Consolidated Financial Statements of

VANCOUVER CITY SAVINGS CREDIT UNION

Year ended December 31, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These consolidated financial statements were prepared by the management of Vancouver City Savings Credit Union ("Vancity") who are responsible for their integrity, objectivity and reliability. They have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on estimates and judgments of management with appropriate consideration to materiality.

In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating and system controls. Systems of internal control and reporting procedures are designed and maintained to provide reasonable assurance that the financial records are complete and accurate and that the assets of Vancity are safeguarded against loss from unauthorized use or disposition. The procedures include establishment and communication of standards of business conduct throughout all levels of the organization to provide assurance that all transactions are authorized and proper records are maintained. Internal Audit provides management with the ability to assess the adequacy of these controls.

The Board of Directors has approved the consolidated financial statements. The Audit Committee of the Board, comprising five directors who are not officers or employees of Vancity, has reviewed the consolidated financial statements and received regular reports on internal control findings. KPMG LLP, the external auditors appointed by the membership, have examined the consolidated financial statements of Vancity and their report follows. They have had full and free access to the records of Vancity, the internal audit staff, other management staff, and the Audit Committee of the Board.

Tamara Vrooman
President and Chief Executive Officer

Terry Wong
Vice President, Finance and Chief Financial Officer

February 27, 2018

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INDEPENDENT AUDITORS' REPORT

To the Members of Vancouver City Savings Credit Union

We have audited the accompanying consolidated financial statements of Vancouver City Savings Credit Union, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent
member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Vancouver City Savings Credit Union as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 27, 2018

VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

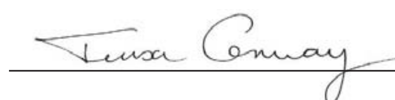
As at December 31

	Note	2017	2016
Assets			
Cash and cash equivalents		$ 98,467	$ 187,552
Interest bearing deposits with financial institutions		1,484,351	1,497,182
Financial investments	5	1,502,749	1,520,508
Derivative assets	6	4,150	5,560
Loans and advances to members	7(a)	18,390,583	17,694,379
Current tax assets		3,759	6,925
Premises and equipment	8(a)	79,234	78,407
Intangible assets	8(b)	67,516	72,387
Deferred tax assets	9(c)	17,310	27,937
Other assets	11	19,883	41,072
Total assets		$ 21,668,002	$ 21,131,909
Liabilities and Equity			
Borrowings – line of credit		$ 72,223	$ -
Deposits from members	12	18,547,449	18,238,701
Derivative liabilities	6	8,955	2,412
Wholesale borrowings		514,216	500,057
Secured borrowings	14(a)	975,998	975,939
Accounts payable and accrued liabilities	15	248,960	212,742
Retirement benefit obligation	10(a)	55,903	53,605
Other liabilities		2,287	2,064
Total liabilities		20,425,991	19,985,520
Members' equity:			
Capital and reserves attributable to members:			
Contributed surplus		29,275	29,275
Retained earnings		1,210,785	1,119,002
Accumulated other comprehensive income (loss)		1,703	(2,111)
Total members' equity		1,241,763	1,146,166
Non-controlling interest		248	223
Total liabilities and equity		$ 21,668,002	$ 21,131,909

Commitments and contingencies (note 26)

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Board on February 27, 2018



VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Income
(Expressed in thousands of dollars)

For the years ended December 31

	Note	2017	2016
Interest income		$ 641,373	$ 614,660
Interest expense		225,783	231,711
Net interest income	16	415,590	382,949
Loan impairment expense	7(b)	8,338	13,856
Fee and commission income		134,138	125,280
Fee and commission expense		44,278	46,418
Net fee and commission income	17	89,860	78,862
Net gains on financial instruments	18	3,206	1,144
Gain on sale of investment property	11	33,893	802
Other income (loss)		(3,614)	391
Total operating income		530,597	450,292
Operating expenses:			
Salary and employee benefits	19	238,560	223,168
Occupancy and equipment		51,186	47,494
General and administrative	20	94,213	83,777
		383,959	354,439
Income before distribution and tax		146,638	95,853
Distribution to community and members	21	28,681	19,079
Income before tax		117,957	76,774
Income tax expense	9(a)	26,254	15,225
Net income		91,703	61,549
Attributable to non-controlling interest		80	151
Net income attributable to members		$ 91,783	$ 61,700

The accompanying notes form an integral part of these consolidated financial statements.

VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Comprehensive Income
(Expressed in thousands of dollars)

For the years ended December 31

	2017	2016
Net income attributable to members	$ 91,783	$ 61,700
Other comprehensive income (loss) for the year that was or may be reclassified to the consolidated statement of income, net of tax:		
Net gains (losses) on available-for-sale financial instruments:		
Unrealized gains (losses) arising during the year, net of tax expense of $1,362 (2016 - $808)	6,696	(3,980)
Reclassification of realized losses to the consolidated statement of income, net of tax recovery of $27(2016 - $16)	158	87
	6,854	(3,893)
Cash flow hedges:		
Effective portion of changes in fair value, net of tax recovery of $947 (2016 - tax expense of $27)	(4,634)	256
Reclassification of losses to the consolidated statement of income, net of tax of nil (2016 - tax recovery of $13)	-	66
	(4,634)	322
Actuarial gain (loss) on defined benefit pension plans that will never be reclassified to the consolidated statement of income, net of tax expense of $338 (2016 - tax recovery of $40)	1,594	(112)
Other comprehensive income (loss) for the year	3,814	(3,683)
Comprehensive income attributable to members	$ 95,597	$ 58,017

The accompanying notes form an integral part of these consolidated financial statements.

VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Changes in Members' Equity
(Expressed in thousands of dollars)

For the years ended December 31

		AOCI						
	Contributed surplus	Hedging reserve	Fair value reserve	Employee benefits	Retained earnings	Total members' equity	Non-controlling interest	Total equity
Balance at January 1, 2017	$ 29,275	$ (608)	$ (1,240)	$ (263)	$ 1,119,002	$ 1,146,166	$ 223	$ 1,146,389
Increase in partnership shares	-	-	-	-	-	-	105	105
Net income	-	-	-	-	91,783	91,783	(80)	91,703
Other comprehensive income (loss) for the year, net of tax:								
Net gains on available-for-sale financial assets	-	-	6,854	-	-	6,854	-	6,854
Cash flow hedges	-	(4,634)	-	-	-	(4,634)	-	(4,634)
Actuarial gain on defined benefit pension plan	-	-	-	1,594	-	1,594	-	1,594
Other comprehensive income (loss) for the year	-	(4,634)	6,854	1,594	-	3,814	-	3,814
Total comprehensive income (loss) for the year	-	(4,634)	6,854	1,594	91,783	95,597	25	95,622
Balance at December 31, 2017	$ 29,275	$ (5,242)	$ 5,614	$ 1,331	$ 1,210,785	$ 1,241,763	$ 248	$ 1,242,011
Balance at January 1, 2016	$ 29,275	$ (930)	$ 2,653	$ (151)	$ 1,057,302	$ 1,088,149	$ 260	$ 1,088,409
Increase in partnership shares	-	-	-	-	-	-	114	114
Net income	-	-	-	-	61,700	61,700	(151)	61,549
Other comprehensive income (loss) for the year, net of tax:								
Net losses on available-for-sale financial assets	-	-	(3,893)	-	-	(3,893)	-	(3,893)
Cash flow hedges	-	322	-	-	-	322	-	322
Actuarial loss on defined benefit pension plan	-	-	-	(112)	-	(112)	-	(112)
Other comprehensive income (loss) for the year	-	322	(3,893)	(112)	-	(3,683)	-	(3,683)
Total comprehensive income (loss) for the year	-	322	(3,893)	(112)	61,700	58,017	(37)	57,980
Balance at December 31, 2016	$ 29,275	$ (608)	$ (1,240)	$ (263)	$ 1,119,002	$ 1,146,166	$ 223	$ 1,146,389

The accompanying notes form an integral part of these consolidated financial statements.

VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

For the years ended December 31

	2017	2016
Cash flows from operating activities:		
Net income	$ 91,703	$ 61,549
Adjustments for:		
Loan impairment expense	8,338	13,856
Amortization, depreciation and impairment	21,322	17,505
Loss on sale of premises and equipment	17	-
Net interest income	(415,590)	(382,949)
Net gains on financial instruments	(3,206)	(1,144)
Gain on sale of investment property	(33,893)	(802)
Income tax expense	26,254	15,225
	(305,055)	(276,760)
Change in derivative instruments	7,641	(309)
Change in interest bearing deposits with financial institutions	13,829	(172,755)
Change in loans and advances to members	(702,851)	(903,837)
Change in other assets	1,857	(3,778)
Change in deposits from members	278,131	954,378
Change in accounts payable and accrued liabilities	36,218	4,336
Change in retirement benefit obligation	4,230	3,590
Change in other liabilities	223	(3,348)
	(665,777)	(398,483)
Interest received	638,459	613,604
Interest paid	(227,809)	(239,260)
Income taxes paid	(13,240)	(13,526)
Net cash used in operating activities	(268,367)	(37,665)
Cash flows from investing activities:		
Change in financial investments	24,045	(158,337)
Net purchase of premises and equipment	(14,910)	(10,327)
Proceeds from the sale of investment property	53,225	1,350
Purchase of intangibles	(2,385)	(19,677)
Net cash provided by (used in) investing activities	59,975	(186,991)
Cash flows from financing activities:		
Increase in partnership shares	105	114
Change in investment shares	33,157	(655)
Change in secured borrowings	(88)	413,459
Change in wholesale borrowings	13,910	(116,217)
Net cash provided by financing activities	47,084	296,701
Net increase (decrease) in cash and cash equivalents	(161,308)	72,045
Cash and cash equivalents at the beginning of the year	187,552	115,507
Cash and cash equivalents at the end of the year	$ 26,244	$ 187,552
Cash and cash equivalents consists of:		
Cash and deposits held with Central 1 and other banks	$ 46,350	$ 159,532
Cheques and other items in transit	20,083	1,352
Restricted cash (note 26(d))	32,034	26,668
Borrowings - line of credit	(72,223)	-
	$ 26,244	$ 187,552

The accompanying notes form an integral part of these consolidated financial statements.

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1. General information

Vancouver City Savings Credit Union ("VCS") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia ("FIA"). VCS is a member-owned, community-based, full-service financial institution with branches in Metro Vancouver, the Fraser Valley, Victoria, Squamish and Alert Bay. VCS's primary lines of business include retail and business banking (deposit-taking and lending), commercial lending, and investment and advisory services. Vancity Community Investment Bank (the "Bank"), the principal subsidiary of VCS formerly known as Citizens Bank of Canada, is federally incorporated and its operations are regulated by the Office of the Superintendent of Financial Institutions ("OSFI"). The Bank serves customers across Canada with its main operations in British Columbia and Ontario. The Bank's primary lines of business include Visa credit card and prepaid card services and foreign exchange services.

The consolidated financial statements as at and for the year ended December 31, 2017 comprise VCS and its subsidiaries (hereinafter together referred to as "Vancity"). Vancity is domiciled in Canada and its registered office is 183 Terminal Avenue, Vancouver, British Columbia.

The consolidated financial statements were approved for issue by the Board of Directors (the "Board") on February 27, 2018.

2. Basis of presentation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as required by the FIA. The significant accounting policies as set out in note 3 below, comply with the requirements of IFRS and have been applied consistently to all periods presented in the consolidated financial statements.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- financial investments and derivative financial instruments, which are measured at fair value; and
- the retirement benefit obligation, which is measured at the net of the fair value of the plan assets and the present value of the defined benefit obligation, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is Vancity's functional currency.

