capital, the Credit Union included retained earnings, accumulated other comprehensive income, and equity shares totaling $23,810,874 (2018 – $23,371,476).

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 15.97% (2018 – 17.53%) 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.

(*continued*)

24. Capital management (*continued*)

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, 2019.

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.

25. Commitments

Member loans

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

Unadvanced loans	$ 7,441,757
Unused lines of credit	$ 52,264,811

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:

	2019	2018
Syndicated loans	**$ 768,316**	$ 3,470,320

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, 2019, the Credit Union has outstanding letters of credit on behalf of members in the amount of $1,716,592 (2018 – $1,383,000). These letters of credit have various levels of security.

26. Post-reporting date events

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

Corporate Governance

Board of Directors

The Board of Directors of VantageOne Credit Union is comprised of 7 elected representatives. All have a professional or business background including financial, accounting, engineering, technology, 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
Board Chair
Current Term 2019 - 2022
Director Since 2012

Akbal Mund
Vice-Chairperson
Current Term 2017 - 2020
Director Since 2014

Wilf Mulder
Director
Current Term 2017 - 2020
Director Since 2016

Jordan Bowness
Director
Current Term 2018 - 2021
Director Since 2018

Janice Brown
Director
Current Term 2019 – 2022
Director Since 2019

Jason Gilbert
Director
Current Term 2018 - 2021
Director Since 2012

Michelle Sinclair
Director
Current Term 2019 – 2022
Director Since 2019

Committees

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

Executive Committee

10 Meetings

Cheryl Turcotte, Chair

Akbal Mund, Vice-Chair

Wilf Mulder, Executive Director

Nominating Committee

6 Meetings

Janice Brown, Chair

Jordan Bowness

Jason Gilbert

Michelle Sinclair

Cheryl Turcotte

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

Audit Committee

6 Meetings

Cheryl Turcotte, Chair

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.

Board Development Committee

5 Meetings

Wilf Mulder, Chair

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.

Conduct Review Committee

4 Meetings

Michelle Sinclair, Chair

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.

Investment & Lending Committee

4 Meetings

Jason Gilbert, Chair

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.

Technology Committee

1 Meeting

Jordan Bowness, Chair

The role of the Technology Strategy Committee (TSC) is to have the depth of knowledge and understanding about technology that is needed to provide the leadership and oversight necessary to advance the technology strategy work, ensuring continued growth, with impact, consistent with VantageOne's vision and values.

*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 $700, Investment & Lending Committee Chair $700
- Reimbursement of expenses including travel, accommodation, parking, meals for meetings, training and for expenses related to approved representation of the credit union.
- In 2019 there was a total of 12 board meetings, 36 committee meetings, 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 2019, the total expense for VantageOne Credit Union Directors was $73,207. The expense for each director is summarized below.

Cheryl Turcotte
Chair

Director Remuneration
$8,854

Training, Travel & Expenses
$4,778

Jordan Bowness
Director

Director Remuneration
$5,675

Training, Travel & Expenses
$3,929

Simo Korpisto
Chair (retired May 2019)

Director Remuneration
$3,017

Training, Travel & Expenses
$3,928

Akbal Mund
Vice-Chairperson

Director Remuneration
$7,350

Training, Travel & Expenses
$2,844

Janice Brown
Director (elected May 2019)

Director Remuneration
$2,375

Training, Travel & Expenses
$3,207

Dennis Mori
Director (retired May 2019)

Director Remuneration
$2,025

Training, Travel & Expenses
$2,869

Wilf Mulder
Executive Director

Director Remuneration
$6,108

Training, Travel & Expenses
$1,631

Jason Gilbert
Director

Director Remuneration
$6,200

Training, Travel & Expenses
$2,615

Michelle Sinclair
Director (elected May 2019)

Director Remuneration
$3,175

Training, Travel & Expenses
$2,631

Director Attendance (Attended/Meetings Held*)

Directors	Board Meeting	Committee Meetings: Executive	Conduct Review	Investment & Lending	Audit	Nominating	Board Development	Technology
Jordan Bowness	12/12	N/A	4/4	4/4	6/6	6/6	5/5	1/1
Janice Brown (May-Dec 2019)	5/7	N/A	1/2	1/2	1/3	1/2	1/3	N/A
Jason Gilbert	11/12	N/A	4/4	4/4	6/6	6/6	5/5	N/A
Simo Korpisto (Jan-May 2019)	4/5	5/5	0/2	0/2	2/3	N/A	0/2	N/A
Dennis Mori (Jan-May 2019)	4/5	N/A	2/2	2/2	2/3	N/A	2/2	N/A
Wilf Mulder	11/12	5/5	4/4	4/4	6/6	4/4	5/5	1/1
Akbal Mund	11/12	8/10	4/4	4/4	6/6	4/4	5/5	N/A
Michelle Sinclair (May-Dec 2019)	7/7	N/A	2/2	2/2	3/3	2/2	3/3	1/1
Cheryl Turcotte	12/12	9/10	4/4	4/4	6/6	2/2	5/5	N/A

*Meetings Held number may differ depending on when a director came on board or sat on a specific committee. 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 (CEO), Chief Financial Officer (CFO), Chief Credit, Risk & Operations Office (CCROO), VP Commercial Banking Services, VP Consumer Banking Services, VP Human Resources, VP Marketing, and VP Wealth Management. 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 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 eight senior managers is $987,426. 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.

What we do

Provide financial ability

How we do it

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

Why we do it

We truly care about our members

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

Commercial Banking
Consumer Banking

VantageOne LEASING INC.
250-260-4527

Equipment Leasing

VantageOne FINANCIAL CORP.
250-260-4513

Wealth Management

Financial ability with a human touch.®

VantageOne
CREDIT UNION

Financial ability with a human touch.®

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

1-888-339-8328 | vantageone.net