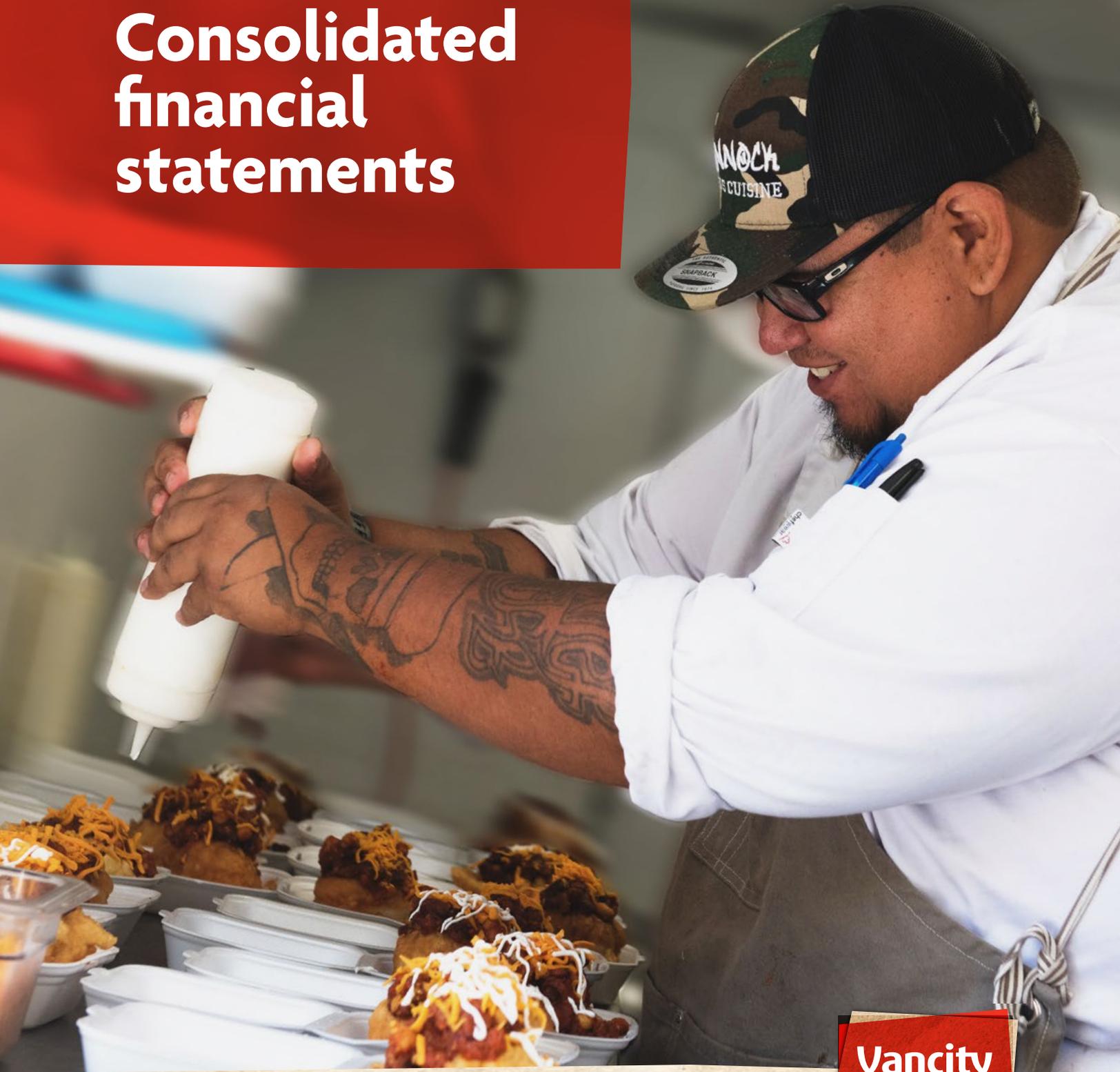


2018 Annual Report

Consolidated financial statements



Vancity
Make Good Money.™

Squamish Nation chef showcases Indigenous cuisine to local foodies

Most people in B.C. are familiar with Indigenous art – from public sculptures and totem poles to galleries showcasing traditional masks, painting and jewelry. But Indigenous food? Not so much.

Paul Natrall, a North Vancouver chef from the Squamish Nation, is aiming to change that. He turned to Vancity for business advice and a \$30,000 start-up loan for a new food truck.

Consolidated Financial Statements of

**VANCOUVER CITY SAVINGS
CREDIT UNION**

Year ended December 31, 2018

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



Nez Aquino
Chief Financial Officer

February 26, 2019



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PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
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INDEPENDENT AUDITORS' REPORT

To the Members of Vancouver City Savings Credit Union

Opinion

We have audited the consolidated financial statements of Vancouver City Savings Credit Union ("Vancity"), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of income for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in members' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Vancity as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of Vancity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Emphasis of Matter – Change in Accounting Policy

We draw attention to Note 4 to the financial statements which indicates that Vancity has changed its accounting policies for accounting for financial instruments in 2018 due to the adoption of IFRS 9 – Financial Instruments.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing Vancity's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Vancity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Vancity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Vancity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 26, 2019

VANCOUVER CITY SAVINGS CREDIT UNION

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

As at December 31

	Note	2018	2017
Assets			
Cash and cash equivalents		\$ 167,160	\$ 98,467
Interest bearing deposits with financial institutions		1,502,165	1,484,351
Financial investments	6	1,882,940	1,502,749
Derivative assets	7	5,264	4,150
Loans and advances to members	8(a)	19,136,223	18,390,583
Current tax assets		-	3,759
Premises and equipment	9(a)	82,904	79,234
Intangible assets	9(b)	67,140	67,516
Deferred tax assets	10(c)	27,164	17,310
Other assets	12	21,611	19,883
Total assets		\$ 22,892,571	\$ 21,668,002
Liabilities and Equity			
Borrowings – line of credit		\$ -	\$ 72,223
Deposits from members	13	19,594,845	18,547,449
Derivative liabilities	7	6,086	8,955
Wholesale borrowings		609,701	514,216
Secured borrowings	15(a)	1,077,712	975,998
Accounts payable and accrued liabilities	16	216,400	248,960
Current tax liabilities		404	-
Retirement benefit obligation	11(a)	49,351	55,903
Other liabilities		6,461	2,287
Total liabilities		21,560,960	20,425,991
Members' equity:			
Capital and reserves attributable to members:			
Contributed surplus		29,275	29,275
Retained earnings		1,296,550	1,210,785
Accumulated other comprehensive income		5,786	1,703
Total members' equity		1,331,611	1,241,763
Non-controlling interest		-	248
Total liabilities and equity		\$ 22,892,571	\$ 21,668,002