2. Basis of presentation (continued)

(d) Use of estimates and judgments

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

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

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

(e) Comparative information

Certain comparative information has been reclassified, where appropriate, to conform to the current year's presentation.

3. Summary of significant accounting policies

(a) Basis of consolidation

The consolidated financial statements include the assets, liabilities and the results of operations and cash flows of Vancity. The wholly owned active subsidiaries are Vancity Community Investment Bank, Citizens Trust Company, Vancity Capital Corporation, Vancity Life Insurance Services Ltd., SCU Insurance Services Ltd., Vancity Investment Management Ltd. ("VCIM") and Dockside Green Limited Partnership. Vancity has a majority interest in Dockside Green Energy Limited Liability Partnership and it is fully consolidated in the results of Vancity. All inter-entity transactions and balances have been eliminated in preparing the consolidated financial statements.

Subsidiaries are entities controlled by VCS. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies across all subsidiaries for like transactions and other events in similar circumstances.

An entity is consolidated if VCS concludes that it controls the entity. The following circumstances may indicate a relationship in which, in substance, VCS controls and therefore consolidates the entity:

- VCS has power over the entity whereby VCS has the ability to direct the relevant activities (i.e., the activities that affect the entity's returns);
- VCS is exposed, or has rights, to variable returns from its involvement with the entity; and
- VCS has the ability to use its power over the entity to affect the amount of the entity's returns.

3. Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

Special purpose entities ("SPEs") are entities that are created to accomplish a narrow and well-defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated, if based on an evaluation of the substance of its relationship with Vancity, and the SPE's risks and rewards, Vancity concludes that it controls the SPE. Vancity's activities have not resulted in any entity meeting the circumstances that would require an SPE to be consolidated within these consolidated financial statements.

(b) Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars, which is Vancity's functional currency, at the spot exchange rate on the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies on the reporting date are re-translated into Canadian dollars at the spot exchange rate on that date.

Foreign currency differences arising on translation are recognized in the consolidated statement of income, except for differences arising on the translation of available-for-sale equity instruments, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate on the date of the transaction.

(c) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the original date of acquisition, including cash on hand, restricted cash, cheques and other items in transit. Cash is carried at amortized cost in the consolidated statement of financial position.

(d) Financial instruments

(*i*) Recognition, classification and measurement

Vancity recognizes loans and receivables and deposits on the date that they are originated. All other financial assets or liabilities are initially recognized on the trade date at which Vancity becomes a party to the contractual provisions of the instrument.

The classification of financial assets and liabilities are determined at initial recognition. Vancity's financial assets are classified as one of the following: fair value through profit or loss ("FVTPL"), loans and receivables, and available-for-sale ("AFS"). Financial liabilities are categorized as either FVTPL or as other financial liabilities.

Financial assets and liabilities at FVTPL

A financial asset or liability is required to be classified as FVTPL if it is acquired principally for the purpose of selling it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(*i*) Recognition, classification and measurement (continued)

Financial assets and liabilities at FVTPL (continued)

Financial assets or liabilities (other than those classified as held for trading) may be designated upon initial recognition at FVTPL, in any of the following circumstances, if they:

- eliminate or significantly reduce a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise from measuring assets and liabilities or recognizing the gains or losses on them on different bases;
- are part of a group of financial assets and/or financial liabilities that is managed and for which performance is evaluated and reported to key management on a fair value basis in accordance with a documented risk management or investment strategy; or
- are hybrid contracts where an entity is permitted to designate the entire contract at FVTPL.

As at December 31, 2017 and 2016, Vancity's financial assets and financial liabilities designated as FVTPL consist of derivative instruments that do not qualify or have not been designated as a hedge in a hedge accounting relationship. Mortgage-backed securities were designated as FVTPL in 2016, none of which are outstanding as at December 31, 2017. Gains and losses on mortgage-backed securities are recognized in net gains (losses) on financial instruments in the consolidated statement of income. Gains and losses on derivative instruments are recognized in interest income or interest expense in the consolidated statement of income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that Vancity, upon initial recognition, designates as FVTPL; those that Vancity, upon initial recognition, designates as AFS; or those for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration. Loans and receivables are recorded at fair value on initial recognition and subsequently measured at amortized cost using the effective interest method.

At December 31, 2017 and 2016, Vancity's loans and receivables principally consisted of loans and advances to members and other receivables.

Available-for-sale

AFS assets are those non-derivative financial assets that are designated as AFS; are not classified or designated as FVTPL; or do not qualify as loans and receivables. AFS assets are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of AFS financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired, except for foreign currency translation differences on monetary AFS assets which are recognized immediately in the consolidated statement of income.

3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(*i*) Recognition, classification and measurement (continued)

Available-for-sale (continued)

As a result of the derecognition or impairment of an AFS investment, the cumulative gain or loss previously recognized in the consolidated statement of comprehensive income is recognized in the consolidated statement of income. Interest income on monetary AFS assets is calculated using the effective interest method and is recognized in the consolidated statement of income. Dividends on AFS equity instruments are recognized in the consolidated statement of income when Vancity's right to receive payment is established.

As at December 31, 2017, and 2016, Vancity's AFS assets consisted primarily of treasury bills, banker's acceptances, mortgage-backed securities, long-term bonds, reinvestment assets under the Canada Mortgage Bond ("CMB") program and equity investments.

Other financial liabilities

Other financial liabilities are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method. At December 31, 2017 and 2016, other financial liabilities consisted of accounts payable and accrued liabilities, wholesale borrowings, borrowings - line of credit and secured borrowings, deposits from members and other liabilities.

(*ii*) Fair value of financial instruments

Note 25 contains information on the measurement of financial assets and liabilities recognized in the consolidated statement of financial position at fair value.

(*iii*) Impairment of financial assets

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

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

3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(*iii*) Impairment of financial assets (continued)

Loans and receivables

For the purposes of an individual evaluation of impairment, the amount of the impairment loss on a fixed rate financial instrument is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are categorized on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group, taking into account cure rates, work out costs, and discount factors.

On an ongoing basis, Vancity adjusts the inputs on its collective allowance, taking into account factors such as historical loss experience, and adjusting for current observable data that did not impact the period which the historical loss experience was based on. Estimates of changes in future cash flows for groups of assets reflects and is directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, real estate prices, payment status, or other factors indicative of changes in the probability of losses by Vancity and their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly by Vancity to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively linked to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of income in loan impairment expense.

3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(*iii*) Impairment of financial assets (continued)

Available-for-sale

At each financial reporting date, Vancity assesses if there is objective evidence that an AFS financial asset or a group of AFS financial assets may be impaired. A significant or prolonged decline in the fair value of an AFS equity security below its cost is considered objective evidence of possible impairment. An AFS debt instrument may be identified as impaired due to circumstances which can include actual delinquency in contractual payment of principal or interest and/or significant events which indicate there is doubt as to the collectability of the principal or contractual interest. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in net earnings, is reclassified from members' equity and recognized in the consolidated statement of income.

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net earnings, the impairment loss is reversed through the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed.

(*iv*) Derecognition of financial instruments

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

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

Vancity periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities, such as programs sponsored by Canada Mortgage and Housing Corporation that issue bonds to third party investors at specified interest rates.

Vancity also securitizes insured residential mortgages by participating in the National Housing Act mortgage-backed securities ("MBS") program. Through the program, Vancity issues securities backed by residential mortgages that are insured against borrower's default. Once the mortgages are securitized, Vancity may periodically transfer these MBS to Canada Housing Trust under the CMB Program.

3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(*iv*) Derecognition of financial instruments (continued)

Vancity reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether Vancity's rights to contractual cash flows have expired or transferred or whether an obligation has been undertaken by Vancity to pay the cash flows collected on the underlying transferred assets over to a third party. An assessment is also made to determine whether substantially all the risks and rewards of ownership have been transferred.

In instances where Vancity's securitizations and other transfers of receivables do not result in a transfer of contractual cash flows of the receivables or an assumption of an obligation to pay the cash flows of the receivable to a transferee, Vancity has not derecognized the transferred receivables and has instead recorded a secured borrowing with respect to any consideration received.

(*v*) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts with the same counterparty and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(e) Derivative instruments and hedge accounting

Derivative instruments are financial contracts whose value changes in response to a change in a specified interest rate, exchange rate or other variable, provided in the case of a non-financial variable, the variable is not specific to a party to the contract. Derivative contracts usually have no initial net investment or a net investment which would be smaller than a non-derivative contract and are settled at a future date. Derivatives are initially recognized at fair value on the date which a derivative contract is entered into. They are subsequently re-measured at their fair value and reported as assets where they have a positive fair value or as liabilities where they have a negative fair value.

Derivatives may also be embedded in other financial instruments and are treated as separate derivatives when (*i*) their economic characteristics and risks are not closely related to those of the host contract; (*ii*) a separate instrument with the same terms would meet the definition of a derivative instrument; and (*iii*) the host contract is not designated as FVTPL or classified as FVTPL. Changes in fair value on derivative instruments not qualifying for hedge accounting are recognized in interest income or expense as appropriate in the consolidated statement of income.

Vancity has classified certain index-linked deposit contracts that have embedded derivatives as FVTPL.

3. Summary of significant accounting policies (continued)

(e) Derivative instruments and hedge accounting (continued)

Vancity designates derivatives as either hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecast transaction (cash flow hedge), or FVTPL derivatives in instances where the derivative does not qualify or has not been designated as a hedge in a hedge accounting relationship. Vancity periodically uses derivatives for economic hedging purposes to mitigate an identified financial instrument risk.

When applicable, Vancity discloses a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur.

(f) Cash flow hedges

Vancity uses hedge accounting for derivatives designated as cash flow hedges provided certain criteria are met. Vancity documents, at the inception of the relationship, the relationship between hedged items and hedging instruments, as well as identifying the risk being hedged and its risk management objective and strategy for undertaking various hedge transactions. Vancity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the cash flows of the hedged items that are attributable to the risk being hedged.

The effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recognized in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in other income in the consolidated statement of income. Amounts accumulated in members' equity are reclassified to the consolidated statement of income in the periods when the hedged item affects net income. When a hedging instrument is sold, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting ceases and any cumulative gain or loss existing in members' equity at that time remains in members' equity and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of income. However, when a forecast transaction is no longer expected to occur, or when the hedged item is sold, the cumulative gain or loss that was deferred in members' equity is immediately transferred to the consolidated statement of income.

(g) Interest income and expense

Interest income and expense for all interest bearing financial instruments is recognized within interest income and interest expense in the consolidated statement of income using the effective interest method. The effective interest method is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, Vancity estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

3. Summary of significant accounting policies (continued)

(g) Interest income and expense (continued)

The calculation of the effective interest method includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Mortgage prepayment fees are recognized in interest income over the expected remaining term of the original mortgage using the effective interest method. Commitment fees are considered to be adjustments to loan yield and are deferred and amortized to interest income over the expected term of the loans. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expenses presented in the consolidated statement of income include:

(*i*) Interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis;

(*ii*) Interest on AFS investment securities calculated on an effective interest basis;

(*iii*) The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income / expense;

(*iv*) The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows when the forecast cash flows of the hedged item are no longer probable (as a release from AOCI);

(*v*) Fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk; and

(*vi*) Gains or losses on economic hedges.

(h) Fee and commission income and expense

The accounting treatment for loan fees varies depending on the transaction. Loan fees that are considered to be an integral part of the effective interest method are capitalized within loans and advances to customers and amortized into interest income over the expected life of the loan, as described in note 3(g).

Loan fees that are not an integral part of the effective interest method are recorded in fee and commission income. These fees include loan discharge fees, administration fees and loan syndication fees. Loan discharge and administration fees are recognized when the loan transaction is complete. Loan syndication fees are recognized when the syndication is completed and Vancity has retained no part of the package for itself or, if part has been retained, it bears the same effective interest as other participants.

