



VantageOne
CREDIT UNION

**ANNUAL
REPORT**

2023



Message from the Board Chair



Dear Fellow members,

I am honoured to provide an update to the membership on behalf of your Board of Directors.

I would like to acknowledge a change to this year's AGM. We are hosting our very first hybrid AGM, bringing together both in-person as well as virtual attendees. Our goal is to engage as many members as possible for our AGM and this new format will provide more flexibility for our members. We hope to see many members both in-person and via the digital platform.

Credit unions have been and continue to be a part of the fabric of our small communities across this country. They are the financial institutions in our towns and cities that have helped Canadians build their lives, buy or construct homes and businesses, save for their children's educations, and plan for both holidays and retirement. VantageOne is proud to be the only financial institution headquartered in the North Okanagan. We take your trust in us seriously and pride ourselves on knowing our members and on being an integral part of the communities we serve. We like to say we are all neighbours, helping neighbours.

Every year seems to bring changes and new challenges in the economic world. While change can certainly bring challenges, it also provides us with opportunities. It is recognizing the opportunities in those challenges that sets us apart. This past year certainly did not disappoint with many challenges sent our way. We experienced much higher interest rates, affecting all of us in our everyday lives. The higher cost of living has impacted us in many ways, including at grocery stores, restaurants, and with buying cars and homes.

Home ownership is one of the top concerns in our communities and we are working hard to assist in this area. We are pleased to share that VantageOne has partnered with Okanagan Village Housing Society to provide affordable homes in our community. We will continue finding new ways where we can positively impact attainable and affordable housing in our communities.

As a board, we take managing the finances of the credit union seriously to ensure our viability today and into the future. Given our improved performance, we are pleased to be sharing patronage rebates and dividends with our members again this year. Members can expect more information on this by June. This will be achieved while still maintaining a strong capital base.

Thank you to my fellow board members for their commitment and dedication to the oversight of our Credit Union. Our board members are also credit union members, and we understand that our decisions affect all of us.

As well, I sincerely want to acknowledge and thank both our management team and our amazing staff for their hard work and service over this past year. It is because of your dedication and capability that our performance as a credit union is among the strongest in our province. We are very fortunate to have such a dedicated team.

And finally, to our members, thank you for placing your trust in us and in making VantageOne your financial ability provider of choice.

Respectfully submitted,



Michelle Sinclair
Board Chair

I would like to acknowledge that this report was written and delivered on the unceded traditional territory of the Okanagan Syilx Nation who have inhabited this land since time immemorial.



Message from the Chief Executive Officer

It's my honour to provide an update to the membership on what occurred in 2023 and how we see the future unfolding for your credit union.

I will specifically go over our business results, key activities for the past year and a look at the future.

Focus on Business Results

As we observed last year, VantageOne has benefited from interest rates normalizing after historical lows. After operating through many challenging years with very low rates and interest rate margins there was a recovery to more normal interest rate levels in 2022 and 2023. Asset growth over the year was 2.8%, driven by both deposit and loan growth, with deposits growing by 2.3%. We also experienced a very active lending market in consumer loans; however, the commercial loan market was much slower. Overall, our loan portfolio increased 6.3% over the year. Both our subsidiaries, Wealth Management and Leasing divisions, had a good year in 2023.

Our net earnings decreased slightly this year over last due to the increased costs of funds; deposit rates went up significantly from very low levels. Overall, a positive result.

We are pleased to say that again this year we will be able to share some of our success with our members through patronage rebates (money back on service charges, for example) and dividends. We will also be diligent in retaining enough profits for our capital base, which solidifies our financial strength and sharing with our members. More to come about our patronage rebate over the next couple months.

Focus on the Past Year

We are pleased to share that over the past year, our board approved an updated strategy for our organization. At the heart of our vision and mission lies a commitment to your financial well-being and to being your financial neighbour. As we navigate through the ever-changing landscape of personal and business finance, our focus remains steadfast on empowering you with the tools and resources you need to thrive. Whether it's through educational workshops, personalized guidance, or innovative digital solutions, we are dedicated to supporting your journey towards financial success. We have work to do in many areas; however, we remain energized by our committed team of staff who are dedicated to being your financial neighbour.

As an example of our commitment to being your neighbour, we launched a children's financial literacy book, *The Adventures of Cashman and Supersaver*. Designed to help parents educate children on money management, it complements our student education programs run through local school districts. We are proud of our team in building this important resource and we are working on additional resources for other age segments.

A big thank you to all our members who have patiently worked with us on all the technology changes we have made over the past year, from launching two-factor authentication to a completely new, online banking app. You have proven to be very capable at adapting to these changes. We understand that change can be frustrating. However, the defrauders and scammers in the world continue to

Message from the Chief Executive Officer Continued

pursue many tactics of theft and we are committed to remaining ahead of this and providing a secure system for your banking needs.

Thank you for learning the new ways to login, these extra steps make the process safer and offers increased security.

Focus on the Future

Looking at the current and future years, we see a lot of interest from members on where our economy is going, and we face continued development in digital banking tools and technology in our industry.

From an economic perspective I can summarize it in one word, “resilient.” Higher rates haven’t broken our economy. Yes, we have seen slowing and challenges in some important sectors. However, we remain resilient and will experience slow growth as we move forward. Currently no recession is forecast for Canada and the world economy looks to be slowly growing, led by a very strong US economy performing much better than many economists have anticipated. What this means is higher rates for longer. Absent a significant economic slowdown, our central banks want to beat inflation and avoid a re-emergence of inflation as was experienced in the 1970’s. So, slow we go is the economic path for 2024.

From a banking perspective, our focus is helping members move money and improving the banking experience. We are hearing from our members that moving money through digital tools is more important than ever. We are working with current and new suppliers to make it easier to pay and move

money around for both consumers and businesses. This will enhance your banking experience and is something we remain focused on.

Thank You to Our Board, Team and Members

Our world continues to see change, and I would like to thank our board for their dedication, diligence, and leadership through this fast pace of change. Our leaders make our initiatives come alive, allowing us to respond to change—thank you to an amazing leadership team for making it all happen! Our staff both on the front lines and behind the scenes are our difference—thank you to a dedicated team of financial professionals eager to serve our members! Finally, thank you to our members! You are the reason we are here, and we remain dedicated to ensuring we help you improve your financial ability—thank you for choosing VantageOne!