Commitments and contingencies (note 27)

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

Approved on behalf of the Board on February 26, 2019




VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Income
(Expressed in thousands of dollars)

For the years ended December 31

	Note	2018	2017
Interest income		\$ 745,727	\$ 641,373
Interest expense		295,703	225,783
Net interest income	17	450,024	415,590
Impairment expense on financial instruments	8(b)	11,891	8,338
Fee and commission income		120,362	134,138
Fee and commission expense		31,607	44,278
Net fee and commission income	18	88,755	89,860
Net gains on financial instruments	19	81	3,206
Other income (loss)		(285)	(3,614)
Gain on sale of investment property	12	394	33,893
Total operating income		527,078	530,597
Operating expenses:			
Salary and employee benefits	20	252,002	238,560
Occupancy and equipment		53,373	51,186
General and administrative	21	105,215	94,213
		410,590	383,959
Income before distribution and tax		116,488	146,638
Distribution to community and members	22	26,426	28,681
Income before tax		90,062	117,957
Income tax expense	10(a)	9,481	26,254
Net income		80,581	91,703
Attributable to non-controlling interest		-	80
Net income attributable to members		\$ 80,581	\$ 91,783

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

	2018	2017
Net income attributable to members	\$ 80,581	\$ 91,783
Other comprehensive income (loss) for the year that was or may be reclassified to the consolidated statement of income, net of tax:		
Net gains on financial assets measured at FVOCI:		
Unrealized gains arising during the year, net of tax expense of \$1,095 (2017 – n/a)	5,218	n/a
Reclassification of realized gains to the consolidated statement of income, net of tax expense of \$17 (2017 - n/a)	(83)	n/a
Net gains on available-for-sale financial instruments:		
Unrealized gains arising during the year (2017 - net of tax expense of \$1,362)	n/a	6,696
Reclassification of realized losses to the consolidated statement of income (2017 – net of tax recovery of \$27)	n/a	158
	5,135	6,854
Cash flow hedges:		
Effective portion of changes in fair value, net of tax expense of \$755 (2017 - tax recovery of \$947)	3,641	(4,634)
Items that will never be reclassified to the consolidated statement of income:		
Actuarial gain on defined benefit pension plans, net of tax expense of \$2,296 (2017 - \$338)	7,809	1,594
Other comprehensive income for the year	16,585	3,814
Comprehensive income attributable to members	\$ 97,166	\$ 95,597

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

	Contributed surplus	AOCI			Retained earnings	Total members' equity	Non-controlling interest	Total equity
		Hedging reserve	Fair value reserve	Employee benefits				
Balance at December 31, 2017	\$ 29,275	\$ (5,242)	\$ 5,614	\$ 1,331	\$ 1,210,785	\$ 1,241,763	\$ 248	\$ 1,242,011
Impact of adopting IFRS 9 as at January 1, 2018 (see note 4)	-	-	43	-	(7,361)	(7,318)	-	(7,318)
Balance at January 1, 2018	\$ 29,275	\$ (5,242)	\$ 5,657	\$ 1,331	\$ 1,203,424	\$ 1,234,445	\$ 248	\$ 1,234,693
Change in partnership shares	-	-	-	-	-	-	(248)	(248)
Reclassification of derecognized FVOCI equity investments	-	-	(12,545)	-	12,545	-	-	-
Net income	-	-	-	-	80,581	80,581	-	80,581
Other comprehensive income for the year, net of tax:								
Net gains on financial assets measured at FVOCI	-	-	5,135	-	-	5,135	-	5,135
Cash flow hedges	-	3,641	-	-	-	3,641	-	3,641
Actuarial gain on defined benefit pension plan	-	-	-	7,809	-	7,809	-	7,809
Other comprehensive income for the year	-	3,641	5,135	7,809	-	16,585	-	16,585
Total comprehensive income for the year	-	3,641	5,135	7,809	80,581	97,166	-	97,166
Balance at December 31, 2018	\$ 29,275	\$ (1,601)	\$ (1,753)	\$ 9,140	\$ 1,296,550	\$ 1,331,611	\$ -	\$ 1,331,611
Balance at January 1, 2017	\$ 29,275	\$ (608)	\$ (1,240)	\$ (263)	\$ 1,119,002	\$ 1,146,166	\$ 223	\$ 1,146,389
Change 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