3. Summary of significant accounting policies (continued)

(h) Fee and commission income and expense (continued)

Credit card and prepaid card fees primarily consist of load fees, interchange fees, maintenance fees and annual membership fees. These fees are recognized as earned.

Other fee and commission income – including account service fees, foreign exchange, insurance broker commissions and fees and trust and investment fees - is recognized as the related services are performed.

Fee and commission expense primarily relates to transaction and service fees, which are expensed as the service is received.

(i) Premises and equipment

(*i*) Recognition and measurement

All premises and equipment used by Vancity are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

(*ii*) Subsequent costs

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Vancity and the cost of the item can be measured reliably.

All other repair and maintenance costs are charged to general and administrative expenses during the financial period in which they are incurred.

(*iii*) Depreciation

Land is carried at cost and is not depreciated. Asset classes are further categorized for depreciation where significant differences in the estimated useful life of the various components of individually significant assets are identified. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 to 40 years
Leasehold improvements	5 to 10 years
Computer equipment	3 to 7 years
Furniture and fixtures	3 to 5 years

The residual values and useful lives of premises and equipment are reviewed, and adjusted if appropriate, at each financial reporting date.

3. Summary of significant accounting policies (continued)

(i) Premises and equipment (continued)

(*iv*) Impairment

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in other income in the consolidated statement of income.

(j) Intangibles

(*i*) Computer software

Computer software costs are capitalized when the future economic benefit is expected to exceed a period of one year. Otherwise, software costs are expensed when incurred. Capitalized software costs are initially recognized at cost and amortized using the straight-line method over the expected useful life. The expected useful life ranges from 3 to 15 years. Amortization expense is recognized in the consolidated statement of income as part of occupancy and equipment expense. Computer software is assessed for impairment when impairment indicators are identified.

(*ii*) ICBC licence

The ICBC licence was acquired to issue insurance coverage to members. The licence allows the brokers to sell insurance as well as optional coverage indefinitely; hence the licence has an indefinite life. The license is measured at cost less impairment if any. A review for impairment is conducted on an annual basis by comparing the cost with the market value.

(k) Leases

At inception of an arrangement, Vancity determines whether the arrangement is or contains a lease. The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership. All other leases are classified as operating leases.

3. Summary of significant accounting policies (continued)

(k) Leases (continued)

At December 31, 2017 and 2016, all of Vancity's leases are classified as operating leases.

(*i*) Vancity as a lessee

Leased assets under operating leases are not recognized in Vancity's consolidated statement of financial position. Operating lease payments are recognized in occupancy and equipment expense on a straight-line basis over the lease term. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Contingent rent is recognized in occupancy and equipment expense in the period in which it is incurred.

(*ii*) Vancity as a lessor

Rental income from operating leases is recognized in other income on a straight line-basis over the term of the lease. Contingent rent is recognized in other income in the period in which it is earned.

(l) Income taxes

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in members' equity or in other comprehensive income.

(*i*) Current tax

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

(*ii*) Deferred tax

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Summary of significant accounting policies (continued)

(m) Employee benefits

Vancity operates various post-retirement benefit plans. The plans are generally funded through contributions to trustee-administered funds determined by periodic actuarial calculations. Vancity has both defined benefit and defined contribution plans.

(*i*) Defined benefit plans

A defined benefit plan is a post-retirement benefit plan that defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. Vancity has one defined benefit pension plan that is registered with OSFI and regulated under the Federal Pension Benefit Standards Act, 1985. Vancity's other defined benefit plans are unregistered arrangements.

The retirement benefit obligation recognized in Vancity's consolidated statement of financial position in respect of its defined benefit plans is the present value of the defined benefit obligation at the financial reporting date less the fair value of plan assets and the effect of the asset ceiling (if any).

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plans assets and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. Net interest expense and other expenses related to defined benefit plans are recognized in the consolidated statement of income.

(*ii*) Defined contribution plans

For defined contribution plans, Vancity pays a specified flat rate for employer contributions. Vancity has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

3. Summary of significant accounting policies (continued)

(m) Employee benefits (continued)

(*iii*) Participation in multi-employer plans (the "Plan")

Vancity provides retirement benefits to certain employees through a multi-employer plan administered byCredit Union Pension & Benefits Trust. Each member credit union is exposed to the actuarial risks of the other employers. Vancity's participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis. Vancity has provided additional disclosure on the overall funding status of the multi-employer plan and future contribution levels in note 10(h).

(n) Provisions

A provision is recognized if, as a result of a past event, Vancity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived by Vancity from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, Vancity recognizes any impairment loss on the assets associated with the contract.

(o) Distribution to members

Patronage rebates and dividends are expensed when declared and classified as distribution to community and members in the consolidated statement of income.

(p) Standards issued but not yet effective

At December 31, 2017, a number of standards and amendments to standards had been issued by the IASB but not yet effective for these consolidated financial statements. Those which are relevant to Vancity's consolidated financial statements are set out below:

(*i*) IFRS 9 *Financial Instruments*

IFRS 9 was issued in July 2014 and replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. As at January 1, 2018, Vancity adopted IFRS 9.

IFRS introduces a new classification and measurement approach for financial assets and financial liabilities, impairment model for financial assets and rules for hedge accounting.

3. Summary of significant accounting policies (continued)

(p) Standards issued but not yet effective (continued)

(*i*) IFRS 9 *Financial Instruments* (continued)

Classification - Financial assets

IFRS 9 introduces a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their contractual cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and FVTPL. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, loans and receivables and AFS.

Generally, debt instruments will be measured at FVTPL unless certain conditions are met that permit FVOCI or amortized cost. Debt instruments that have contractual cash flows representing only payments of principal and interest will be eligible for classification as FVOCI or amortized cost. Gains and losses recorded in other comprehensive income for debt instruments will be recognized in profit or loss on disposal.

Equity instruments are measured at FVTPL. However, Vancity may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as FVOCI. Unlike AFS for equity securities under IAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss. This designation is also available to non-trading equity instrument holdings on date of transition.

In addition, Vancity may, at initial recognition, irrevocably elect to designate a financial asset as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets on date of transition.

Subsequent measurement of instruments classified as FVTPL under IFRS 9 operates in a similar manner to held for trading under IAS 39.

Subsequent measurement of debt instruments classified at FVOCI and amortized cost classifications under IFRS 9 operate in a similar manner to AFS for debt securities and loans and receivables, respectively, under existing IAS 39, except for the impairment provisions which are discussed below.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. This is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured at FVTPL.

3. Summary of significant accounting policies (continued)

(p) Standards issued but not yet effective (continued)

(*i*) IFRS 9 *Financial Instruments* (continued)

Classification - Financial assets (continued)

Based on a preliminary assessment of the new classification and measurement requirements, Vancity does not expect there to be a material impact on the accounting of its financial assets.

- Debt instruments currently classified as held-to-maturity and measured at amortized cost would likely meet the conditions for classification as measured at amortized cost under IFRS 9.
- Debt instruments currently classified as AFS financial assets would likely satisfy the conditions for classification as FVOCI.
- For equity instruments currently classified as AFS, there is a FVOCI election available.
- Equity investments currently measured as FVTPL would likely continue to be measured on the same basis under IFRS 9.

Classification - Financial liabilities

The accounting for financial liabilities under IFRS 9 will largely be the same as the requirements of IAS 39 except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the consolidated statement of income.

There will be no impact to Vancity's accounting for financial liabilities as Vancity does not have any financial liabilities designated as FVTPL.

Impairment - Financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss ("ECL") model. The new ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the current approach where the allowance recorded on performing loans is designed to capture only losses that have been incurred whether or not they have been specifically identified. The most significant impact will be on the loan portfolio.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

3. Summary of significant accounting policies (continued)

(p) Standards issued but not yet effective (continued)

(*i*) IFRS 9 *Financial Instruments* (continued)

Impairment - Financial assets (continued)

Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.

Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.

Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets, which is similar to the current requirements under IAS 39 for impaired financial instruments.

Changes in the required loss allowance, including the impact of movement between 12 months and lifetime expected credit losses, will be recorded in profit or loss.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL. The determination of a significant increase in credit risk takes into account many different factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain criteria such as 30-day past due and watch-list status. The assessment of a significant increase in credit risk will require experienced credit judgment.

ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to all debt instrument financial assets measured at amortized cost or FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL. Vancity believes that impairment losses are likely to increase for financial assets in scope of the new impairment model.

The individually assessed allowances for impaired instruments recognized under IAS 39 will generally be replaced by Stage 3 allowances under IFRS 9, while the collective allowances for non-impaired financial instruments will generally be replaced by either Stage 1 or Stage 2 allowances under IFRS 9.

3. Summary of significant accounting policies (continued)

(p) Standards issued but not yet effective (continued)

(i) IFRS 9 *Financial Instruments* (continued)

Hedge accounting

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation.

IFRS 9 includes a policy choice that allows Vancity to continue to apply the existing hedge accounting rules of IAS 39 instead of the requirements in IFRS 9 as the hedge accounting rules pertaining to macro hedging will not have been finalized on January 1, 2018. Revised hedge accounting disclosures however, are required by the IFRS 9 related amendments to IFRS 7 "Financial Instruments: Disclosures" in the financial statements. Vancity plans to continue applying the hedge accounting requirements under IAS 39 until the macro hedge accounting rules under IFRS 9 are finalized.

Disclosures

IFRS 9 introduces extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. These are expected to change the nature and extent of Vancity's disclosures over its financial instruments, particularly in the year of the adoption.

Transition impact

IFRS 9 must be adopted retrospectively. Restatement of comparatives is not required, though it is permitted.

Vancity will not retrospectively restate comparative balances but record an adjustment to its opening January 1, 2018 retained earnings and AOCI, to reflect the application of the new requirements of Impairment and Classification and Measurement at the adoption date.

Vancity continues to revise, refine and validate the impairment models and related process controls leading up to the reporting required for December 31, 2018.

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

In May 2014, the IASB issued IFRS 15, which replaces existing standards for revenue recognition. IFRS 15 establishes a framework for the recognition and measurement of revenues generated from contracts with customers, providing a principles-based approach for revenue recognition, and introducing the concept of recognizing revenue for performance obligations as they are satisfied. IFRS 15 also requires additional disclosures about the nature, amount, timing and uncertainty of revenues and cash flows arising from transactions with customers. Revenues outside of the scope of IFRS 15 include lease contracts, insurance contracts and financial instruments.

3. Summary of significant accounting policies (continued)

(p) Standards issued but not yet effective (continued)

(*ii*) IFRS *15 Revenue from Contracts with Customers* (continued)

In April 2016, the IASB issued amendments to IFRS 15, which provide additional clarity on the identification of a performance obligation in a contract, determination of the principal and agent in an agreement, and determination whether licensing revenues should be recognized at a point in time or over a specific period. The amendments also provide additional practical expedients that can be used at transition.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Vancity will adopt IFRS 15 using the modified retrospective approach, recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at January 1, 2018.

Vancity continues to assess the impact of IFRS 15 on its consolidated financial statements, including the presentation of certain revenue and expense items, the timing and measurement of revenue recognition, as well as additional qualitative and quantitative disclosures. Vancity does not currently expect a material impact to our consolidated financial statements as a result of adopting IFRS 15.

(*iii*) IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and replaces existing lease guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 does not significantly change the accounting of leases for lessors (i.e. lessors continue to classify leases as finance or operating leases). However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize short-term leases and leases of low-value assets. Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the consolidated statement of income.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

Vancity is currently assessing the effects of applying the new standard and has yet to determine the potential impact IFRS 16 will have on the consolidated financial statements.