Respectfully submitted,



Glenn Benischek
Chief Executive Officer

Independent Auditor's Report

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To the members of **VantageOne Credit Union**

Opinion

We have audited the consolidated financial statements of VantageOne Credit Union ("the Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2023, 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 notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of VantageOne Credit Union as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

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 Accounting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

Kelowna, Canada
March 7, 2024

Grant Thornton LLP
Chartered Professional Accountants

VantageOne Credit Union

Consolidated Statement of Financial Position

December 31 2023 2022

Assets

Cash and cash equivalents (Note 5)	\$ 28,358,399	\$ 48,705,859
Other assets (Note 6)	870,600	1,259,662
Investments (Note 7)	74,032,376	60,726,272
Loans (Note 8)	351,105,610	330,274,508
Deferred income tax (Note 15)	64,000	45,200
Property and equipment (Note 10)	9,486,609	9,618,950
Accrued pension asset (Note 14)	<u>1,116,600</u>	<u>1,506,100</u>

Total assets **\$ 465,034,194** **\$ 452,136,551**

Liabilities

Deposits (Note 12)	\$ 431,169,372	\$ 421,169,353
Payables and other liabilities (Note 13)	1,325,465	1,117,945
Income taxes payable (Note 15)	118,822	7,286
Lease liability (Note 11)	<u>271,058</u>	<u>57,192</u>

Total liabilities **432,884,717** 422,351,776

Members' equity

Members' shares (Note 18)	879,554	868,772
Retained earnings	30,504,850	28,186,015
Accumulated other comprehensive income	<u>765,073</u>	<u>729,988</u>

32,149,477 **29,784,775**

\$ 465,034,194 **\$ 452,136,551**

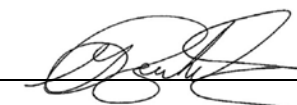
Commitments (Note 24)

Post-reporting date events (Note 25)

On behalf of the Board



Chairperson



Chief Executive Officer



VantageOne Credit Union Consolidated Statement of Earnings and Comprehensive Income

Year ended December 31

2023

2022

Financial income

Loans	\$ 13,785,096	\$ 11,075,470
Cash and cash equivalents and investments	<u>4,244,799</u>	<u>1,848,953</u>
	<u>18,029,895</u>	<u>12,924,423</u>

Financial expense

Deposits	7,434,915	2,423,732
Share dividends	58,644	56,412
Patronage dividends	390,102	367,308
Provision for credit losses (Note 9)	<u>124,319</u>	<u>53,744</u>
	<u>8,007,980</u>	<u>2,901,196</u>

Financial margin

10,021,915 10,023,227

Other income (Note 19)

4,319,328 3,972,377

Operating margin

14,341,243 13,995,604

Operating expenses (Note 20)

11,587,496 10,847,804

Earnings before income taxes

2,753,747 3,147,800

Income taxes (Note 15)

434,912 495,393

Net earnings

2,318,835 2,652,407

Other comprehensive income (loss), net of tax

Cash flow hedges recognized in profit or loss - (10,252)

Items that will be reclassified subsequently to net earnings

Unrealized gain (loss) on investments 498,685 (397,884)

Items that will not be reclassified subsequently to net earnings

Unrealized actuarial (loss) gain on defined benefit
pension plan (Note 14) (463,600) 833,300

Total comprehensive income

\$ 2,353,920 \$ 3,077,571

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, 2021	\$ 883,131	\$ 25,533,608	\$ 304,824	\$ 26,721,563
Net earnings	-	2,652,407	-	2,652,407
Change in members' shares, net	(14,359)	-	-	(14,359)
Other comprehensive (loss) income				
Amortized loss on cash flow hedges recognized to profit or loss (Note 16)	-	-	(12,352)	(12,352)
Income tax recovery on amortized gain on cash flow hedges recognized to profit or loss	-	-	2,100	2,100
Unrealized loss on investments	-	-	(479,378)	(479,378)
Income tax recovery on unrealized loss on investments	-	-	81,494	81,494
Unrealized actuarial gain on defined benefit pension plan	-	-	833,300	833,300
Balance on December 31, 2022	\$ 868,772	\$ 28,186,015	\$ 729,988	\$ 29,784,775
Net earnings	-	2,318,835	-	2,318,835
Change in members' shares, net	10,782	-	-	10,782
Other comprehensive (loss) income				
Unrealized gain on investments	-	-	600,825	600,825
Income tax on unrealized gain on investments	-	-	(102,140)	(102,140)
Unrealized actuarial loss on defined benefit pension plan	-	-	(463,600)	(463,600)
Balance on December 31, 2023	\$ 879,554	\$ 30,504,850	\$ 765,073	\$ 32,149,477



VantageOne Credit Union

Consolidated Statement of Cash Flows

Year ended December 31

2023

2022

Increase (decrease) in cash and cash equivalents

Operating activities

Earnings before income taxes	\$ 2,753,747	\$ 3,147,800
Adjustments for non-cash items		
Provision for credit losses	124,319	53,744
Depreciation	727,830	708,730
Amortized gain of cashflow hedges	-	(12,352)
Loss on disposal of property and equipment	204	771
Change in interest accruals and OCI	3,060,882	601,129
Changes in non-cash working capital items		
Accrued pension asset	389,500	835,900
Receivables and other assets	389,062	(266,829)
Payables and other liabilities	207,520	(647,385)
	<u>7,653,064</u>	<u>4,421,508</u>

Change in member activities

Increase in loans, net of repayments	(36,848,167)	(15,219,037)
Increase in deposits, net of withdrawals	13,344,105	15,564,465

Cash flows related to interest, dividends and income taxes

Interest received on loans	14,856,124	12,887,534
Interest received on investments	4,857,445	1,939,495
Interest paid on deposits	(5,547,879)	(1,774,239)
Income taxes paid	(444,315)	(414,242)
	<u>(2,129,623)</u>	<u>17,405,484</u>

Financing activities

Contribution (redemption) of members' shares, net	10,781	(14,359)
Dividends paid to members	316,758	40,439
Repayment of lease liability	(93,667)	(27,859)
	<u>233,872</u>	<u>(1,779)</u>

Investing activities

Purchase of investments, net	(18,163,549)	(14,188,806)
Purchase of property and equipment, net	(288,160)	(169,807)
	<u>(18,451,709)</u>	<u>(14,358,613)</u>

Net (decrease) increase in cash and cash equivalents	(20,347,460)	3,045,092
Cash and cash equivalents, beginning of year	48,705,859	45,660,767
Cash and cash equivalents, end of year	<u>\$ 28,358,399</u>	<u>\$ 48,705,859</u>

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

1. Governing legislation and operations

VantageOne Credit Union (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 March 7, 2024.