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

	2018	2017
Cash flows from operating activities:		
Net income	\$ 80,581	\$ 91,703
Adjustments for:		
Impairment expense on financial instruments	11,891	8,338
Amortization, depreciation and impairment	20,900	21,322
Loss on sale of premises and equipment	36	17
Net interest income	(450,024)	(415,590)
Net gains on financial instruments	(81)	(3,206)
Gain on sale of investment property	(394)	(33,893)
Income tax expense	9,481	26,254
	(327,610)	(305,055)
Change in derivative instruments	(4,406)	7,641
Change in interest bearing deposits with financial institutions	(15,293)	13,829
Change in loans and advances to members	(753,351)	(702,851)
Change in other assets	(2,034)	1,857
Change in deposits from members	1,020,404	278,131
Change in accounts payable and accrued liabilities	(32,560)	36,218
Change in retirement benefit obligation	3,553	4,230
Change in other liabilities	4,174	223
	(107,123)	(665,777)
Interest received	735,425	638,459
Interest paid	(266,243)	(227,809)
Income taxes paid	(18,019)	(13,240)
Net cash generated from (used in) operating activities	344,040	(268,367)
Cash flows from investing activities:		
Change in financial investments	(371,962)	24,045
Net purchase of premises and equipment	(17,432)	(14,910)
Proceeds from the sale of investment property	700	53,225
Purchase of intangibles	(6,798)	(2,385)
Net cash generated from (used in) investing activities	(395,492)	59,975
Cash flows from financing activities:		
Change in partnership shares	(248)	105
Change in investment shares	(3,950)	33,157
Change in secured borrowings	94,305	(88)
Change in wholesale borrowings	102,261	13,910
Net cash generated from financing activities	192,368	47,084
Net increase (decrease) in cash and cash equivalents	140,916	(161,308)
Cash and cash equivalents at the beginning of the year	26,244	187,552
Cash and cash equivalents at the end of the year	\$ 167,160	\$ 26,244
Cash and cash equivalents consists of:		
Cash and deposits held with Central 1 and other banks	\$ 122,027	\$ 46,350
Cheques and other items in transit	5,582	20,083
Restricted cash (note 27(d))	39,551	32,034
Borrowings - line of credit	-	(72,223)
	\$ 167,160	\$ 26,244

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

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2018

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VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2018

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, 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 business banking (deposit-taking and lending), Visa credit card and prepaid card services and foreign exchange services.

The consolidated financial statements as at and for the year ended December 31, 2018 comprise VCS and its subsidiaries (hereinafter together referred to as “Vancity”). Operating on the unceded territories of the Coast Salish and Kwakwaka’wakw people and headquartered on the lands belonging to the Musqueam, Squamish and Tsleil-Waututh Nations in Vancouver, British Columbia (B.C.), Vancity is domiciled in Canada and its registered office is 183 Terminal Avenue, Vancouver, B.C.

The consolidated financial statements were approved for issue by the Board of Directors (the “Board”) on February 26, 2019.

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, except as otherwise noted.

Details of Vancity’s accounting policies, including changes during the year, are included in notes 3 and 4. As explained in note 4, Vancity has adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from Contracts with Customers* with a date of initial application of January 1, 2018.

(b) Basis of measurement

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

- financial investments at fair value through profit or loss (“FVTPL”) and derivative financial instruments, which are measured at fair value;
- financial investments at fair value through other comprehensive income (“FVOCI”) measured at fair value (applicable from January 1, 2018);

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2018

2. Basis of presentation (continued)

(b) Basis of measurement (continued)

- available-for-sale (“AFS”) financial investments measured at fair value (applicable before January 1, 2018); 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.

(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 5.

(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., and Vancity Investment Management Ltd. (“VCIM”). 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.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2018

3. Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

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.

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 equity instruments measured at fair value through other comprehensive income, qualifying cash flow hedges, or available-for-sale equity instruments, which are recognized in other comprehensive income ("OCI"). 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 – policy applicable before January 1, 2018

For the financial instruments accounting policy effective from January 1, 2018, please refer to note 4(a).

(i) Recognition, classification and measurement

Vancity initially recognizes loans and advances to members and deposits from members 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.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2018

3. Summary of significant accounting policies (continued)

(d) Financial instruments – policy applicable before January 1, 2018 (continued)

(i) Recognition, classification and measurement (continued)

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 ("L&R"), 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 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 pattern of short-term profit-taking.

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 that would otherwise arise from measuring assets and liabilities or recognizing the associated gains or losses 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, 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. 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, 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, Vancity's loan and receivables primarily consisted of loans and advances to members and other receivables.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2018

3. Summary of significant accounting policies (continued)

(d) Financial instruments – policy before January 1, 2018 (continued)

(i) Recognition, classification and measurement (continued)

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 assets are recognized directly in OCI, 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.

As a result of the derecognition or impairment of an AFS asset, 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, 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 instruments.

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, other financial liabilities consisted of accounts payable and accrued liabilities, wholesale borrowings, secured borrowings, borrowings – line of credit, deposits from members, and other liabilities.

(ii) Fair value of financial instruments

Note 26 contains information on the measurement of financial assets and liabilities recognized in the consolidated statement of financial position at fair value.

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Notes to the Consolidated Financial Statements
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3. Summary of significant accounting policies (continued)

(d) Financial instruments – policy applicable before January 1, 2018 (continued)

(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.

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.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
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3. Summary of significant accounting policies (continued)

(d) Financial instruments – policy applicable before January 1, 2018 (continued)

(iii) Impairment of financial assets (continued)

Loans and receivables (continued)

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.

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 security 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 security 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.

VANCOUVER CITY SAVINGS CREDIT UNION

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3. Summary of significant accounting policies (continued)

(d) Financial instruments – policy applicable before January 1, 2018 (continued)

(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, determined by the extent to which it is exposed to changes in the value of the transferred asset. 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.

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 – policy applicable before and after January 1, 2018

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.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
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Year ended December 31, 2018

3. Summary of significant accounting policies (continued)

(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.

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.

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Notes to the Consolidated Financial Statements
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3. Summary of significant accounting policies (continued)

(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.

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 under IAS 39 or investment securities measured at FVOCI and measured at FVTPL under IFRS 9 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.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

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3. Summary of significant accounting policies (continued)

(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 members 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.

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 relate 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.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
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Year ended December 31, 2018

3. Summary of significant accounting policies (continued)

(i) Premises and equipment (continued)

(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.

(iv) Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
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3. Summary of significant accounting policies (continued)

(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.

At December 31, 2018 and 2017, 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 OCI.

(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.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

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3. Summary of significant accounting policies (continued)

(l) Income taxes (continued)

(ii) Deferred tax (continued)

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.

(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 OCI. 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.