4. Use of estimates and judgments

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying Vancity's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The following discussion sets forth:

- Management's most critical estimates and assumptions in determining the value of assets and liabilities; and
- Management's most critical judgments in applying accounting policies.

(a) The principal areas where critical estimates and assumptions have been applied, are described below:

(*i*) Impairment losses on loans and advances

Vancity regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment loss should be recorded in the consolidated statement of income, Vancity considers whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of members in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. Details of Vancity's loan impairment losses are provided in note 7.

(*ii*) Pension and other retirement benefits

The determination of expense and obligations associated with pension and other retirement benefit plans require the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with pension and other retirement benefit plans require the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results will differ from results which are estimated based on assumptions.

4. Use of estimates and judgments (continued)

(a) The principal areas where critical estimates and assumptions have been applied, are described below (continued):

(*ii*) Pension and other retirement benefits (continued)

Vancity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, Vancity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension and other retirement benefit obligations are based in part on current market conditions. Details of Vancity's pension and other retirement benefits are provided in note 10.

(*iii*) Income taxes

Vancity computes an income tax provision which includes an evaluation of the small business rate eligible to credit unions under the Income Tax Act. This small business rate applies until, in general, retained earnings reach five percent of amounts owing to members, including deposits and shares. The small business rate available to credit unions will be reduced progressively until it is completely eliminated. An estimate of deposit, share and income growth based on the modeling of the Vancity business plan inclusive of economic indicators provides the basis in determining the small business tax rate for Vancity.

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income. The assessment is based on enacted tax acts and estimates of future taxable income.

The actual expense does not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements. To the extent that estimates differ from the final tax returns, net earnings would be affected in the subsequent year. Details of Vancity's income taxes are provided in note 9.

(b) The principal areas which require critical judgments in applying accounting policies, are described below:

(*i*) Fair value of financial instruments

The fair value of financial instruments, where no active market exists or where quoted prices are not otherwise available, is determined by using specific valuation techniques with observable data of similar financial instruments. Where market observable data is not available, in areas such as credit risk and correlations, Vancity uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of Vancity's financial investments are provided in note 5.

4. Use of estimates and judgments (continued)

(b) The principal areas which require critical judgments in applying accounting policies, are described below (continued):

(*ii*) Determining if control exists over an investee

Under IFRS 10 an entity must assess whether or not it controls other entities based on assessment of its ability to influence the returns of an investee and the level to which it participates in those returns. This requires an investor to use judgment to assess the nature of the operations of the investee, the degree to which it is able to direct those operations and the level of exposure that the investor has to the variable returns of those entities.

(*iii*) Securitizations

In applying its policies on securitized financial assets, Vancity has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by Vancity over the other entity. Details of Vancity's securitization activities are provided in note 14(a).

5. Financial investments

An analysis of the fair value of financial investments is as follows:

	2017		2016	
	Effective yield	Total fair value	Effective yield	Total fair value
Financial investments designated as FVTPL upon initial recognition:				
Securities issued or guaranteed by the Canadian federal and provincial government	-	$ -	1.95%	$ 10,575
Financial investments classified as AFS:				
Securities issued or guaranteed by the Canadian federal and provincial government	1.39%	1,381,639	1.22%	1,406,183
Central 1 shares	3.40%	92,520	3.38%	77,961
Other securities	0.94%	26,069	0.78%	23,687
Total financial investments classified as AFS		1,500,228		1,507,831
Accrued interest		2,521		2,102
Total financial investments		$ 1,502,749		$ 1,520,508

Included in the above AFS investments are reinvestment assets relating to the CMB program of $298.8 million (2016 - $207.4 million). These assets have been pledged as collateral for the secured borrowings of $976.0 million (2016 - $975.9 million) as described in note 14(a).

On October 27, 2017, Central 1 Credit Union ("Central 1") redeemed 30,230 of the Credit Union's Class E shares. These shares had a carrying value of $0.01 per share, equal to cost, and were redeemed at $100 per share resulting in a gain of $3.0 million (2016 - nil) being recorded in net gains on financial instruments (note 18).

5. Financial investments (continued)

Effective December 31, 2017, Central 1 announced that 24.95% of the Credit Union's Class E shares would be redeemed at a value of $100 per share subsequent to year end. These shares have been recorded at a fair value of $100 per share, with the gain of $15.1 million (2016 - nil) being recorded in OCI.

All remaining Class E shares are recorded at their cost of $0.01 per share as the fair value cannot be reliably measured. There is no quoted market price for the shares, and the likelihood and timing of any future redemption of the shares cannot be determined.

6. Derivative instruments

December 31, 2017	Notional amounts			Fair values	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate contracts:					
Swap contracts	$ 225,000	$ 725,000	$ 950,000	$ 26	$ 8,575
Foreign exchange contracts:					
Forward contracts	76,384	-	76,384	657	380
Other:					
Equity index-linked option	6,503	30,444	36,947	3,467	-
Total derivative contracts	307,887	755,444	1,063,331	4,150	8,955
Amounts subject to master netting agreements				(231)	(231)
Net exposure on derivatives				$ 3,919	$ 8,724

December 31, 2016	Notional amounts			Fair values	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate contracts:					
Swap contracts	$ 250,000	$ 500,000	$ 750,000	$ 1,649	$ 1,777
Foreign exchange contracts:					
Forward contracts	122,169	-	122,169	1,187	635
Future contracts	74	-	74	3	-
Other:					
Equity index-linked option	4,422	24,882	29,304	2,721	-
Total derivative contracts	376,665	524,882	901,547	5,560	2,412
Amounts subject to master netting agreements				(1,567)	(1,567)
Net exposure on derivatives				$ 3,993	$ 845

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure.

Vancity is subject to master netting agreements in the form of International Swaps and Derivatives Association agreements with derivative counterparties.

6. Derivative instruments (continued)

From time to time, Vancity enters into derivative transactions to economically hedge certain business strategies. During the year ended December 31, 2017, Vancity recognized $2.5 million of unrealized losses in interest expense from changes in the fair value of derivatives (2016 - $1.2 million) and no realized gains or losses (2016 - $0.1 million loss) on the sale of financial instruments.

7. Loans and advances to members

(a) Loan balances

	2017	2016
Personal:		
Residential mortgages	$ 12,109,891	$ 11,866,685
Consumer loans	689,759	693,703
Business:		
Commercial mortgages and loans	5,628,202	5,174,000
Accrued interest receivable	27,819	26,128
Less: Allowance for credit losses	65,088	66,137
	$ 18,390,583	$ 17,694,379

At December 31, 2017, Vancity had $665.3 million (2016 - $897.6 million) of residential mortgages which had been securitized in the CMB program (2016 – CMB and MBS programs) and included in the consolidated statement of financial position as the securitization transactions did not meet the requirements for derecognition.

Residential mortgages that have been securitized through the CMB program and pledged as collateral for secured borrowings are disclosed in note 14(a).

(b) Reconciliation of allowance for credit losses

	Personal	Business	2017 Total	2016 Total
Balance, beginning of year	$ 24,468	$ 41,669	$ 66,137	$ 60,718
Allowance for credit losses:				
Loan sales	-	-	-	(2,287)
Change in normal credit factors	3,965	4,373	8,338	16,143
	3,965	4,373	8,338	13,856
Loans written-off	(11,219)	(2,115)	(13,334)	(11,827)
Recoveries of loans written-off	3,728	219	3,947	3,390
Balance, end of year	$ 20,942	$ 44,146	$ 65,088	$ 66,137
Individual allowance	942	1,685	2,627	5,372
Collective allowance	20,000	42,461	62,461	60,765
Total allowance for credit losses	$ 20,942	$ 44,146	$ 65,088	$ 66,137

7. Loans and advances to members (continued)

(c) Loans and advances individually impaired

A loan is considered impaired when a counterparty has not made a payment by the contractual due date and an individual allowance for credit has been established. The following table represents the carrying value of loans that are individually impaired:

	2017	2016
Balance of impaired loans before individual allowances		
Residential mortgages	$ 613	$ 155
Consumer loans	671	4,100
Business loans	1,768	1,306
	3,052	5,561
Individual allowance	(2,627)	(5,372)
Net carrying value	$ 425	$ 189

The fair value of the collateral held by Vancity as security for the above loans was $2.1 million (2016 - $0.4 million). Vancity has estimated the fair value of collateral based on an updated assessment of the security appraisal undertaken at the original funding assessment and management's knowledge of local real estate market conditions, where appropriate.

The collateral and other credit enhancements held by Vancity as security for loans include: (*i*) insurance, mortgages over residential lots and properties, (*ii*) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (*iii*) recourse to the commercial real estate properties being financed, and (*iv*) recourse to liquid assets, guarantees and securities.

Valuations of collateral are updated periodically depending on the nature of the collateral. Vancity has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

(d) Loans past due but not impaired

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

Loans that are past due but not impaired as at December 31, are as follows:

	30 to 59 days	60 to 89 days	90 days or more	Total 2017	Total 2016
Personal loans	$ 41,471	$ 4,655	$ 8,652	$ 54,778	$ 44,288
Business loans	3,848	190	2,838	6,876	11,094
	$ 45,319	$ 4,845	$ 11,490	$ 61,654	$ 55,382

8. Premises, equipment and intangibles

(a) Premises and equipment

The movement of premises and equipment during the years ended December 31, 2017 and 2016 is as follows:

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
Cost:						
Balance at January 1, 2017	$ 9,933	$ 66,756	$ 62,017	$ 41,136	$ 28,040	$ 207,882
Acquisitions	-	1,323	6,568	4,268	2,771	14,930
Disposals	-	(53)	-	-	-	(53)
Balance at December 31, 2017	$ 9,933	$ 68,026	$ 68,585	$ 45,404	$ 30,811	$ 222,759
Accumulated depreciation and impairment losses:						
Balance at January 1, 2017	$ -	$ 40,211	$ 37,113	$ 30,512	$ 21,639	$ 129,475
Disposals	-	(16)	-	-	-	(16)
Depreciation	-	2,669	4,783	4,290	2,270	14,012
Impairment	-	54	-	-	-	54
Balance at December 31, 2017	$ -	$ 42,918	$ 41,896	$ 34,802	$ 23,909	$ 143,525
Carrying amounts:						
Balance at January 1, 2017	$ 9,933	$ 26,545	$ 24,904	$ 10,624	$ 6,401	$ 78,407
Balance at December 31, 2017	9,933	25,108	26,689	10,602	6,902	79,234

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
Cost:						
Balance at January 1, 2016	$ 9,933	$ 65,380	$ 59,070	$ 35,782	$ 27,413	$ 197,578
Acquisitions	-	1,376	2,947	5,356	648	10,327
Disposals	-	-	-	(2)	(21)	(23)
Balance at December 31, 2016	$ 9,933	$ 66,756	$ 62,017	$ 41,136	$ 28,040	$ 207,882
Accumulated depreciation and impairment losses:						
Balance at January 1, 2016	$ -	$ 37,661	$ 31,166	$ 26,503	$ 19,602	$ 114,932
Disposals	-	-	-	(2)	(21)	(23)
Depreciation	-	2,655	5,947	4,011	2,058	14,671
Impairment	-	(105)	-	-	-	(105)
Balance at December 31, 2016	$ -	$ 40,211	$ 37,113	$ 30,512	$ 21,639	$ 129,475
Carrying amounts:						
Balance at January 1, 2016	$ 9,933	$ 27,719	$ 27,904	$ 9,279	$ 7,811	$ 82,646
Balance at December 31, 2016	9,933	26,545	24,904	10,624	6,401	78,407

8. Premises, equipment and intangibles (continued)

(b) Intangibles

The movement of intangibles during the years ended December 31, 2017 and 2016 is as follows:

	Software	ICBC License	Total
Cost:			
Balance at January 1, 2017	$ 89,884	$ 25	$ 89,909
Acquisitions	2,385	-	2,385
Balance at December 31, 2017	$ 92,269	$ 25	$ 92,294
Accumulated amortization:			
Balance at January 1, 2017	$ 17,522	$ -	$ 17,522
Amortization	7,256	-	7,256
Balance at December 31, 2017	$ 24,778	$ -	$ 24,778
Carrying amounts:			
Balance at January 1, 2017	$ 72,362	$ 25	$ 72,387
Balance at December 31, 2017	67,491	25	67,516

	Software	ICBC License	Total
Cost:			
Balance at January 1, 2016	$ 70,207	$ 25	$ 70,232
Acquisitions	19,677	-	19,677
Balance at December 31, 2016	$ 89,884	$ 25	$ 89,909
Accumulated amortization:			
Balance at January 1, 2016	$ 14,583	$ -	$ 14,583
Amortization	2,939	-	2,939
Balance at December 31, 2016	$ 17,522	$ -	$ 17,522
Carrying amounts:			
Balance at January 1, 2016	$ 55,624	$ 25	$ 55,649
Balance at December 31, 2016	72,362	25	72,387

9. Income taxes

(a) Income tax expense (recovery)

		2017		2016
Current tax expense	$	18,569	$	5,936
Deferred tax expense:				
Origination and reversal of temporary differences		1,488		10,432
Change in tax rate		6,197		(1,143)
		7,685		9,289
	$	26,254	$	15,225

(b) Reconciliation of effective tax rate

The effective tax rate of 22.3% (2016 - 19.8%) differed from the combined federal and provincial tax rate for the following reasons:

	2017	2016
Combined federal and provincial statutory tax rate	26.0%	26.0%
Credit union preferred rate reduction	(4.7)	(5.4)
Change in predicted future tax rates	4.6	1.9
Non-deductible and other items	(3.6)	(2.7)
	22.3%	19.8%

(c) Deferred tax assets and liabilities

		Balance at January 1, 2017		Recognized in net income		Recognized in in OCI		Balance at December 31, 2017
Deferred tax assets:								
Pensions and post-retirement benefits	$	13,071	$	(2,183)	$	(338)	$	10,550
Deferred revenue		3,988		(369)		-		3,619
Allowance for impairment of loans		13,887		(3,004)		-		10,883
Other provisions		1,550		1,340		(35)		2,855
Deferred loan fee expenses		279		80		-		359
Tax loss carried forward		1,917		(1,502)		-		415
		34,692		(5,638)		(373)		28,681
Deferred tax liabilities:								
Premises and equipment		(6,755)		(2,047)		-		(8,802)
Market valuation - AFS Investments		-		-		(2,569)		(2,569)
		(6,755)		(2,047)		(2,569)		(11,371)
Total	$	27,937	$	(7,685)	$	(2,942)	$	17,310

9. Income taxes (continued)

(c) Deferred tax assets and liabilities (continued)

	Balance at January 1, 2016	Recognized in net income	Recognized in in OCI	Balance at December 31, 2016
Deferred tax assets:				
Pensions and post-retirement benefits	$ 11,732	$ 1,299	$ 40	$ 13,071
Deferred revenue	2,578	1,410	-	3,988
Allowance for impairment of loans	12,446	1,441	-	13,887
Other provisions	1,764	(214)	-	1,550
Deferred loan fee expenses	490	(211)	-	279
Tax loss carried forward	8,549	(6,632)	-	1,917
	37,559	(2,907)	40	34,692
Deferred tax liabilities:				
Premises and equipment	(373)	(6,382)	-	(6,755)
Total	$ 37,186	$ (9,289)	$ 40	$ 27,937

(d) Unrecognized deferred tax liabilities

At December 31, 2017, deferred tax liabilities for temporary differences of $27.0 million (2016 - $27.6 million) related to investments in subsidiaries were not recognized because Vancity controls whether the liability will be incurred and is satisfied that it will not be incurred in the foreseeable future.

10. Pension and other retirement benefits

Vancity provides pension benefits to employees through defined contribution, defined benefit, and supplemental retirement and multi-employer defined benefit plans. Other post-retirement benefits including life insurance, health care, dental benefits or cash alternatives are provided to eligible Vancity employees upon or after retirement.

Vancity funds the defined benefit plans and multi-employer defined benefit plans based on actuarially prescribed amounts. The unfunded supplemental retirement and non-pension benefits are paid directly by Vancity at the time of entitlement. Retirement benefits for the defined contribution plan are paid by Vancity on an annual basis.

The accrued benefit obligation and plan assets were actuarially measured for accounting purposes as of December 31, 2017. The effective date of the last actuarial valuation report for funding purposes was December 31, 2016. The next actuarial valuation report will be prepared with an effective date of December 31, 2017 and is expected to be available in 2018.

10. Pension and other retirement benefits (continued)

(a) Retirement benefit obligation

	Pension plans		Other benefit plans		Total	
	2017	2016	2017	2016	2017	2016
Defined benefit obligation - funded	$ (34,054)	$ (30,320)	$ -	$ -	$ (34,054)	$ (30,320)
Defined benefit obligation - unfunded	(19,412)	(17,102)	(31,543)	(32,060)	(50,955)	(49,162)
Fair value of plan assets	29,106	25,877	-	-	29,106	25,877
Net retirement benefit obligation	$ (24,360)	$ (21,545)	$ (31,543)	$ (32,060)	$ (55,903)	$ (53,605)

(b) The movement in the defined benefit obligation is as follows:

	Pension plans		Other benefit plans		Total	
	2017	2016	2017	2016	2017	2016
Defined benefit obligation at January 1	$ (47,422)	$ (43,786)	$ (32,060)	$ (30,154)	$ (79,482)	$ (73,940)
Current service cost (net of employee contributions)	(2,932)	(2,736)	(1,731)	(1,718)	(4,663)	(4,454)
Interest cost	(1,836)	(1,744)	(1,231)	(1,183)	(3,067)	(2,927)
Employee contributions	(70)	(77)	-	-	(70)	(77)
Actuarial gains (losses) arising from:						
Experience adjustments	996	737	1,838	44	2,834	781
Financial assumptions	(3,349)	(757)	575	(434)	(2,774)	(1,191)
Benefit payments	1,147	941	1,066	1,385	2,213	2,326
Defined benefit obligation at December 31	$ (53,466)	$ (47,422)	$ (31,543)	$ (32,060)	$ (85,009)	$ (79,482)

(c) Fair value of plan assets

(*i*) Movement in the fair value of plan assets is as follows:

	2017	2016
Fair value of plan assets at January 1	$ 25,877	$ 24,077
Interest income on plan assets	990	951
Return on plan assets, excluding interest income	1,872	258
Employer contributions	2,510	2,840
Employee contributions	70	77
Benefit payments	(2,213)	(2,326)
Fair value of plan assets at December 31	$ 29,106	$ 25,877

(*ii*) Plan assets comprise the following:

	2017	2016
Equity securities	$ 10,594	$ 9,109
Debt securities	8,441	7,789
Pooled funds	9,576	8,539
Other assets	495	440
Fair value of plan assets	$ 29,106	$ 25,877

10. Pension and other retirement benefits (continued)

(d) The amounts recognized in the consolidated statement of income were as follows:

	Pension plans		Other benefit plans		Total	
	2017	2016	2017	2016	2017	2016
Current service cost	$ (2,932)	$ (2,736)	$ (1,731)	$ (1,718)	$ (4,663)	$ (4,454)
Interest cost	(1,836)	(1,744)	(1,231)	(1,183)	(3,067)	(2,927)
Interest income on plan assets	990	951	-	-	990	951
Total included in employee benefits expense (note 19)	$ (3,778)	$ (3,529)	$ (2,962)	$ (2,901)	$ (6,740)	$ (6,430)

(e) The amounts recognized in other comprehensive income were as follows:

	Pension plans		Other benefit plans		Total	
	2017	2016	2017	2016	2017	2016
Cumulative actuarial gains (losses) at January 1	$ (7,931)	$ (8,169)	$ 7,234	$ 7,624	$ (697)	$ (545)
Remeasurements:						
Actuarial gain (loss) in the year	(2,353)	(20)	2,413	(390)	60	(410)
Return on plan assets, excluding interest income	1,872	258	-	-	1,872	258
Cumulative actuarial gains (losses) at December 31	$ (8,412)	$ (7,931)	$ 9,647	$ 7,234	$ 1,235	$ (697)

(f) The significant actuarial assumptions used were as follows:

	Pension plans		Other benefit plans	
	2017	2016	2017	2016
Discount rate	3.4%	3.8%	3.4%	3.8%
Future salary increases	3.0%	3.0%	n/a	n/a
Health care cost trend[1]	n/a	n/a	5.3%	5.2%

[1] Reflects trend assumptions for extended health care, dental and MSP

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. Mortality assumptions are based on CPM 2014 Private Sector Mortality Table with generational projection using Improvement Scale CPM-B and pension size adjustment factors (0.85 for both male and female).

10. Pension and other retirement benefits (continued)

(f) The significant actuarial assumptions used (continued)

These tables translate into an average life expectancy in years of a pensioner retiring at age 65.

Retiring at the year-end date:

	Pension plans	Other benefit plans
Male	23 years	22 years
Female	25 years	24 years

Retiring 20 years after the year-end date:

	Pension plans	Other benefit plans
Male	24 years	23 years
Female	26 years	25 years

The interest rate sensitivity of the defined benefit obligation can be measured using duration. The duration also provides information on the maturity profile of the obligation. At December 31, 2017, the weighted average duration of the defined benefit obligation was 14 years (2016 - 14 years).

The sensitivity of the overall pension and other benefit plans liability to changes in the significant principal assumptions is:

	Retirement benefit obligation			
	Pension plans		Other benefit plans	
	2017	2016	2017	2016
Discount rate	3.4%	3.8%	3.4%	3.8%
Impact of: 1% increase	$ (7,808)	$ (6,814)	$ (2,848)	$ (2,944)
1% decrease	9,982	8,684	3,381	3,498
Salary growth rate	3.0%	3.0%	n/a	n/a
Impact of: 0.25% increase	24	17	n/a	n/a
0.25% decrease	(11)	(6)	n/a	n/a
Assumed overall health care trend rate	n/a	n/a	5.3%	5.2%
Impact of: 1% increase	n/a	n/a	373	560
1% decrease	n/a	n/a	(349)	(497)

The results shown in the sensitivity tables were determined by recalculating the defined benefit obligation but only changing the assumption for which the sensitivity is required and then calculating the difference between the recalculated obligation and the actual obligation. There have been no changes from the previous period to the methods or assumptions used in preparing the sensitivity analysis.

10. Pension and other retirement benefits (continued)

(g) Future contributions

The expected contributions for the year ending December 31, 2018 are as follows:

	Pension plans	Other benefit plans	Total
Company contributions	$ 1,400	$ 1,066	$ 2,466
Employee contributions	65	-	65
	$ 1,465	$ 1,066	$ 2,531

(h) Participation in multi-employer plan

Vancity participates in a defined benefit plan for certain eligible employees which is administered by Credit Union Pension & Benefits Trust.

Under IFRS, an employer is required to account for its participation in a multi-employer plan in respect of its proportionate share of assets, liabilities and costs in the same fashion as for any other defined benefit plan except in the circumstances where the information is not available to the employer, as follows:

(*i*) The entity does not have sufficient information to enable the employer to use defined benefit accounting.

(*ii*) The Plan exposes the participating employers to actuarial risks associated with the current and former employees of other entities with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual entities participating in the Plan.