2. Basis of presentation and statement of compliance

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

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

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

3. Summary of significant accounting policies

Basis of consolidation

The Credit Union's consolidated financial statements consolidate those of the parent company and all of its subsidiaries up to December 31, 2023. 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 consolidated 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 consolidated 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.

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

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

Financial Instruments *(continued)*

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").

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.

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, investment in Truvera Senior Limited Partnership and accrued interest, loans and other assets, fall into this category of financial instruments.

Financial assets at fair value through other comprehensive income ("FVOCI")

A financial asset is measured at FVOCI 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 achieved by both collecting contractual cash flows and selling financial assets; 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.

The Credit Union's debt securities fall into this category of financial instruments. For debt securities measured at FVOCI, realized gains or losses and impairments are reclassified to profit and loss.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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.

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

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

Financial Instruments (*continued*)

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

The Credit Union accounts for its investments in CEDA, Central 1 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.

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).

(*continued*)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

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

Financial Instruments (*continued*)

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 accounted 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 consolidated 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*)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

3. 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 and renovations	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 consolidated 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)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

3. 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 consolidated 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 consolidated statement of earnings and comprehensive income.

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

Short-term employee benefits

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

Provisions

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

(*continued*)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

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

Provisions *(continued)*

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

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Membership shares

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

Distributions to members

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

Leased assets

The Credit Union as a lessee

For any new contracts entered into, 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). 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.

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

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

Measurement and recognition of leases as a lessee (continued)

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

The Credit Union as a lessor

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 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.

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 consolidated financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by IFRS Accounting Standards. 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 consolidated financial statements.

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

4. 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 and leases

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.

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, 2023, 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.

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

4. Judgments and estimates *(continued)*

Estimates *(continued)*

Income taxes

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

Accrued pension asset (liability)

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

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

5. Cash and cash equivalents

The Credit Union's cash and cash equivalents are held with Central 1. The average yield on the accounts at December 31, 2023 is 4.46% (2022 – 2.26%).

	<u>2023</u>	<u>2022</u>
Cash and current accounts	\$ 21,731,590	\$ 37,985,132
Callable term deposits and accrued interest	<u>6,626,809</u>	<u>10,720,727</u>
	<u>\$ 28,358,399</u>	<u>\$ 48,705,859</u>

6. Other assets

Other assets is made up the following:

	<u>2023</u>	<u>2022</u>
Prepaid expenses	\$ 851,221	\$ 750,021
Assets held for lease	<u>19,379</u>	<u>509,641</u>
	<u>\$ 870,600</u>	<u>\$ 1,259,662</u>

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

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:

	<u>2023</u>	<u>2022</u>
Term deposits and accrued interest	\$ 36,334,684	\$ 24,714,934
Truvera Senior Limited Partnership	250,000	250,000
Shares		
Central 1 Credit Union	124,234	127,035
Other	268	268
Debt securities (Mandatory Liquidity Pool)		
Government bonds	1,082,097	-
Provincial bonds	18,384,792	18,746,477
Mortgage-backed securities	17,693,931	16,737,749
Accrued interest on debt securities	162,370	149,809
	<u>\$ 74,032,376</u>	<u>\$ 60,726,272</u>

The Mandatory Liquidity Pool ("MLP"), consisting of high quality liquid assets ("HQLA"), meets regulatory requirements and ensures the funds are bankruptcy remote and creditor-proof.

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.

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

8. Loans

	<u>2023</u>	<u>2022</u>
Personal loans		
Residential mortgages	\$ 215,569,064	\$ 187,304,847
Personal loans and lines of credit	31,752,378	33,651,643
Commercial loans		
Mortgages	77,003,308	84,737,956
Other	7,958,517	6,735,687
Leases	18,679,581	17,771,584
Total carrying amount	350,962,848	330,201,717
Accrued interest receivable	565,342	471,281
	351,528,190	330,672,998
Deferred loan fees	(87,414)	(152,479)
	351,440,776	330,520,519
Allowance for credit losses (Note 9)	(335,166)	(246,011)
Net loans to members	\$ 351,105,610	\$ 330,274,508

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, 2023 was 7.20% (2022 – 6.45%) 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, 2023 ranges from 1.69% to 14.95% (2022 – 1.69% to 14.95%). The interest rate offered on fixed rate leases being advanced at December 31, 2023 range from 3.90% to 13.00% (2022 – 3.90% to 11.90%).

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

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

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

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

8. Loans (continued)

Average yields to maturity

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

	2023		2022	
	Principal	Yield	Principal	Yield
Variable rate	\$ 42,006,250	7.95%	\$ 48,755,016	7.21%
Fixed rate due less than one year	67,079,520	4.97%	51,033,907	4.03%
Fixed rate due between one and five years	241,877,078	4.82%	230,412,794	3.90%
	<u>\$ 350,962,848</u>	<u>5.22%</u>	<u>\$ 330,201,717</u>	<u>4.41%</u>

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:

	2023	2022
Unsecured loans	\$ 5,239,833	\$ 4,697,460
Loans, secured by real estate or insured by government	323,916,899	304,017,502
Loans, otherwise secured	1,270,441	1,537,772
Loans, secured by deposit and government securities	1,856,094	2,177,399
Leases	18,679,581	17,771,584
	<u>\$ 350,962,848</u>	<u>\$ 330,201,717</u>

Fair value

The fair value of member loans and leases at December 31, 2023 was \$337,995,000 (2022 – \$313,695,000).

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, 2023	\$ 7,424,134	\$13,326,259	\$ 10,157	\$ 19,158	\$ (2,100,127)	\$ 18,679,581

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

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

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

9. Allowance for credit losses

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. These adjustments are recognized and presented as interest income.