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Year ended December 31, 2018

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 by Credit 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 11(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, 2018, a number of standards and amendments to standards had been issued by the IASB but are not yet effective for these consolidated financial statements. Those which are relevant to Vancity's consolidated financial statements are set out below:

(i) IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and replaces existing lease guidance including IAS 17 *Leases* and related interpretations. The new standard requires lessees to recognize most leases on their statement of financial position as lease liabilities, with a corresponding right-of-use asset. 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.

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3. Summary of significant accounting policies (continued)

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

(i) IFRS 16 *Leases* (continued)

Generally, the profit or loss recognition pattern for recognized leases will be similar to 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. 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.

(ii) Amendments to IAS 19 *Employee Benefits*

On February 1, 2018, the IASB issued amendments to IAS 19, which clarify that on plan amendments, curtailments or settlements of a defined benefit plan, updated actuarial assumptions are used to determine the current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating gain or loss on any settlement of the defined benefit plan. The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019.

Vancity intends to adopt the amendments to IAS 19 in its financial statements for the annual period beginning on January 1, 2019. Vancity is currently assessing the effects of adopting the amendments and has yet to determine the potential impact on the consolidated financial statements.

(iii) Conceptual Framework for Financial Reporting

On March 29, 2018, the IASB issued the revised *Conceptual Framework for Financial Reporting* ("Conceptual Framework"), which describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the Conceptual Framework is to assist preparers of financial statements to develop consistent accounting policies when no Standard applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy. The Conceptual Framework is not a Standard and does not override any Standard or any requirement in a Standard.

As the revised Conceptual Framework is effective for Vancity on January 1, 2020, Vancity is currently assessing the impact of adoption.

VANCOUVER CITY SAVINGS CREDIT UNION

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Year ended December 31, 2018

4. Changes in accounting policies

IFRS 9 Financial Instruments

Vancity has adopted IFRS 9 with a date of initial application of January 1, 2018. As permitted under IFRS 9, Vancity has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognized in opening retained earnings and accumulated other comprehensive income on January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9.

(a) Financial instruments – policy applicable from January 1, 2018

(i) Recognition, classification and measurement

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, FVOCI, or FVTPL.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, Vancity may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, Vancity may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
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Year ended December 31, 2018

4. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(a) Financial instruments – policy applicable from January 1, 2018 (continued)

(i) Recognition, classification and measurement (continued)

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of income. For financial assets classified as measured at FVOCI or an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive income. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense are calculated using the effective interest method and is recognized in the consolidated statement of income.

Business model assessment

Vancity makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

Contractual cash flow characteristics assessment

In assessing whether the contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition and 'interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

Vancity considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

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4. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(a) Financial instruments – policy applicable from January 1, 2018 (continued)

(ii) Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after Vancity changes its business model for managing those assets. There were no changes to any of Vancity's business models for the year ended December 31, 2018.

(iii) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECL: these are losses that result from possible default events within the 12 months after the reporting date; and
- lifetime ECL: these are losses that result from all possible default events over the expected life of a financial instrument.

ECL is measured as 12-month ECL unless the credit risk on a financial instrument has increased significantly since initial recognition, the financial instrument is credit-impaired at initial recognition, or trade and lease receivables, for which Vancity has elected to take the simplified approach by using lifetime ECL to measure the loss allowance.

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, management judgment, and delinquency and monitoring. The importance and relevance of each specific macroeconomic factor depends on the portfolio, characteristics of the financial instruments, and the borrower. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

In determining the amount of loss allowance for ECLs to recognize, Vancity assesses at each reporting date whether there has been a significant increase in credit risk ("SICR") for a financial asset. In assessing whether a SICR has occurred, Vancity considers quantitative factors, qualitative factors and a rebuttable presumption.

A SICR is considered to have occurred when any of three conditions are met. The conditions include a change in the probability of default in excess of predetermined thresholds, the backstop criterion for the portfolio has been met, or other portfolio specific considerations.

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Year ended December 31, 2018

4. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(a) Financial instruments – policy applicable from January 1, 2018 (continued)

(iii) Impairment (continued)

Assessment of significant increase in credit risk (continued)

The predetermined thresholds are specific to each portfolio and the initial credit quality of the account. Generally, accounts with higher credit quality would require relatively larger changes in the probability of default to trigger a SICR, while lower credit quality accounts would require relatively smaller changes to trigger a SICR.

For all loans and advances to members, the backstop criterion is met when an account is 30 or more days in arrears and will be transferred to Stage 2.

As permitted by IFRS 9, loans and advances to members are assessed and measured on a collective basis in groups of financial assets that share credit risk characteristics. For this purpose, Vancity has grouped its financial assets into segments on the basis of shared credit risk characteristics for each component of the ECL calculation.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short- and long-term, including periods of adverse changes in the economic or business environment.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The LGD is an estimate of the amount that may not be recovered in the event of default. The EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions, where appropriate.

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4. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(a) Financial instruments – policy applicable from January 1, 2018 (continued)

(iii) Impairment (continued)

Probability of default

To calculate the 12-month PDs, the number of clean, not defaulted, loans is counted at the beginning of the year. This same set of loans is then tracked and monitored throughout the year. At the end of the reporting period, the number of defaults during the year is divided by the total number of loans within the set. Any loan that originated during the course of the year will be considered in the subsequent year's calculation of 12-month PDs. Lastly, the calculated PDs are refined to consider the cure rate, which is the rate at which members that default correct themselves. Any loan that default during the year but are no longer delinquent at the end of the year are considered cured.

An exception to the above is the estimation of 12-month PD for the Visa portfolio. This portfolio uses a roll rate methodology that estimates the percentage of credit card users who are in different stages of delinquency on their accounts. Differences of the roll rate methodology from the 12-month PD calculation is the use of dollar amounts rather than counts and a 180 day delinquency period rather than 90 days.

The lifetime PDs for all loans and advances to members are calculated based on the 12-month PDs for the financial assets and the expected remaining life of the financial assets, assuming a constant default rate during the lifetime of the financial assets.