It has been determined that insufficient information is available to enable defined benefit accounting for the Plan. In particular, the investments made from contributions are not tracked on an individual employer basis to enable an apportionment of Plan assets to the respective member employers. Furthermore, the Plan exposes each of the employers to common actuarial risks of all of the members with the consequence that, in management’s opinion, there is no reasonable and consistent basis of allocation of the actuarial assets (liabilities).

An actuarial valuation of the overall Plan was carried out as at December 31, 2015. It was determined that the overall Plan had an actuarial going concern unfunded liability of $25 million and a solvency deficit of $123 million. The deficit is targeted to be financed over time through increased contributions. Contributions to the Plan are established by the trustees of the Plan upon advice from the Plan actuaries.

The next actuarial valuation is scheduled for December 31, 2018 with results expected to be available in 2019.

11. Other assets

	2017	2016
Accounts receivable	$ 8,285	$ 9,087
Prepaid and deferred expenses	8,655	10,264
Investment property	2,883	21,315
Equity accounted investments	-	347
Security deposits	60	59
	$ 19,883	$ 41,072

In 2017, Vancity disposed of investment properties with a total carrying cost of $19.3 million (2016 - $0.5 million) and realized a net gain on sale of $33.9 million (2016 - $0.8 million) in the consolidated statement of income.

12. Deposits from members

	2017	2016
Demand deposits	$ 7,616,270	$ 6,868,021
Term deposits	10,682,620	11,152,565
Shares (note 13)	147,906	115,023
Accrued interest and dividend payable	100,653	103,092
	$ 18,547,449	$ 18,238,701

13. Shares

	2017	2016
Membership shares	$ 77,435	$ 77,424
Class C investment shares	33,316	35,387
Class E investment shares	35,228	-
Savings shares	1,927	2,212
	$ 147,906	$ 115,023

Members are required to purchase $5 of membership shares and are from time to time allowed to purchase investment shares. Retraction and redemption of these shares are subject to certain restrictions. Current outstanding Class C investment shares, subject to approval by the Board of Directors, earn dividends at a quarterly adjusted rate set at the higher of 1.6% and 1% above the three to five year Government of Canada bond yields. During the year, Vancity issued Class E investment shares that, subject to approval by the Board of Directors, earn dividends quarterly at 3.75% until December 31, 2022. After December 31, 2022, the intended dividend rate will be 2% above the five-year Government of Canada bond yields.

Savings shares can no longer be purchased by members and additional deposits are not permitted to these accounts. These shares have endowment insurance as a product feature and are paid an annual dividend. Deposits held in membership and investment shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia (“CUDIC”). Savings shares are guaranteed by CUDIC.

14. Borrowings

(a) Secured borrowings

During the year, Vancity had no new participation in the CMB program (2016 - $413.2 million). At December 31, 2017, the carrying amount of secured borrowings was $976.0 million (2016 - $975.9 million), which includes accrued interest amounting to $0.7 million (2016 - $0.6 million) and the carrying amount of the assets held as security was $991.4 million (2016 - $986.6 million). The security comprises $665.9 million of residential mortgages (2016 - $756.4 million), $298.8 million of reinvestment assets (2016 - $207.4 million) and $26.7 million in cash (2016 - $22.8 million). Vancity receives the net differential between the monthly interest receipts of the assets and the interest expense on the secured borrowing. The exposure to variability of future interest income and expense has been incorporated into the interest rate sensitivity calculations as shown in note 22(c)(*i*).

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	NCI	Investment shares	Secured borrowings	Wholesale borrowings	Total
Balance at January 1, 2017	$ 223	$ 35,387	$ 975,939	$ 500,057	$1,511,606
Increase in partnership shares	105	-	-	-	105
Increase (decrease) in borrowings	-	-	(88)	13,910	13,822
Investment share issuance	-	34,848	-	-	34,848
Investment share redemptions	-	(1,691)	-	-	(1,691)
Total changes from financing cash flows	$ 105	$ 33,157	$ (88)	$ 13,910	$ 47,084
Interest expense	$ -	$ -	$ 13,683	$ 6,765	$ 20,448
Interest paid	-	-	(13,536)	(6,516)	(20,052)
Total liability-related other changes	$ -	$ -	$ 147	$ 249	$ 396
Total equity-related other changes	$ (80)	$ -	$ -	$ -	$ (80)
Balance at December 31, 2017	$ 248	$ 68,544	$ 975,998	$ 514,216	$1,559,006

15. Accounts payable and accrued liabilities

	2017	2016
Visa prepaid liability	$ 52,854	$ 57,137
Accruals	56,139	50,898
Accounts payable	66,525	41,778
Outstanding drafts	4,430	3,440
Outstanding certified cheques	34,558	26,780
Visa reward points liability	30,928	29,453
Other	3,526	3,256
	$ 248,960	$ 212,742

16. Net interest income

	2017	2016
Interest income		
Cash and cash equivalents	$ 123	$ 197
Interest bearing deposits with financial institutions	18,039	14,595
Financial instruments:		
Fair value through profit or loss	117	778
Available-for-sale	18,967	16,211
Loans and advances to members	603,895	582,381
Other assets	232	498
	641,373	614,660
Interest expense		
Deposits from members	183,571	193,473
Secured borrowings	13,683	10,278
Wholesale borrowings	6,765	7,194
Other liabilities	21,764	20,766
	225,783	231,711
	$ 415,590	$ 382,949

17. Net fee and commission income

	2017	2016
Fee and commission income:		
Account service fees	$ 21,680	$ 21,145
Prepaid card and credit card fees	56,656	52,511
Foreign exchange	9,024	8,870
Insurance broker commissions and fees	2,405	2,602
Loan fees	2,413	2,501
Loan insurance fees	5,806	5,907
Trust and investment fees	36,154	31,744
	134,138	125,280
Fee and commission expense:		
Prepaid card and credit card fees	36,906	38,961
Other fees	7,372	7,457
	44,278	46,418
	$ 89,860	$ 78,862

18. Net gains (losses) on financial instruments

	2017	2016
Realized gain on disposal of financial instruments:		
Instruments held at amortized cost	$ -	$ 1,346
Fair value of instruments held as AFS reclassified from equity	3,262	114
Unrealized change in fair value of financial instrument:		
Instruments designated as FVTPL	(56)	(166)
Impairment of instruments held as AFS reclassified from equity	-	(150)
	$ 3,206	$ 1,144

19. Salary and employee benefits

	2017	2016
Salaries	$ 188,745	$ 176,299
Benefits	30,069	27,717
Pension costs:		
Defined benefit plans (note 10(d))	3,778	3,529
Defined contribution plans	13,006	12,722
Post-employment benefits (note 10(d))	2,962	2,901
	$ 238,560	$ 223,168

20. General and administrative expenses

	2017	2016
Professional and consulting	$ 16,948	$ 13,968
Dues and assessments	18,109	17,337
Marketing and advertising	7,959	10,001
Telecommunication, stationery and postage	10,973	10,848
Member service and lending	11,196	11,048
Data processing	13,525	11,397
Insurance	2,803	2,648
Travel, meeting and entertainment	4,022	3,048
Miscellaneous	8,678	3,482
	$ 94,213	$ 83,777

21. Distribution to community and members

		2017		2016
Donations to community	$	14,689	$	9,871
Membership distribution - dividends		2,993		2,616
Membership distribution - patronage		9,852		6,021
Total shared success		27,534		18,508
Investment share dividends		1,147		571
Total distributions to community and members	$	28,681	$	19,079

Patronage rebates paid to members are calculated based on deposit interest paid by Vancity, loan interest received by Vancity, and member funds under administration with Credential Asset Management and VCIM.

22. Financial risk management framework

Vancity accepts deposits from members at both fixed and floating rates for various periods and seeks to earn an interest rate margin by investing these funds in high quality financial instruments - principally mortgages. Vancity's principal business activities result in a consolidated statement of financial position that consists primarily of financial instruments. In addition, Vancity uses derivative financial instruments for asset/liability management purposes. The primary types of financial risk which arise from these activities are credit risk, liquidity risk and market risk.

(a) Credit risk

Credit risk is the risk of financial loss to Vancity if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from Vancity's loans and advances to members. Vancity is also exposed to credit risks arising from investments in debt securities and other credit exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties.

(*i*) Credit risk management

Vancity manages, limits and controls concentrations of credit risk, where identified, to individual counterparties and industries. The Board, through the Risk Committee, places limits on the amount of credit risk accepted in relation to one member and/or sector.

22. Risk management framework (continued)

(a) Credit risk (continued)

(*ii*) Credit risk exposure

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

	2017	2016
On-balance sheet exposures	$ 21,480,300	$ 20,905,181
Off-balance sheet exposures (note 26(a))	6,205,428	5,976,019
	$ 27,685,728	$ 26,881,200

The table below provides a distribution of Vancity's personal loan portfolio by Beacon score; however, it does not take into consideration other factors that may mitigate exposure to credit risk. Beacon scores are credit scores that are considered in assessing the credit risk of the retail portfolio.

Risk category	Beacon score range	2017	2016
High	less than 620	$ 372,270	$ 440,948
Medium	620 - 720	2,601,871	3,291,109
Low	more than 720	9,825,509	8,828,331
Total		$ 12,799,650	$ 12,560,388

The business portfolio utilizes an assessment process that measures credit risk, taking into consideration a number of factors such as the borrower's management, current and projected financial results, industry statistics, and economic trends that cumulates into a risk rating. This risk rating categorizes risk according to the degree of financial loss faced and forces management to focus on these risks and helps determine where impairment provisions may be required. The current risk rating framework consists of internal grades reflecting varying degrees of risk of default, staff oversight, and the availability of collateral or other credit enhancements. The credit quality of Vancity's business portfolio, expressed in terms of the internal risk ratings is shown in the table below:

Internal risk ratings	2017	2016
11 - 21: Minimal to normal	$ 1,070,091	$ 1,075,286
22 - 32: Acceptable	4,522,363	4,010,745
41 - 52: High: requires management involvement	35,748	87,969
	$ 5,628,202	$ 5,174,000

22. Risk management framework (continued)

(b) Liquidity risk

Liquidity risk is the risk that Vancity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset as well as not being able to meet unexpected cash needs. Vancity must maintain a statutory level of liquidity cash reserves at Central 1 and an additional amount of liquidity reserves to fund member and community lending.

Accordingly, Vancity has policies and procedures in place to manage its liquidity position, both to comply with regulatory requirements and sound business practices.

(*i*) Liquidity risk management

Vancity's liquidity risk is subject to extensive risk management controls and is managed within the framework, policies and limits approved by the Board. On an annual basis, the Board, through the Risk Committee reviews and approves the liquidity policy presented by management to ensure adherence to regulatory requirements. The Asset Liability Committee ("ALCO") oversees the operational adherence to the liquidity policy. ALCO approves liquidity management processes and strategies presented by treasury and finance management in addition to overseeing adherence to minimum liquidity limits, eligibility requirements for liquid assets, investments with counterparties, funding diversification, deposit concentration and diversification limits.

(*ii*) Liquidity risk exposure

The key measure used by Vancity for managing liquidity risk is the ratio of liquid assets to deposits and debt liabilities. In accordance with OSFI regulatory requirements, the Bank measures liquidity risk by monitoring its liquid assets to total assets. Because of this difference in calculation, Vancity's consolidated liquidity ratio does not include the Bank. The Bank's liquidity ratio has been disclosed separately below.

For the purpose of measuring liquidity risk, liquid assets comprise the total market value of cash, Government of Canada or provincial treasury bills, debt securities with a government guarantee and a minimum DBRS Limited ("DBRS") investment rating of A, government guaranteed mortgage backed securities, banker's acceptances and bearer deposit notes from Schedule I and II banks with a DBRS rating of R-1 low or higher, and corporate commercial paper with a DBRS rating of R-1 low or higher.