Total allowance for credit losses as at December 31, 2023:

	Stage 1	Stage 2	Stage 3	2023 Total	2022 Total
Residential mortgages					
Allowance for credit losses	\$ 131,795	\$ 10,997	\$ -	\$ 142,792	\$ 105,575
Carrying amount	214,061,067	1,507,997	-	215,569,064	187,304,847
Personal loans and lines of credit					
Allowance for credit losses	50,441	8,431	725	59,597	84,511
Carrying amount	31,670,528	81,125	725	31,752,378	33,651,643
Commercial loans					
Allowance for credit losses	23,350	8,252	-	31,602	36,627
Carrying amount	83,493,085	1,468,740	-	84,961,825	91,473,643
Commercial leases					
Allowance for credit losses	16,138	184	84,853	101,175	19,298
Carrying amount	18,540,051	35,052	104,478	18,679,581	17,771,584
Total allowance for credit losses	<u>221,724</u>	<u>27,864</u>	<u>85,578</u>	<u>335,166</u>	<u>246,011</u>
Total carrying amount	<u>\$347,764,731</u>	<u>\$3,092,914</u>	<u>\$105,203</u>	<u>\$350,962,848</u>	<u>\$330,201,717</u>

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

9. Allowance for credit losses (continued)

The following table shows the continuity in the credit losses by each product type as at December 31, 2023:

Change in allowance:

	Beginning balance	Write-offs net of recoveries	Provisions (Recoveries)	Ending balance
Residential mortgages				
Stage 1	\$ 89,924	\$ -	\$ 41,871	\$ 131,795
Stage 2	15,651	-	(4,654)	10,997
Stage 3	-	-	-	-
	<u>105,575</u>	<u>-</u>	<u>37,217</u>	<u>142,792</u>
Personal loans and lines of credit				
Stage 1	62,239	(31,512)	19,714	50,441
Stage 2	12,080	-	(3,649)	8,431
Stage 3	10,192	(2,692)	(6,775)	725
	<u>84,511</u>	<u>(34,204)</u>	<u>9,290</u>	<u>59,597</u>
Commercial loans				
Stage 1	33,642	(11)	(10,281)	23,350
Stage 2	2,985	-	5,267	8,252
Stage 3	-	-	-	-
	<u>36,627</u>	<u>(11)</u>	<u>(5,014)</u>	<u>31,602</u>
Commercial leases				
Stage 1	19,298	-	(3,160)	16,138
Stage 2	-	-	184	184
Stage 3	-	-	84,853	84,853
	<u>19,298</u>	<u>-</u>	<u>81,877</u>	<u>101,175</u>
Total provision	<u>\$ 246,011</u>	<u>\$ (34,215)</u>	<u>\$ 123,370</u>	<u>\$ 335,166</u>
Percentage of total loans and accrued interest	<u>0.07%</u>			<u>0.10%</u>

In addition to the adjustments to the above noted provisions \$35,164 (2022 – \$43,763) 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)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

9. Allowance for credit losses *(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 paid 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 an average value obtained in two studies performed by Moody’s and JP Morgan Chase.

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

9. Allowance for credit losses *(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
-

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

10. Property and equipment

	Land	Building and renovations	Leasehold improvement	Office equipment and computers	Furniture and fixtures	Total
Cost						
Balance at December 31, 2022	\$ 1,406,718	\$ 11,950,191	\$ 1,498,791	\$ 2,868,439	\$ 638,894	\$ 18,363,033
Additions	-	351,543	42,929	182,625	18,596	595,693
Disposals	-	(294,519)	-	(124,574)	(654)	(419,747)
Balance on December 31, 2023	1,406,718	12,007,215	1,541,720	2,926,490	656,836	18,538,979
Accumulated depreciation						
Balance at December 31, 2022	-	5,207,557	798,539	2,375,243	362,744	8,744,083
Depreciation	-	380,961	76,193	236,952	33,724	727,830
Disposals	-	(294,519)	-	(124,574)	(450)	(419,543)
Balance on December 31, 2023	-	\$ 5,293,999	\$ 874,732	\$ 2,487,621	\$ 396,018	\$ 9,052,370
Net book value						
December 31, 2023	\$ 1,406,718	\$ 6,713,216	\$ 666,988	\$ 438,869	\$ 260,818	\$ 9,486,609
December 31, 2022	\$ 1,406,718	\$ 6,742,634	\$ 700,252	\$ 493,196	\$ 276,150	\$ 9,618,950

Included in the net carrying amount of buildings and renovations are right-of-use assets of \$263,866 (2022 – \$55,322).

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

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	2	3-4 years	4 years	-	-

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at December 31, 2023 were as follows:

2024	\$ 79,380
2025	79,380
2026	79,380
2027	<u>47,355</u>
Total future minimum lease payments	285,495
Less amount representing finance charges	<u>14,437</u>
Net present value	<u>\$ 271,058</u>

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)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

11. Leases (continued)

Lease payments not recognized as a liability (continued)

The 2023 expense relating to payments not included in the measurement of the lease liability is as follows:

Leases of non-identifiable assets	\$ 17,270
Variable lease payments	<u>337,456</u>
Total	<u>\$ 354,726</u>

At December 31, 2023, the Credit Union was committed to leases of low value assets and the total commitment at that date was \$841,786 (2022 - \$934,801) 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.

Total cash outflow for leases for the year ended December 31, 2023 was \$434,107 (2022 - \$527,734).

	<u>2023</u>	<u>2022</u>
12. Deposits		
Demand	\$ 210,077,494	\$ 232,819,695
Term	137,227,181	114,281,028
Registered savings plans	<u>80,021,164</u>	<u>72,244,120</u>
	427,325,839	419,344,843
Accrued interest and dividends	<u>3,843,533</u>	<u>1,824,510</u>
	<u>\$ 431,169,372</u>	<u>\$ 421,169,353</u>

Terms and conditions

Term and demand deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semiannually, monthly or upon maturity. The interest rates offered on term deposits and demand deposits issued on December 31, 2023 range from 0.00% to 5.40% (2022 – 0.30% to 4.85%).

The registered retirement savings plans ("RRSP") accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to 1.40% at December 31, 2023 (2022 – 1.00%).

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

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 \$2,631,216 (2022 – \$1,965,382) denominated in US dollars which has been translated to Canadian dollars as per policy at December 31.