Loss given default

The LGD reflects Vancity's estimate of cash shortfalls in the event of default. The LGD input to the ECL calculation for Stage 1 and Stage 2 financial assets is estimated to be equal. The LGD input, expressed as a percentage of EAD, is primarily estimated based on the shortfall in the current collateral values of the financial assets compared to the current book value of the financial asset discounted for the time to obtain and collect on the collateral upon default and the estimated costs to obtain and collect on the collateral.

Forward looking information and macroeconomic factors

The forward looking information ("FLI") component of the ECL calculation represents management's estimate of the impacts of FLI and forecasts of macroeconomic conditions to Vancity's ECLs. In determining the FLI input to the ECL calculation, management makes forecasts of multiple probability-weighted-forward looking and macroeconomic scenarios. Vancity identified 18 different macro-economic factors that were all deemed to be applicable to various loan portfolios. The forward looking and macroeconomic factors considered in determining the FLI inputs to Vancity's ECL calculation include the change in provincial unemployment, inflation, and GDP.

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4. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(a) Financial instruments – policy applicable from January 1, 2018 (continued)

(iii) Impairment (continued)

Exposure at default

The EAD is an estimate of a loan exposure amount at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and payments of interest, prepayments, expected drawdowns on committed facilities or any other terms that may alter the cash flow characteristics of the loan or lease receivable.

The starting point for determining EAD is the amortization schedule (principal and interest payments) of each loan within the portfolio as set out in the contractual terms of the financial asset. The EAD is adjusted by the expected prepayments (partial or full) prior to maturity on a portfolio basis. For lines of credit, the EAD is determined based on Vancity's expectations of drawdowns and repayments on the outstanding loan commitments on a portfolio basis.

Credit-impaired and restructured financial assets

At each reporting date, Vancity assesses whether financial assets measured at amortized cost or FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

When identifying loans and advances to members that are credit-impaired for which the loss allowance for ECLs is calculated individually, as the difference between the gross carrying amount of the financial assets and the present value of estimated future cash flows, Vancity determines whether indicators of a borrower's unlikelihood to pay exist.

In addition to qualitative considerations, Vancity applies quantitative thresholds for identifying loans and advances to members that are credit-impaired. Except for the Visa portfolio, the quantitative threshold for all loans and advances to members is 90 days past due to be considered credit-impaired. For the Visa portfolio, the quantitative threshold is 180 days past due. Accounts that have exceeded the quantitative threshold will be transferred to Stage 3.

If the terms of a financial asset are renegotiated or modified, or a financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and how ECL is measured. If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow of the existing asset at the time of its derecognition.

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4. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(a) Financial instruments – policy applicable from January 1, 2018 (continued)

(iii) Impairment (continued)

Cash and cash equivalents and investments

Vancity is required to recognize a loss allowance for ECLs on cash and cash equivalents and interest bearing deposits with financial institutions measured at amortized cost and financial investments measured at FVOCI at each reporting date. The 12-month ECLs for Stage 1 financial assets and lifetime ECLs for Stage 2 financial assets are primarily based on the instrument's credit rating and historical data of recoveries on similar instruments that have defaulted in the past.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities measured at FVOCI, the loss allowance is recognized in OCI instead of reducing the carrying amount of the asset. For assets that include both a drawn and an undrawn component, and Vancity cannot identify the ECL on the undrawn component separately from the drawn component, the combined loss allowance for both components is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Definition of default and write-off policy

Vancity considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated.

This includes events such as material breaches of covenants, significant financial difficulty of the borrower, or the deterioration of the instrument's security. Vancity considers that default has occurred and classifies the instrument as impaired when it is more than 90 days past due, with the exception of the Visa portfolio that is treated as defaulted when 180 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

Vancity writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery.

(iv) Derecognition of financial instruments

IFRS 9 retains, largely unchanged, the requirements of IAS 39 relating to the derecognition of financial instruments.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
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4. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(a) Financial instruments – policy applicable from January 1, 2018 (continued)

(v) Offsetting financial instruments – policy applicable before and after January 1, 2018

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.

(b) Use of estimates and judgments – Expected credit loss allowance

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2). Credit impaired assets requires lifetime losses (Stage 3). The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment, which requires experienced credit judgment.

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

The calculation of ECL includes explicit incorporation of forecasted economic conditions. Vancity has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Experienced credit judgment is required to incorporate multiple probability-weighted forward-looking scenarios in the determination of the ECL allowance. The allowance is sensitive to changes in economic forecasts and the probability-weight assigned to each forward-looking scenario.

(c) Hedge accounting

The new hedge accounting model under IFRS 9 aims to simplify hedge accounting, align hedge accounting more closely with an entity's risk management activities, and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and eligible risks. The new standard does not explicitly address the accounting for macro hedging activities, which is being addressed by the IASB through a separate project. As a result, IFRS 9 includes an accounting policy choice to retain IAS 39 for hedge accounting requirements until an amended standard is effective. Vancity has elected to continue applying hedge accounting under IAS 39, but has adopted the new hedge accounting disclosures required by the related amendments to IFRS 7, *Financial Instruments: Disclosures*.

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4. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(d) Transition impact from adopting IFRS 9

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and AOCI as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- the determination of the business model in which a financial asset is held;
- the designation and revocation of previous designations of certain financial assets and financial liabilities at FVTPL; and
- the designation of certain equity instruments not held for trading at FVOCI.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