VCS

VCS's ratio of liquid assets to deposits and debt liabilities at the reporting date and during the reporting period was as follows:

	2017	2016
At December 31	12.88%	14.25%
Average for the year	13.21%	13.42%
Maximum for the year	14.15%	14.68%
Minimum for the year	12.55%	12.56%
Total liquid assets	$ 2,577,558	$ 2,792,231

22. Risk management framework (continued)

(b) Liquidity risk (continued)

(ii) Liquidity risk exposure (continued)

The Bank

The Bank's ratio of liquid assets to total assets at the reporting date and during the reporting period was as follows:

	2017	2016
At December 31	84.12%	82.67%
Average for the year	82.50%	82.18%
Maximum for the year	84.32%	84.95%
Minimum for the year	78.96%	79.93%
Total liquid assets	95,711	87,404
Total assets	$ 113,781	$ 105,731

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Less than 1 year	1 - 3 years	4 to 5 years	Over 5 years	Total
Deposits from members	$ 16,882,364	$ 2,118,712	$ 128,868	$ 271	$ 19,130,215
Wholesale borrowings	521,909	-	-	-	521,909
Secured borrowings	17,407	510,489	505,265	-	1,033,161
Other financial liabilities	318,204	-	-	-	318,204
Derivative liabilities	4,326	4,629	-	-	8,955
December 31, 2017	$ 17,744,210	$ 2,633,830	$ 634,133	$ 271	$ 21,012,444
December 31, 2016	$ 17,315,113	$ 2,148,279	$ 916,237	$ 47	$ 20,379,676

(c) Market risk

In the normal course of its operations, Vancity engages in transactions that give rise to market risk. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and credit spreads. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return for a given level of risk.

The Board, through the Risk Committee, sets risk tolerance levels for Vancity. Within these boundaries, ALCO measures, monitors and manages Vancity's market risk profile. The policies for market risk management are reviewed annually by ALCO, and approved by the Risk Committee and the Board.

22. Risk management framework (continued)

(c) Market risk (continued)

Vancity has various policy and procedure statements that specify roles and responsibilities for senior management, treasury, trading management, traders, finance, and compliance. Many of these policies fall under the responsibility of the Risk Committee. The Risk Committee's role is to provide effective oversight, on behalf of the Board, of Vancity's risk management activities. In addition, Vancity has developed and maintains a practice of performing independent valuations of positions, mark to market methodologies, and asset liability modeling.

(*i*) Interest rate risk

Interest rate risk, inclusive of credit spread risk, is the risk of loss to Vancity due to the following: changes in the level, slope and curvature of the interest rate yield curve; the volatility of interest rates; the maturity profile of assets and liabilities; mortgage prepayment rates; changes in the market price of credit; and the creditworthiness of a particular issuer. For Vancity, mismatches in the balance of assets, liabilities and off-balance sheet financial instruments that mature and re-price in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as Vancity manages its portfolio of loans and deposits with changing term preferences and through the strategic positioning of the portfolio to enhance profitability. To manage interest rate risk, Vancity may also use financial instruments such as swaps and other derivative instruments.

Duration analysis is a measure of interest rate exposure and provides an indication of when on average the present value of any financial instrument will be received. Vancity uses duration analysis to measure the sensitivity of asset and liability market values to a change in interest rates and provides an indication of long term interest rate exposure.

Based on Vancity's interest rate positions as at December 31, the following table shows the potential before tax impact of an immediate and sustained 1.0% increase and decrease in interest rates over a 12 month period on Vancity's market value of net assets and net interest income.

	2017		2016	
Interest rate sensitivity	Market value impact	Net interest income	Market value impact	Net interest income
Before tax impact of:				
1.0% decrease in rates	$ 93,079	$ (1,857)	$ 115,726	$ (14,740)
1.0% increase in rates	(91,686)	(2,054)	(114,771)	8,115

22. Risk management framework (continued)

(c) Market risk (continued)

(*i*) Interest rate risk (continued)

Gap analysis is a technique used by Vancity in asset liability management to assess interest rate risk. It comprises aggregating cash flows into repricing periods and then assessing whether the cash flows in each of the periods net to zero. The repricing periods are time horizons, based on either repricing dates or maturity dates of the assets and liabilities. An interest rate gap is a positive or negative net cash flow for one of the periods. Gap analysis does not take into consideration the credit risk of assets and liabilities. The determination of interest rate sensitivity or gap position encompasses numerous assumptions. It is based on the earlier of the repricing date or the maturity date of assets, liabilities and derivative instruments used to manage interest rate risk.

The gap position presented is as at December 31 of each year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based on member behavior and the application of Vancity's asset and liability management policies.

The assumptions for the years ended December 31, 2017 and 2016 were as follows:

Assets

Fixed term assets, such as residential mortgage loans and consumer loans, are reported based on scheduled repayments and estimated prepayments that reflect expected borrower behavior.

Variable rate assets that are related to the Vancity's prime rate or other short term market rates are reported in the within three month category.

Fixed rate and non-interest bearing assets with defined maturity are reported based on expected account balance behavior.

Liabilities

Fixed rate liabilities, such as term deposits, are reported at scheduled maturity with estimated redemptions that reflect expected depositor behavior.

Interest bearing deposits on which the member interest rate changes with prime or other short term market rates are reported within the three months category.

Fixed rate and non-interest bearing liabilities with no defined maturity are reported based upon expected account balance behavior.

22. Risk management framework (continued)

(c) Market risk (continued)

(*i*) Interest rate risk (continued)

Yields

Yields are based on the effective interest rates for the assets and liabilities on December 31.

December 31, 2017	Yield	Within 3 months	3 months to 1 year	1 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets:							
Cash and cash equivalents	0.00%	$ -	$ -	$ -	$ -	$ 98,467	$ 98,467
Interest bearing deposits with financial institutions	1.36%	217,352	305,274	961,725	-	-	1,484,351
Financial investments	1.21%	57,834	763,086	571,495	91,183	19,151	1,502,749
Loans and advances to members	3.43%	7,889,525	2,469,741	6,258,958	1,772,359	-	18,390,583
Other	0.00%	3,511	-	-	-	188,341	191,852
		$ 8,168,222	$ 3,538,101	$ 7,792,178	$ 1,863,542	$ 305,959	$ 21,668,002
Liabilities and Equity:							
Deposits from members	1.05%	$ 7,311,111	$ 5,813,266	$ 3,862,773	$ 1,560,198	$ 101	$ 18,547,449
Wholesale borrowings	1.56%	514,216	-	-	-	-	514,216
Secured borrowings	1.55%	630,088	-	345,910	-	-	975,998
Other	0.00%	72,565	3,604	4,629	-	1,549,541	1,630,339
		$ 8,527,980	$ 5,816,870	$ 4,213,312	$ 1,560,198	$ 1,549,642	$ 21,668,002
Consolidated statement of financial position mismatch		$ (359,758)	$ (2,278,769)	$ 3,578,866	$ 303,344	$ (1,243,683)	$ -
Notional amount of derivatives		(675,000)	(50,000)	725,000	-	-	-
Net mismatch 2017		$ (1,034,758)	$ (2,328,769)	$ 4,303,866	$ 303,344	$ (1,243,683)	$ -
Net mismatch 2016		361,870	(3,323,040)	3,011,003	947,297	(997,130)	-

(*ii*) Foreign currency risk

Foreign currency risk is the risk that movement in foreign exchange rates will have an adverse effect on the financial performance of Vancity. Foreign currency risk arises in the ordinary course of business as Vancity meets the member demands for foreign currency banking activities.

Vancity is exposed to foreign currency risk each time it buys and sells foreign currency products to a member or to another financial institution. Vancity holds a foreign currency position that is exposed to the risk of exchange rates movements in either the spot or forward market. Vancity's exposure to this risk is managed through economic hedging, either naturally or synthetically. The impact of foreign currency risk will be influenced by the volatility of exchange rate changes, the mix of foreign currency assets and liabilities, and the exposure to each currency market.

23. Assets pledged as collateral

In the normal course of business, Vancity pledges mortgage assets and readily marketable securities to secure credit and clearing facilities. Asset pledging transactions are conducted under terms that are common and customary to standard derivative and other financing activities. Standard risk management controls are applied with respect to asset pledging.

Assets which are pledged as collateral are related to derivative transactions, proceeds from securitizations and other borrowings. The nature and carrying amounts of the assets pledged as collateral are as follows:

	2017	2016
Cash	$ 29,793	$ 24,629
Securities	305,007	213,282
Mortgages	830,936	921,437
General charge	2,440,000	2,500,000
	$ 3,605,736	$ 3,659,348
Assets pledged to, or charged against by:		
Central 1	$ 1,503,195	$ 1,502,992
Other financial institutions	1,111,140	1,169,786
Secured borrowings	991,401	986,570
	$ 3,605,736	$ 3,659,348
Assets pledged in relation to the following available facilities:		
Clearing facilities	$ 4,000	$ 6,000
Secured borrowings	975,998	975,939
Standby credit facilities	1,330,000	1,360,000
Derivative contracts	3,150	1,790
	$ 2,313,148	$ 2,343,729

24. Regulatory and capital management

VCS

Capital is managed in accordance with policies established by the Board and appropriate management committees. An integral part of VCS's strategy is to maintain a strong capital base. All of the elements of capital are monitored throughout the year. . An Internal Capital Adequacy Assessment Process (ICAAP) is performed on an annual basis to ensure an appropriate level of capital is maintained to sustain current and future operations and is approved by the Board of Directors. VCS makes annual dividend payments on eligible shares, within the context of its overall capital management plan.

FIA requires VCS to maintain a capital base that is adequate for its business. Capital levels for credit unions in British Columbia are regulated pursuant to guidelines issued by the Financial Institutions Commission of British Columbia ("FICOM"). Minimum capital standards are based on a total capital to risk weighted assets ("RWA") ratio of 8%.

24. Regulatory and capital management (continued)

VCS (continued)

Regulatory capital is allocated to two tiers: Primary and Secondary. Primary capital is comprised of the more permanent components of capital and consists primarily of retained earnings adjusted for deferred taxes, shares, and contributed surplus. Secondary capital consists of 50% of a credit union's portion of retained earnings in CUDIC, Central 1, and Stabilization Central Credit Union, as well as equity shares that do not meet the criteria for Primary capital. Total regulatory capital is defined as the lesser of total of Primary and Secondary capital less deductions as prescribed by FICOM or VCS's retained earnings and contributed surplus divided by 35%.

The capital ratio is calculated by dividing total capital by RWA, which are the assets weighted according to relative risk (0% to 150%) as determined by FICOM for on-balance sheet and off-balance sheet exposures.

As at December 31, 2017 and 2016, VCS's capital ratios were in compliance with the regulatory requirements.

	2017	2016
Primary capital	$ 1,357,913	$ 1,234,308
Secondary capital	160,701	148,558
Deductions from capital	(71,275)	(76,396)
Total regulatory capital	$ 1,447,339	$ 1,306,470

The Bank

Capital levels for Canadian Banks are regulated pursuant to Capital Adequacy Requirements guideline issued by OSFI in accordance with the Basel II and Basel III capital adequacy frameworks. The Basel III framework revised the definition of regulatory capital to strengthen the capital base with a greater focus on common equity. Regulatory capital consists of: Tier 1 (the sum of Common Equity Tier 1 and Additional Tier 1) and Tier 2 as defined by the guideline. Intangibles and deferred tax assets as specified in the guideline are deducted from Common Equity Tier 1 capital as regulatory adjustments.