Included in term deposits is an amount of \$52,140 (2022 – \$nil) 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:

	2023		2022	
	<u>Principal</u>	<u>Yield</u>	<u>Principal</u>	<u>Yield</u>
Fixed rate due less than one year	\$ 187,809,818	4.10%	\$ 165,434,473	2.85%
Fixed rate due between one and seven years	37,781,178	4.73%	30,719,590	4.14%
Non-interest sensitive	<u>201,734,843</u>	<u>0.00%</u>	<u>223,190,780</u>	0.00%
	<u>\$ 427,325,839</u>	<u>2.31%</u>	<u>\$ 419,344,843</u>	1.52%

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, 2023 was \$430,198,000 (2022 – \$419,472,000).

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 an accumulated total of \$460,062 bearing interest at 0% and is forgivable over 60 months. During the year, \$64,031 (2022 – \$96,047) was forgiven for an accumulated total of \$460,062.

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

14. Accrued pension asset

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 December 31, 2022 and updated to December 31, 2023 for the following actuarial assumptions.

The DBO was determined using the following actuarial assumptions:

	<u>2023</u>	<u>2022</u>
Discount rate	4.60%	5.10%
Expected rate of return on plan assets	4.60%	5.10%
Expected rate of salary increases	2.50%	2.50%
Inflationary increases	2.50%	2.50%

Consolidated statement of financial position

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

	<u>2023</u>	<u>2022</u>
Fair value of plan assets	\$ 6,178,100	\$ 5,841,500
Defined benefit obligation	<u>5,061,500</u>	<u>4,335,400</u>
Surplus	<u>\$ 1,116,600</u>	<u>\$ 1,506,100</u>

Reconciliation of change in plan assets:

	<u>2023</u>	<u>2022</u>
Fair value of plan assets January 1	\$ 5,841,500	\$ 6,198,600
Expected investment return	296,100	185,500
Benefit payments	(174,900)	(165,400)
Employer contributions	86,200	116,600
Member contributions	17,800	21,400
Actuarial gains (losses)	<u>111,400</u>	<u>(515,200)</u>
Fair value of plan assets December 31	<u>\$ 6,178,100</u>	<u>\$ 5,841,500</u>

Expected returns on plan assets are based on a weighted average of expected returns of various assets in the plan, and include an analysis of historical returns and predictions about future returns. The actual return on plan assets, net of expenses, was \$407,500 (2022 – \$329,700).

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

	<u>2023</u>	<u>2022</u>
Retirement Security Fund	53.21%	55.57%
US Equity Fund	13.70%	12.84%
Canadian Equity Fund	11.37%	10.98%
International Equity Fund	9.11%	8.70%
New Canada Equity Fund	12.34%	11.78%
Universe Bond Index Fund	<u>0.27%</u>	<u>0.13%</u>
Total plan assets	<u>100%</u>	<u>100%</u>

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

14. Accrued pension asset (continued)

Reconciliation of change in defined benefit obligation:

	<u>2023</u>	<u>2022</u>
Defined benefit obligation January 1	\$ 4,335,400	\$ 5,528,400
Interest on liabilities	222,000	168,000
Benefit payments	(174,900)	(165,400)
Contributions	17,800	21,400
Service cost	86,200	131,500
Actuarial losses (gains)	<u>575,000</u>	<u>(1,348,500)</u>
Defined benefit obligation December 31	<u>\$ 5,061,500</u>	<u>\$ 4,335,400</u>

Consolidated statement of earnings and comprehensive income

The charge to the consolidated statement of earnings and comprehensive income comprises:

	<u>2023</u>	<u>2022</u>
Service cost	\$ 86,200	\$ 131,500
Interest on assets	(296,100)	(185,500)
Interest on liabilities	<u>222,000</u>	<u>168,000</u>
Expense	<u>\$ 12,100</u>	<u>\$ 114,000</u>

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

Amounts recognized in other comprehensive income:

	<u>2023</u>	<u>2022</u>
Actuarial gain (loss) on plan assets	\$ 111,400	\$ (515,200)
Actuarial (loss) gain on liabilities	<u>(575,000)</u>	<u>1,348,500</u>
Amount recognized in other comprehensive income	<u>\$ (463,600)</u>	<u>\$ 833,300</u>

Other defined benefit plan information

Based on historical data, the Credit Union expects contributions of approximately \$107,600 to be paid for 2024.

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Notes to the Consolidated Financial Statements

December 31, 2023

15. Income taxes

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

	<u>2023</u>	<u>2022</u>
Current tax expense based on current year taxable income	\$ 453,712	\$ 383,593
Deferred tax (recovery) expense of origination and reversal of temporary differences	<u>(18,800)</u>	<u>111,800</u>
Income taxes	<u>\$ 434,912</u>	<u>\$ 495,393</u>

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

	<u>2023</u>	<u>2022</u>
Current tax expense (recovery)		
Change in unrealized gain (loss) on derivative instruments and investments	\$ 102,140	\$ (83,594)
Total tax effect of amounts recorded in other comprehensive loss	<u>\$ 102,140</u>	<u>\$ (83,594)</u>

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27% (2022 – 27%) are as follows:

	<u>2023</u>	<u>2022</u>
Earnings before income taxes	\$ 2,753,747	\$ 3,147,800
Expected taxes based on the statutory rate	\$ 743,512	\$ 849,906
Rate differentials	(324,630)	(222,108)
Specified leasing tax treatment	(6,855)	(184,647)
Other	(18,398)	(10,384)
Other comprehensive income	<u>60,083</u>	<u>(49,174)</u>
Current tax expense	453,712	383,593
Deferred tax (recovery) expense	<u>(18,800)</u>	<u>111,800</u>
Total tax expense	<u>\$ 434,912</u>	<u>\$ 495,393</u>

The movement in the 2023 income taxes payable is:

	<u>2023</u>	<u>2022</u>
Current income tax expense	\$ 453,712	\$ 383,593
Tax recovery on items in other comprehensive income	102,140	(83,594)
Tax installments	<u>(437,030)</u>	<u>(292,713)</u>
	<u>\$ 118,822</u>	<u>\$ 7,286</u>

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

15. Income taxes (continued)

The movement in 2023 deferred tax assets are:

Deferred income tax asset	Opening Balance at January 1, 2023	Recognized in net earnings	Recognized in other comprehensive income	Closing Balance December 31, 2023
Property, equipment, and intangible assets	\$ (5,800)	\$ (19,200)	\$ -	\$ (25,000)
Allowance for loan losses	37,000	3,000	-	40,000
Other temporary differences	4,000	(1,000)	-	3,000
Finance lease obligation	10,000	36,000	-	46,000
	<u>\$ 45,200</u>	<u>\$ 18,800</u>	<u>\$ -</u>	<u>\$ 64,000</u>

16. Derivative financial instruments

During the prior year, the Credit Union unwound all its interest rate swap contracts as a result of the drop in the interest rate posted by the Bank of Canada. There were no new interest rate swap contracts entered into during the current year.