	IAS 39		IFRS 9	
	Measurement category	Carrying amount Dec 31, 2017	Measurement category	Carrying amount Jan 1, 2018
Financial assets				
Cash and cash equivalents	Loans and receivable	\$ 98,467	Amortized cost	\$ 98,467
Interest bearing deposits with financial institutions	Loans and receivable	1,484,351	Amortized cost	1,483,870
Financial investments (debt)	AFS	1,401,152	FVTPL	322
			FVOCI	1,400,830
Financial investments (equity)	AFS	101,597	FVTPL	8,037
			FVOCI	93,560
Derivative assets	FVTPL	4,150	FVTPL	4,150
Loans and advances to members	Loans and receivable	18,390,583	Amortized cost	18,387,279
Other financial assets	Loans and receivable	11,680	Amortized cost	11,680
Total financial assets		\$ 21,491,980		\$ 21,488,195
Financial liabilities				
Borrowings – line of credit	Amortized cost	\$ 72,223	Amortized cost	\$ 72,223
Deposits from members	Amortized cost	18,547,449	Amortized cost	18,547,449
Derivative liabilities	FVTPL	8,955	FVTPL	8,955
Wholesale borrowings	Amortized cost	514,216	Amortized cost	514,216
Secured borrowings	Amortized cost	975,998	Amortized cost	975,998
Other financial liabilities	Amortized cost	318,204	Amortized cost	323,159
Total financial liabilities		\$ 20,437,045		\$ 20,442,000

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Year ended December 31, 2018

4. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(d) Transition impact from adopting IFRS 9 (continued)

- (i) Financial investments previously categorized as AFS under IAS 39 are held by Vancity in separate portfolios that consist of:
- Equity investments that are mandatorily measured at FVTPL;
 - Equity investments that are designated as FVOCI, which primarily consists of Vancity's investment in Central 1's shares. These shares are required as a condition of membership in Central 1 and are issued only by virtue of membership in Central 1;
 - Debt securities that are measured at FVOCI, which include treasury bills, banker's acceptances, mortgage-backed securities, long-term bonds, and reinvestment assets under the CMB program. These securities are measured at FVOCI because they are managed based on liquidity needs, which consists of collecting contractual payments as well as gains and losses from sales activity that is significant in value; and
 - An individual debt security that did not meet the SPPI criterion and is mandatorily measured at FVTPL.

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4. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(d) Transition impact from adopting IFRS 9 (continued)

Reconciliation of carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition as at January 1, 2018

	IAS 39 carrying amount Dec. 31, 2017	Adjustment for reclassification	Adjustment for remeasurement	Adjustment for impairment	Adjustment for tax	IFRS 9 carrying amount Jan. 1, 2018
Assets						
Cash and cash equivalents	\$ 98,467	\$ -	\$ -	\$ -	\$ -	\$ 98,467
Interest bearing deposits with financial institutions ⁽¹⁾	1,484,351	-	-	(481)	-	1,483,870
Financial investments	1,502,749	-	-	-	-	1,502,749
Derivative assets	4,150	-	-	-	-	4,150
Loans and advances to members ⁽¹⁾	18,390,583	-	-	(3,304)	-	18,387,279
Other financial and tax assets	40,361	-	-	-	1,046	41,407
Total financial and tax assets	\$ 21,520,661	\$ -	\$ -	\$ (3,785)	\$ 1,046	\$ 21,517,922
Liabilities						
Borrowings – line of credit	\$ 72,223	\$ -	\$ -	\$ -	\$ -	\$ 72,223
Deposits from members	18,547,449	-	-	-	-	18,547,449
Derivative liabilities	8,955	-	-	-	-	8,955
Wholesale borrowings	514,216	-	-	-	-	514,216
Secured borrowings	975,998	-	-	-	-	975,998
Other financial and tax liabilities ⁽²⁾	318,204	-	4,955	-	(376)	322,783
Total financial and tax liabilities	\$ 20,437,045	\$ -	\$ 4,955	\$ -	\$ (376)	\$ 20,441,624
Retained earnings ⁽¹⁾⁽²⁾⁽³⁾	\$ 1,210,785	\$ 141	\$ (4,955)	\$ (3,963)	\$ 1,416	\$ 1,203,424
Accumulated other comprehensive income ⁽¹⁾⁽³⁾	1,703	(141)	-	178	6	1,746

- Financial assets measured at amortized cost and FVOCI debt investments required remeasurement to reflect the new ECL model under IFRS 9 from the previous incurred loss model under IAS 39. The adjustment at transition was \$481 thousand for interest bearing deposits with financial institutions, \$3,304 thousand for loans and advances to members, and \$178 thousand for FVOCI debt investments, which is shown separately as a transfer to retained earnings from AOCI.
- The Visa reward points liability, found within other financial and tax liabilities, meets the definition of a financial liability under IFRS 9. As such, a remeasurement of \$5.0 million was required to eliminate the use of historical redemption rates as the points liability can only be extinguished when the points are redeemed, expired or forfeited.
- Certain debt and equity investments previously classified as AFS under IAS 39 have been reclassified to FVTPL under IFRS 9

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4. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(d) Transition impact from adopting IFRS 9 (continued)

Reconciliation of closing impairment allowance under IAS 39 to the opening ECL allowance under IFRS 9 on transition as at January 1, 2018

	IAS 39 impairment allowance Dec. 31, 2017	Adjustment for remeasurement or reclassification	IFRS 9 ECL Jan 1, 2018	Stage 1	Stage 2	Stage 3
Loans and advances to members	\$ 65,088	\$ 3,304	\$ 68,392	\$ 32,398	\$ 31,444	\$ 4,550
Interest bearing deposits with financial institutions	-	481	481	481	-	-
Financial investments (debt) at FVOCI	-	178	178	178	-	-
Other financial assets	4	-	4	-	-	4
Total	\$ 65,092	\$ 3,963	\$ 69,055	\$ 33,057	\$ 31,444	\$ 4,554

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Year ended December 31, 2018

4. Changes in accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, Vancity adopted IFRS 15 which replaced the revenue recognition guidance from IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. The new standard provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. As such, Vancity has changed its accounting policies for revenue recognition with additional details below.

(a) Fee and commission income and expense

Vancity earns other revenues outside of interest income and net gains on financial instruments, primarily through account service fees, prepaid card and credit card fees, and trust and investment fees.

(i) Account service fees

Account service fees, which may be fixed or variable, relate to fees charged to personal and business members for processing transactions on the member's bank account. Vancity recognizes these revenues at a point in time when the related services are performed.