Regulatory ratios are calculated by dividing the Common Equity Tier 1, Tier 1, and Total Capital by the risk-weighted assets ("RWA"). The calculation of RWA is determined by OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures.

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

24. Regulatory and capital management (continued)

The Bank (continued)

Although maximization of the return on risk adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Synergies with other operations and activities are also considered as well as the availability of management and other resources and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board.

As at December 31, 2017 and 2016, the Bank's capital ratios were in compliance with the regulatory requirements.

	2017	2016
Tier 1 capital	$ 32,163	$ 27,102
Tier 2 capital	-	-
Deductions from capital	(337)	(318)
Regulatory capital	$ 31,826	$ 26,784

25. Fair value of financial instruments

Certain financial instruments are recognized in the consolidated statement of financial position at fair value. These include derivative instruments and financial assets classified either as FVTPL or AFS. The fair value of a financial instrument is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants which takes place in the principal (or most advantageous) market at the measurement date. The fair value of a liability reflects its non-performing risk. The best evidence of fair value is a quoted bid price for financial assets held or an offer price for financial liabilities from an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Where independent quoted market prices are not available, Vancity uses the quoted market prices for similar instruments, other third party evidence or valuation techniques.

Financial instruments are recorded at fair value upon initial recognition, which is normally equal to the fair value of the consideration given or received to obtain the instrument. Where financial instruments are measured at fair value subsequent to initial recognition, fair value is determined as described above.

Financial instruments whose carrying values approximate fair value

Fair values of cash and cash equivalents, interest receivable, demand deposits, demand loans and other financial assets and liabilities are assumed to approximate their carrying values, principally due to their short-term nature.

25. Fair value of financial instruments (continued)

Financial instruments for which fair value is determined using valuation techniques

The fair value of financial instruments determined using these techniques include the use of recent arm's length transactions and discounted cash flow analysis for investments in unquoted securities, discounted cash flow analysis for derivatives, third-party option pricing models for index-linked option contracts, other valuation techniques commonly used by market participants and utilize independent observable market inputs to the maximum extent possible.

The use of valuation techniques to determine the fair value of a financial instrument requires management to make assumptions such as the amount and timing of future cash flows and discount rates and incorporate Vancity's estimate of assumptions that a market participant would make when valuing the instruments.

The fair values below reflect conditions that existed only at the respective financial reporting dates and do not necessarily reflect a future value or the amounts Vancity might receive or pay if it were to dispose of any of its financial instruments prior to their maturity.

Vancity measures fair value using the following hierarchy that reflects the significance of inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

25. Fair value of financial instruments (continued)

The following table illustrates the classification of Vancity's financial instruments within the fair value hierarchy:

December 31, 2017	Level 1	Level 2	Level 3	Total fair value	Amortized cost	Carrying value
Assets:						
Financial investments	$ 697,652	$ 780,909	$ 24,188	$ 1,502,749	$ n/a	$ 1,502,749
Derivative assets	-	4,150	-	4,150	n/a	4,150
Loans and advances to members	-	18,329,083	-	18,329,083	18,390,583	18,390,583
Interest bearing deposits with financial institutions	-	1,470,437	-	1,470,437	1,484,351	1,484,351
Other financial assets	-	11,680	-	11,680	11,680	11,680
	$ 697,652	$ 20,596,259	$ 24,188	$ 21,318,099	$ 19,886,614	$ 21,393,513
Liabilities:						
Derivative liabilities	$ -	$ 8,955	$ -	$ 8,955	$ n/a	$ 8,955
Deposits from members	-	18,514,768	-	18,514,768	18,547,449	18,547,449
Wholesale borrowings	-	514,196	-	514,196	514,216	514,216
Secured borrowings	-	973,397	-	973,397	975,998	975,998
Other financial liabilities	-	318,204	-	318,024	319,204	319,204
	$ -	$ 20,329,520	$ -	$ 20,329,520	$ 20,355,867	$ 20,364,822

December 31, 2016	Level 1	Level 2	Level 3	Total fair value	Amortized cost	Carrying value
Assets:						
Financial investments	$ 598,400	$ 913,538	$ 8,570	$ 1,520,508	$ n/a	$ 1,520,508
Derivative assets	-	5,560	-	5,560	n/a	5,560
Loans and advances to members	-	17,703,955	-	17,703,955	17,694,379	17,694,379
Interest bearing deposits with financial institutions	-	1,495,532	-	1,495,532	1,497,182	1,497,182
Other financial assets	-	14,119	-	14,119	14,119	14,119
	$ 598,400	$ 20,132,704	$ 8,570	$ 20,739,674	$ 19,205,680	$ 20,731,748
Liabilities:						
Derivative liabilities	$ -	$ 2,412	$ -	$ 2,412	$ n/a	$ 2,412
Deposits from members	-	18,230,886	-	18,230,886	18,238,701	18,238,701
Wholesale borrowings	-	500,092	-	500,092	500,057	500,057
Secured borrowings	-	979,559	-	979,559	975,939	975,939
Other financial liabilities	-	210,875	-	210,875	210,875	210,875
	$ -	$ 19,923,824	$ -	$19,923,824	$ 19,925,572	$ 19,927,984

25. Fair value of financial instruments (continued)

During the years ended December 31, 2017 and 2016, there were no transfers between Level 1, Level 2 and Level 3. Vancity recognizes transfers between levels in the fair value hierarchy at the end of the year during which the change occurred.

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	2017	2016
Balance at January 1	$ 8,570	$ 8,513
Losses included in net income attributable to members	-	(267)
Gains (losses) included in OCI	14,723	(407)
Purchases	1,645	981
Settlements	(750)	(250)
Balance at December 31	$ 24,188	$ 8,570

26. Commitments and contingencies

(a) Credit commitments

The following amounts represent the maximum amount of additional credit that Vancity could be obligated to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements may expire or terminate without being utilized.

	2017	2016
Undrawn lines of credit	$ 4,494,317	$ 4,366,251
Commitments to extend credit	714,374	609,099
Undrawn credit on credit cards issued	963,300	970,655
Documentary letters of credit	33,437	30,014
	$ 6,205,428	$ 5,976,019

(b) Deposit commitments

Under governing legislation, Vancity maintains, for liquidity purposes, deposits with Central 1. As part of its contractual obligations with Central 1, Vancity is required to maintain a portion of its liquidity in the form of deposits held with Central 1.

Cash and deposits with Central 1 totaled $1.5 billion at December 31, 2017 (2016 - $1.5 billion), including deposits under contractual requirements. At December 31, 2017, Vancity's minimum required deposit with Central 1 under contractual requirements is $1.2 billion (2016 - $1.1 billion).

26. Commitments and contingencies (continued)

(c) Guarantees

Vancity had an outstanding performance guarantee of $4.2 million to the City of Victoria at December 31, 2016. The performance guarantee was fully discharged during 2017. There are no guarantees outstanding as at December 31, 2017.

(d) Restricted cash

Included in cash and cash equivalents are restricted funds from third parties totaling $2.2 million (2016 - $2.0 million). These amounts are being held in respect of specific lending programs and if unused, are repayable at the termination of the lending program.

Included in the cash and cash equivalents balance is $3.2 million (2016 - $1.8 million) of restricted cash pledged as collateral for derivative contracts.

Included in the cash and cash equivalents balance is cash of $26.7 million (2016 - $22.8 million) relating to the CMB program. This cash forms part of the security for the secured borrowings of $976.0 million (2016 - $975.9 million).

(e) Lease commitments

(*i*) Vancity as a lessee

Vancity leases a number of branch and office premises. These leases typically run for a period of 10 years, with an option to renew the lease after that date. The lease arrangements may include escalation clauses to reflect fair market rental rates. Total lease payments of $17.3 million (2016 - $17.5 million) were expensed during the year ended December 31, 2017.

The future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

		2017		2016
No later than one year	$	13,705	$	13,287
Later than one year and no later than five years		28,598		31,849
Later than five years		7,020		6,434
	$	49,323	$	51,570

Sub-lease payments

Future minimum lease payments expected to be received under non-cancellable sub-leases of operating leases	$	356	$	516

26. Commitments and contingencies (continued)

(e) Lease commitments (continued)

(*ii*) Vancity as a lessor

Vancity acts as lessor of certain branch and office premises. These leases have an average life of five years with an option to renew the lease after that date. Total lease payments of $0.4 million (2016 - $0.4 million) were received during the year ended December 31, 2017.

The future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

	2017	2016
No later than one year	$ 156	$ 128
Later than one year and no later than five years	305	177
	$ 461	$ 305

(f) Legacy fund commitment

Vancity has committed to making a $5.0 million contribution to the Greater Victoria Savings Credit Union Legacy Fund and has paid a cumulative total of $4.8 million as at December 31, 2017 (2016 - $4.6 million). The remaining balance will be paid in 2018.

(g) Contingencies

In the ordinary course of business, Vancity is party to a number of legal proceedings, in which the likelihood of a loss and amount of loss, if any, is not readily determinable.

In accordance with accounting standards, provisions have been included in liabilities where appropriate if, in the opinion of management, it is more likely than not that a future event will confirm that a liability existed at the date of the financial statements and the amount of the loss can be reasonably estimated.

At times, however, it is either not possible to determine whether a liability has been incurred or to reasonably estimate the amount of loss until proceedings are closer to a resolution, in which case no amounts will be accrued until that time.

The outcome of any such matters, individually or in aggregate, may be material to the consolidated financial position or operating results of Vancity for a particular year.

(h) Contractual commitment

(*i*) Vancity has $14.1 million (2016 - $31.3 million) in contractual commitments for hardware, software and software maintenance.

(*ii*) Vancity has $8.3 million (2016 - $6.0 million) in contractual commitments to acquire units in several private investment funds.

27. Related party transactions

Related parties of Vancity include subsidiaries, associates, post-employment benefit plans, key management personnel and close family members of key management personnel. Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of Vancity, directly or indirectly, including any director (whether executive or otherwise) of Vancity. These key management personnel are comprised of the Board of Directors, Executive Leadership Team, and signing officers of Vancity.

Please refer to note 10 for transactions and balances with Vancity's post-retirement benefit plans.

A number of transactions were entered into with key management personnel in the normal course of business:

(a) Loans and deposits

Vancity provides banking services to key management personnel and persons connected to them. Balances outstanding at December 31, 2017 were loans of $6.4 million (2016 - $5.6 million) and deposits of $5.2 million (2016 - $8.8 million).

(b) Key management compensation

		2017		2016
Salaries and other short-term employee benefits	$	6,409	$	7,116
Post employment benefits		713		733
Termination and other long-term benefits		414		157
	$	7,536	$	8,006

In addition to their salaries, Vancity also provides non-cash benefits to director-level employees and executive officers, and contributes to either a group RRSP or a post-employment defined benefit plan on their behalf. In accordance with the terms of the plan, under the circumstance of a normal retirement, executive officers who retire at the age of 60 are entitled to receive annual payments equivalent to 2% of the average of the officer's three highest years of indexed earnings, multiplied by years of credited service.

(c) Employee loans

Loans are advanced to employees at interest rates that range from Vancity's member preferred rates to half of the posted rates on five-year terms. In addition, interest-free personal loans are advanced to employees to purchase computers.

Employee loans are recorded at their fair value at origination on the consolidated statement of financial position with the difference between market values and carrying values being recognized as salary expense on the consolidated statement of income.

27. Related party transactions (continued)

(c) Employee loans (continued)

As at December 31, the outstanding loans to employees amounted to:

	Fair value		Carrying value	
	2017	2016	2017	2016
Residential mortgages	$ 489,555	$ 486,792	$ 491,323	$ 488,007
Personal loans	16,199	18,116	16,199	18,116
	$ 505,754	$ 504,908	$ 507,522	$ 506,123