17. Borrowings

The Credit Union has available to it, through the Central 1 Credit Union, a \$1,000,000 capital markets facility. The facility bears interest at Bank of Canada overnight lending rates plus 0.95% and is 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 (2022 - \$nil).

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.

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.

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VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

18. Members' shares (continued)

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 \$61,237 (2022 – \$58,170).

During the year, the Credit Union also declared Patronage dividends of \$496,229 (2022 - \$367,308).

19. Other income	2023	2022
Account service fees	\$ 828,566	\$ 805,497
Foreign exchange	158,930	111,817
Insurance commissions, fees and lease revenue	2,601,872	2,309,872
Loan administration fees	210,319	313,687
Loss on disposal of property and equipment	(84)	(771)
Rental income	495,158	405,729
Safety deposit rentals	24,567	26,546
	<u>\$ 4,319,328</u>	<u>\$ 3,972,377</u>

20. Operating expenses	2023	2022
Advertising	\$ 180,853	\$ 168,012
Data processing	785,312	703,196
Depreciation	727,830	708,730
Dues and assessments	663,108	721,692
Human resource and administration	270,977	196,911
Maintenance, supplies and security	568,239	578,319
Premises, occupancy and office	1,033,663	1,034,573
Professional fees and insurance	695,356	685,936
Salaries and benefits	6,662,158	6,050,435
	<u>\$ 11,587,496</u>	<u>\$ 10,847,804</u>

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

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*.

	<u>2023</u>	<u>2022</u>
Compensation		
Salaries and other short-term employee benefits to directors and management (2023 – 13 and 2022 – 15)	\$ 990,097	\$ 860,262
Total pension and other post-employment benefits	\$ 148,519	\$ 134,058
Loans and leases to key management personnel		
Aggregate value of loans and leases advanced	\$ 4,194,623	\$ 2,609,743
Interest received on loans and leases advanced	\$ 214,414	\$ 80,952
Aggregate value of un-advanced loans and leases	\$ 356,246	\$ 392,802

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

	<u>2023</u>	<u>2022</u>
Deposits from key management personnel		
Aggregate value of term and savings deposits	\$ 3,009,790	\$ 3,713,080
Total interest paid on term and saving deposits	\$ 34,192	\$ 7,215

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 risk management

General objectives, policies and processes

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

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

22. Financial instrument risk management (continued)

Credit risk

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

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 (2022 – \$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.

The following table discloses the breakdown of debt securities held by credit rating:

	<u>2023</u>	<u>2022</u>
R-1H	\$ 1,082,097	\$ -
AAA	17,725,504	20,101,100
AA (low)	18,515,589	15,532,935
	<u>\$ 37,323,190</u>	<u>\$ 35,634,035</u>

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

22. Financial instrument risk management (continued)

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:

	<u>2023</u>	<u>2022</u>
	<u>Maximum exposure</u>	<u>Maximum exposure</u>
Qualifying liquid assets on hand	\$ 38,772,800	\$ 36,997,390
Total liquidity requirement 8% minimum	<u>(34,493,550)</u>	<u>(33,693,548)</u>
Excess liquidity – actual less requirement	<u>\$ 4,279,250</u>	<u>\$ 3,303,842</u>
	<u>2023</u>	<u>2022</u>
Total cash and cash equivalents	\$ 28,358,399	\$ 48,705,859
Total term deposits and accrued interest	36,334,684	24,714,934
Debt securities	<u>37,323,190</u>	<u>35,634,035</u>
Total liquid assets on hand	102,016,273	109,054,828
Total liquidity requirement 8%	<u>(34,493,550)</u>	<u>(33,693,548)</u>
Excess liquidity (including non-qualifying assets)	<u>\$ 67,522,723</u>	<u>\$ 75,361,280</u>
	<u>2023</u>	<u>2022</u>
Total liquidity ratio (including non-qualifying assets)	<u>23.7%</u>	<u>25.9%</u>

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

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

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VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

22. Financial instrument risk management (continued)

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.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits and investments held. The Credit Union does not hedge its fair value risk. The fair value hierarchy establishes three levels to classify the significance of inputs to valuation techniques used in making fair value measurements.

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs are based on unobservable market data.

There were no transfers between Level 1 and 2 for the years ended December 31, 2023 and 2022.

The following table presents the financial instruments carried on the consolidated statement of financial position by asset class and by level within the valuation hierarchy:

In (\$'000)

	Level 1	Level 2	Level 3	Total fair value
2023				
Financial assets				
Central 1 shares	\$ -	\$ 124	\$ -	\$ 124
Investment, other shares	\$ -	\$ 1	\$ -	\$ 1
Government bonds	\$ 1,082	\$ -	\$ -	\$ 1,082
Provincial bonds	\$ 18,385	\$ -	\$ -	\$ 18,385
Mortgage-backed securities	\$ 17,694	\$ -	\$ -	\$ 17,694
2022				
Financial assets				
Central 1 shares	\$ -	\$ 127	\$ -	\$ 127
Investment, other shares	\$ -	\$ 1	\$ -	\$ 1
Provincial bonds	\$ 18,746	\$ -	\$ -	\$ 18,746
Mortgage-backed securities	\$ 16,738	\$ -	\$ -	\$ 16,738

Measurement of fair value financial instruments

The Credit Union performs valuations of financial items for financial reporting purposes, including Level 2 fair values. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

Level 2 financial instruments consist of investments with Central 1 and other shares. Typically, the Central 1 shares are not available for trade in an active market but the effects of non-observable inputs are not significant for shares at year end.

Level 2 financial instruments also include derivative instruments, which is determined by using quoted market benchmark rates from an independent source. The Credit Union uses a valuation method that includes discounted cash flows on the remaining contractual life of a derivative instrument and valuation models that use observable market data.