(ii) Prepaid card and credit card fees

Prepaid card and credit card fees, which may be fixed or variable, relate to fees charged to personal and business members for providing members access to predetermined funds or preapproved credit, and related service charges. Vancity recognizes revenues over time for providing access over a contractual period and recognizes revenues at a point in time for transactional services performed.

(iii) Trust and investment fees

Trust and investment fees consists primarily of investment management fees, which are variable fees charged to personal and business members for providing wealth management services. Vancity recognizes revenues over time as the performance obligation is satisfied as time passes.

Vancity has applied IFRS 15 using the cumulative effect method and therefore the comparative figures have not been restated. There was no quantitative impact on the consolidated financial statements from the adoption of IFRS 15.

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5. 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 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 – applicable before January 1, 2018

For expected credit loss allowance – applicable after January 1, 2018 – See note 4(b).

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 8.

(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.

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 11.

VANCOUVER CITY SAVINGS CREDIT UNION

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5. Use of estimates and judgments

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

(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 10.

(iv) 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 6.

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

(i) 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.

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5. Use of estimates and judgments (continued)

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

(ii) 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 15(a).

6. Financial investments

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

	2018 (IFRS 9)		2017 (IAS 39)	
	Effective yield	Total fair value	Effective yield	Total fair value
Financial investments classified as AFS:				
Securities issued or guaranteed by the				
Canadian federal and provincial government	n/a	n/a	1.39%	1,381,639
Central 1 shares	n/a	n/a	3.40%	92,520
Other securities	n/a	n/a	0.94%	26,069
Financial investments classified as FVOCI:				
Securities issued or guaranteed by the				
Canadian federal and provincial government	2.13%	1,715,894	n/a	n/a
Financial investments designated as FVOCI:				
Central 1 shares	3.04%	71,983	n/a	n/a
Other securities	2.65%	77,714	n/a	n/a
Financial investments measured at FVTPL:				
Other securities	0.00%	11,258	n/a	n/a
Accrued interest		6,091		2,521
Total financial investments		\$ 1,882,940		\$ 1,502,749

Included in the above investments are reinvestment assets relating to the CMB program of \$521.8 million (2017 - \$298.8 million). These assets have been pledged as collateral for the secured borrowings of \$1.08 billion (2017 - \$976.0 million) as described in note 15(a).

On March 29, 2018, Central 1 Credit Union ("Central 1") issued 59,727,586 Class F shares with a price of \$1 per share and redeemed 68,360,344 Class A shares with a redemption value of \$1 per share. As part of this transaction, Central 1 also redeemed 151,153 Class E shares. These shares had a carrying value of \$100 per share and were redeemed at \$100 per share. No gains or losses were recognized during the year ended December 31, 2018 as Central 1 announced the redemption effective December 31, 2017, when the gain of \$15.1 million was initially recognized 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.

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7. Derivative instruments

The following table summarizes the fair values of derivative assets and liabilities:

December 31, 2018	Notional amounts			Fair values	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate contracts:					
Swap contracts	\$ 675,000	\$ 700,000	\$ 1,375,000	\$ 1,988	\$ 5,178
Foreign exchange contracts:					
Forward contracts	102,810	-	102,810	1,575	908
Other:					
Equity index-linked option	7,912	29,001	36,913	1,701	-
Total derivative contracts	785,722	729,001	1,514,723	5,264	6,086
Amounts subject to master netting agreements				(2,526)	(2,526)
Net exposure on derivatives				\$ 2,738	\$ 3,560

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

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.

Vancity uses interest rate swaps not designated in a qualifying hedging relationship, to manage its exposure to interest rate. For more information about how Vancity manages its market risks, see note 23(c).

From time to time, Vancity enters into derivative transactions to economically hedge certain business strategies. During the year ended December 31, 2018, Vancity recognized \$1.4 million of unrealized gains in interest income from changes in the fair value of derivatives (2017 - \$2.5 million of unrealized losses) and no realized gains or losses (2017 - nil) on the sale of financial instruments.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

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Year ended December 31, 2018

8. Loans and advances to members

(a) Loan balances measured at amortized cost

	2018	2017
Retail:		
Residential mortgages	\$ 12,233,964	\$ 12,109,891
Personal loans	690,858	689,759
Business:		
Commercial mortgages and loans	6,249,947	5,628,202
Accrued interest receivable	31,997	27,819
Less: Allowance for expected credit losses (2017: impairment allowance)	(70,543)	(65,088)
	<u>\$ 19,136,223</u>	<u>\$ 18,390,583</u>

At December 31, 2018, Vancity had \$537.5 million (2017 - \$665.3 million) of residential mortgages which had been securitized in the CMB program 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 15(a).

VANCOUVER CITY SAVINGS CREDIT UNION

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Year ended December 31, 2018

8. Loans and advances to members (continued)

(b) Reconciliation of allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
ECL on loans and advances to members - Retail				
Balance at January 1, 2018	\$ 7,499	\$ 24,410	\$ 2,162	\$ 34,071
Net remeasurement	(6,031)	9,178	10,851	13,998
Originations	1,122	2,974	719	4,815
Derecognitions and maturities	(962)	(3,589)	(1,400)	(5,951)
Transfers to Stage 1	6,603	(6,531)	(72)	-
Transfers to Stage 2	(792)	936	(144)	-
Transfers to Stage 3	(161)	(1,604)	1,765	-
Gross write-offs	-	-	(11,517)	(11,517)
Recoveries	-	-	3,931	3,931
Balance at December 31, 2018	7,278	25,774	6,295	39,347
ECL on loans and advances to members - Business				
Balance at January 1, 2018	24,899	7,034	2,388	34,321
Net remeasurement	1,274	(5,884)	1,193	(3,417)
Originations	6,971	1,332	225	8,528
Derecognitions and maturities	(3,459)	(1,894)	(794)	(6,147)
Transfers to Stage 1	1,017	(981)	(36)	-
Transfers to Stage 2	(9,199)	9,199	-	-
Transfers to Stage 3	(271)	(57)	328	-
Gross write-offs	-	-	(2,094)	(2,094)
Recoveries	-	-	5	5
Balance at December 31, 2018	21,232	8,749	1,215	31,196
ECL on other financial instruments				
Balance at January 1, 2018	659	-	4	663
Net remeasurement	(5)	-	-	(5)
Originations	239	-	-	239
Derecognitions and maturities	(169)	-	-	(169)
Balance at December 31, 2018	724	-	4	728
Total ECL				
Balance at January 1, 2018	33,057	31,444	4,554	69,055
Net remeasurement	(4,762)	3,294	12,044	10,576
Originations	8,332	4,306	944	13,582
Derecognitions and maturities	(4,590)	(5,483)	(2,194)	(12,267)
Transfers to Stage 1	7,620	(7,512)	(108)	-
Transfers to Stage 2	(9,991)	10,135	(144)	-
Transfers to Stage 3	(432)	(1,661)	2,093	-
Gross write-offs	-	-	(13,611)	(13,611)
Recoveries	-	-	3,936	3,936
Balance at December 31, 2018	\$ 29,234	\$ 34,523	\$ 7,514	\$ 71,271