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

22. Financial instrument risk management (continued)

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments. At December 31, 2023, the Credit Union had no outstanding interest rate swap contracts. 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 consolidated statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

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

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

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

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

Interest sensitive balances in \$000's						
	Average Rates	Within 3 Months	4 months to 1 year	Over 1 Year	Not interest sensitive	Total
Assets						
Cash and cash equivalents	4.72%	\$ 26,719	\$ -	\$ -	\$ 1,639	\$ 28,358
Loans	5.22%	57,043	52,090	241,877	96	351,106
Other	3.62%	24,401	27,207	21,257	12,705	85,570
		<u>108,163</u>	<u>79,297</u>	<u>263,134</u>	<u>14,440</u>	<u>465,034</u>
Liabilities						
Deposits	2.29%	66,647	120,390	37,387	206,745	431,169
Other	0.00%	-	-	-	33,865	33,865
		<u>66,647</u>	<u>120,390</u>	<u>37,387</u>	<u>240,610</u>	<u>465,034</u>
Balance sheet mismatch		41,516	(41,093)	225,747	(226,170)	-
Derivatives		-	-	-	-	-
Interest sensitivity position 2023		<u>\$ 41,516</u>	<u>\$ (41,093)</u>	<u>\$ 225,747</u>	<u>\$ (226,170)</u>	<u>\$ -</u>
Interest sensitivity position 2022		<u>\$ 56,993</u>	<u>\$ (25,696)</u>	<u>\$ 211,375</u>	<u>\$ (212,887)</u>	<u>\$ 29,785</u>

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.

(continued)

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

22. Financial instrument risk management *(continued)*

Interest rate risk *(continued)*

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 an increase to net earnings of \$174,000 while a decrease in interest rates of 1% could result in a decrease to net earnings of \$196,000.

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.

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, 2023, 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.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. As at December 31, 2023, the Credit Union is exposed to other price risk through its investments quoted in an active market.

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.

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

23. 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 \$32,149,477 (2022 – \$29,784,775).

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

The Credit Union's current capital base is equal to 18.81% (2022 – 17.31%) of the total value of risk-weighted assets.

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

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, dividend/patronage rebate policy and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the Credit Union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2023.

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

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

VantageOne Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

24. Commitments

Member loans

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

Unadvanced loans	\$ 5,042,600
Unused lines of credit	\$ 62,593,771

Off balance sheet

Funds under administration

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

	<u>2023</u>	<u>2022</u>
Syndicated loans	<u>\$ 171,966</u>	<u>\$ 180,606</u>

Canada Emergency Business Account (“CEBA”)

At December 31, 2023, the Credit Union has disbursed loans in the amount of \$3,487,500 (2022 – \$6,732,500) on behalf of Central 1 related to the CEBA program. This amount has not been included in the loans balance on the consolidated statement of financial position.

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, 2023, the Credit Union has outstanding letters of credit on behalf of members in the amount of \$1,791,000 (2022 – \$1,766,000). These letters of credit have various levels of security.

25. 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 their knowledge and expertise in areas of governance.

Terms of Office



Michelle Sinclair

Chair

Current Term 2022 – 2025

Director Since 2019



Jordan Bowness

Vice-Chair

Current Term 2021 – 2024

Director Since 2018



Cheryl Turcotte

Director

Current Term 2022 – 2024

Director Since 2012



Juliette Cunningham

Director

Current Term 2023 – 2026

Director Since 2020



Mike Champigny

Director

Current Term 2022 – 2025

Director Since 2022



Akbal Mund

Director

Current Term 2022 – 2025

Director Since 2022



Rodney Goodchild

Director

Current Term 2023 – 2026

Director Since 2023

Committees

Each of VantageOne's committees has its own terms of reference and workplan. Audit, Conduct Review, Investment & Lending and Board Development committees are run as Committee of the Whole.

Audit

6 Meetings

Cheryl Turcotte, Chair
Juliette Cunningham
Akbal Mund
Michelle Sinclair

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 includes ensuring the organization has effective risk management processes in place.

Conduct Review

4 Meetings

Rodney Goodchild, 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.

Governance & HR

10 Meetings

Michelle Sinclair, Chair
Jordan Bowness, Vice-Chair
Cheryl Turcotte

The role of the Governance & HR Committee is to ensure effectiveness of VantageOne's overall governance framework and oversee VantageOne's Human Resources governing policies and programs.

Investment & Lending

4 Meetings

Jordan Bowness, Chair
Mike Champigny
Juliette Cunningham
Cheryl Turcotte
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.

Nominating

5 Meetings

Akbal Mund, Chair
Mike Champigny
Juliette Cunningham
Rodney Goodchild
Michelle Sinclair

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

Board Development

1 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.

Technology Strategy

5 Meetings

Mike Champigny, Chair
Cheryl Turcotte
Mike Champigny

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.

ESG

5 Meetings

Juliette Cunningham, Chair
Mike Champigny
Rodney Goodchild

The ESG Committee is responsible to represent the Board in defining VantageOne's corporate strategy relating to ESG matters and to review the practices and initiatives of VantageOne relating to ESG matters ensuring that they remain effective and up to date.

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

Remuneration

VantageOne Credit Union provides directors with the following compensation:

- Board Meetings: \$350/Director
- Basic Remuneration: \$3,000/Director
- Additional Annual Fees Paid: Board Chair \$2,500, Vice-Chair \$1,500, Audit Committee Chair \$700, Investment & Lending Committee Chair \$700, Governance & HR Policy Committee Chair \$700, Technology Strategy Committee Chair \$700, ESG Committee Chair \$700, Conduct Review Committee Chair \$250, Board Development Committee Chair \$250, Nominating Committee Chair \$250
- Reimbursement of expenses including travel, accommodation, parking, meals for meetings, training and for expenses related to approved representation of the credit union.
- In 2023 there was a total of 9 board meetings, 40 committee meetings held, as well as the AGM

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

For the fiscal year 2023, the total expense for VantageOne Credit Union Directors was \$107,798. The expense for each director is summarized below.

Cheryl Turcotte **Director**

Director Remuneration
\$13,800

Training, Travel & Expenses
\$1,465

Juliette Cunningham **Director**

Director Remuneration
\$10,850

Training, Travel & Expenses
\$14,358

Wilf Mulder **Chair (Jan-May 2023)**

Director Remuneration
\$5,437

Training, Travel & Expenses
\$0

Jordan Bowness **Vice-Chair**

Director Remuneration
\$14,300

Training, Travel & Expenses
\$1,135

Rodney Goodchild **Director (May-Dec 2023)**

Director Remuneration
\$5,096

Training, Travel & Expenses
\$1,064

Akbal Mund **Director**

Director Remuneration
\$7,450

Training, Travel & Expenses
\$237

Michelle Sinclair **Chair (May-Dec 2023)**

Director Remuneration
\$12,658

Training, Travel & Expenses
\$5,272

Mike Champigny **Director**

Director Remuneration
\$11,162

Training, Travel & Expenses
\$3,514

Director Attendance (Attended/Meetings Held*)

	Board Meeting	Committee Meetings							
		Audit	Board Development	Conduct Review	ESG	Governance & HR	Investment & Lending	Nominating	Technology
Jordan Bowness	9/9	4/6	1/1	4/4	n/a	10/10	2/2	2/2	5/5
Mike Champigny	8/9	4/4	1/1	4/4	5/5	n/a	2/2	5/5	5/5
Juliette Cunningham	9/9	4/4	1/1	4/4	5/5	n/a	4/4	3/3	n/a
Rodney Goodchild (May–Dec 2023)	5/6	n/a	n/a	2/3	3/3	n/a	n/a	2/3	n/a
Wilf Mulder (Jan–May 2023)	4/4	1/1	1/1	1/1	n/a	4/4	n/a	n/a	n/a
Akbal Mund	7/9	3/4	1/1	3/4	n/a	n/a	1/2	4/5	n/a
Michelle Sinclair	9/9	4/4	1/1	4/4	2/2	6/6	2/2	5/5	n/a
Cheryl Turcotte	9/9	6/6	1/1	4/4	n/a	10/10	4/4	2/2	5/5

*Meetings Held number may differ depending on when a director came on board or sat on a specific committee. New Terms began May 2023.

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 Finance, VP Commercial Banking Services, VP Human Resources, VP Marketing, 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 \$1,116,202. We report that all Senior Managers are at or below the mid-range of the Canadian Credit Union market for their positions.

Our Purpose

We are Neighbours helping Neighbours.

We provide our communities with access to member-focused advice and high-quality financial services & help our communities grow.

Our Values

Member/Client Obsession

Member needs are at the centre of everything we do.

Ownership and Accountability

We act with integrity, taking ownership of our work, decisions, and actions.

Action Driven/ Innovate and Simplify

We act on opportunities to improve how our work is done by fostering a culture that values learning and innovation.

Be the Best

We are committed to delivering the best experience to our members.



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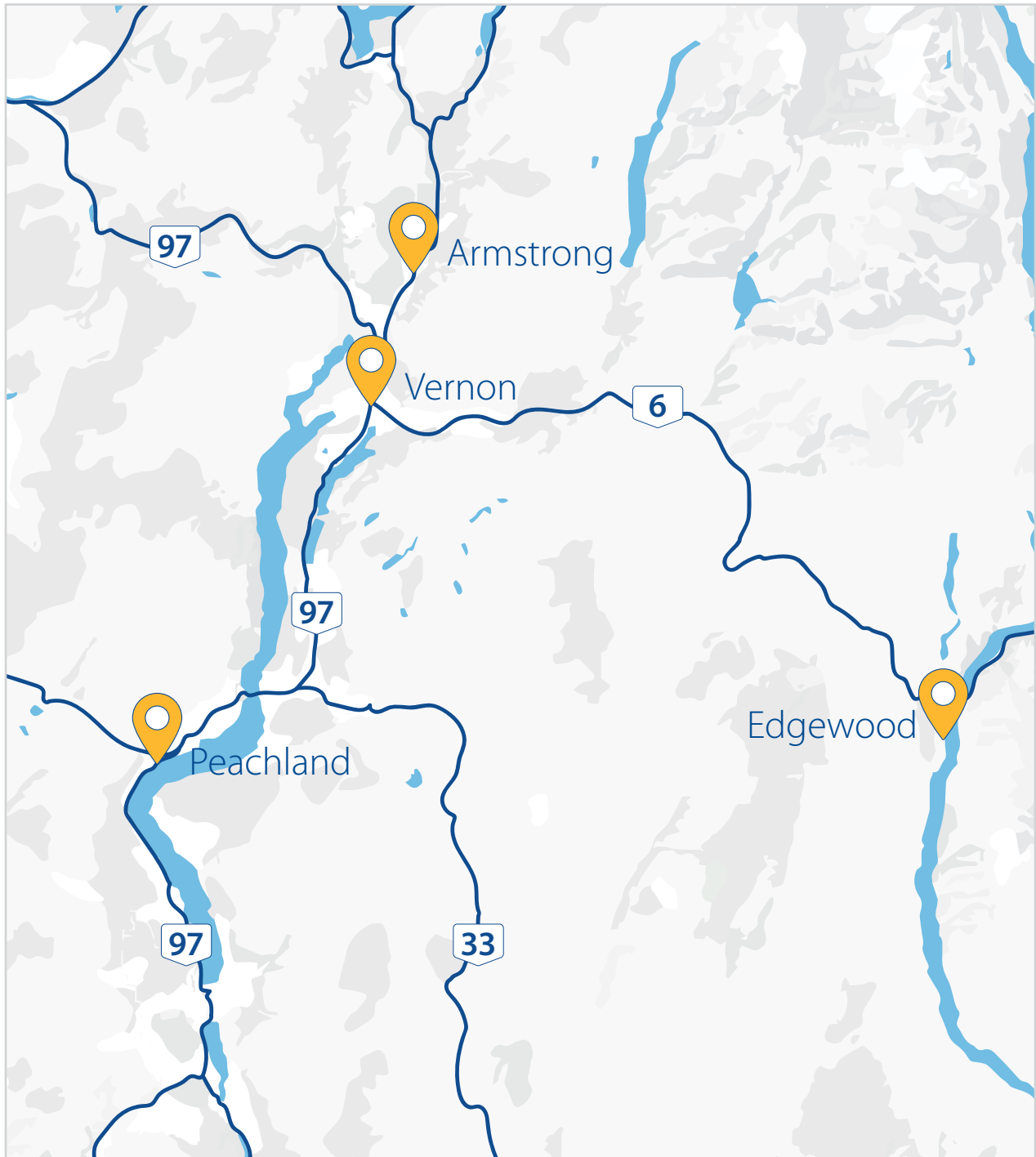
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