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Year ended December 31, 2018

8. Loans and advances to members (continued)

(b) Reconciliation of allowance for expected credit losses (continued)

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

(c) Loans past due but not credit-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 credit-impaired because they are either (i) less than 90 days past due unless there is information to the contrary that an event that has a detrimental impact on the estimated future cash flows of the loan has occurred; (ii) fully secured and collection efforts are reasonably expected to result in repayment; or (iii) less than 180 days past due for Visa within the retail loans portfolio.

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 2018	Total 2017
Retail loans	\$ 38,721	\$ 11,725	\$ 11,941	\$ 62,387	\$ 54,778
Business loans	5,008	1,245	9,047	15,300	6,876
	\$ 43,729	\$ 12,970	\$ 20,988	\$ 77,687	\$ 61,654

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2018

9. Premises, equipment and intangibles

(a) Premises and equipment

The movement of premises and equipment during the years ended December 31, 2018 and 2017 is as follows:

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
Cost:						
Balance at January 1, 2018	\$ 9,933	\$ 68,026	\$ 68,585	\$ 45,404	\$ 30,811	\$ 222,759
Acquisitions	-	2,801	6,598	3,546	4,551	17,496
Disposals	-	(7,015)	-	-	(45)	(7,060)
Balance at December 31, 2018	\$ 9,933	\$ 63,812	\$ 75,183	\$ 48,950	\$ 35,317	\$ 233,195
Accumulated depreciation and impairment losses:						
Balance at January 1, 2018	\$ -	\$ 42,918	\$ 41,896	\$ 34,802	\$ 23,909	\$ 143,525
Disposals	-	(6,917)	-	-	(43)	(6,960)
Depreciation	-	2,666	4,728	4,377	1,955	13,726
Impairment	-	-	-	-	-	-
Balance at December 31, 2018	\$ -	\$ 38,667	\$ 46,624	\$ 39,179	\$ 25,821	\$ 150,291
Carrying amounts:						
Balance at January 1, 2018	\$ 9,933	\$ 25,108	\$ 26,689	\$ 10,602	\$ 6,902	\$ 79,234
Balance at December 31, 2018	9,933	25,145	28,559	9,771	9,496	82,904
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

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2018

9. Premises, equipment and intangibles (continued)

(b) Intangibles

The movement of intangibles during the years ended December 31, 2018 and 2017 is as follows:

	Software	ICBC Licence	Total
Cost:			
Balance at January 1, 2018	\$ 92,269	\$ 25	\$ 92,294
Acquisitions	6,798	-	6,798
Balance at December 31, 2018	\$ 99,067	\$ 25	\$ 99,092
Accumulated amortization:			
Balance at January 1, 2018	\$ 24,778	\$ -	\$ 24,778
Amortization	7,174	-	7,174
Balance at December 31, 2018	\$ 31,952	\$ -	\$ 31,952
Carrying amounts:			
Balance at January 1, 2018	\$ 67,491	\$ 25	\$ 67,516
Balance at December 31, 2018	67,115	25	67,140
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

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Year ended December 31, 2018

10. Income taxes

(a) Income tax expense (recovery)

	2018	2017
Current tax expense	\$ 18,016	\$ 18,569
Deferred tax expense:		
Origination and reversal of temporary differences	(4,291)	1,488
Change in tax rate	(4,244)	6,197
	(8,535)	7,685
	\$ 9,481	\$ 26,254

(b) Reconciliation of effective tax rate

The effective tax rate of 10.5% (2017 - 22.3%) differed from the combined federal and provincial tax rate for the following reasons:

	2018	2017
Combined federal and provincial statutory tax rate	27.0%	26.0%
Credit union preferred rate reduction	(10.8)	(4.7)
Change in predicted future tax rates	(2.2)	4.6
Non-deductible and other items	(3.5)	(3.6)
	10.5%	22.3%

(c) Deferred tax assets and liabilities

	Balance at January 1, 2018	Recognized in net income	Recognized in in OCI	Derecognized during the year	Balance at December 31, 2018
Deferred tax assets:					
Pensions and post-retirement benefits	\$ 10,550	\$ 2,958	\$ (2,296)	\$ -	\$ 11,212
Deferred revenue	3,619	574	-	-	4,193
Allowance for expected credit losses	11,065	2,475	-	-	13,540
Other provisions	3,719	2,295	-	-	6,014
Deferred loan fee expenses	359	963	-	-	1,322
Tax loss carried forward	415	129	-	-	544
	29,727	9,394	(2,296)	-	36,825
Deferred tax liabilities:					
Premises and equipment	(8,802)	(859)	-	-	(9,661)
Market valuation - FVOCI Investments	(2,569)	-	-	2,569	-
	(11,371)	(859)	-	2,569	(9,661)
Total	\$ 18,356	\$ 8,535	\$ (2,296)	\$ 2,569	\$ 27,164

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
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Year ended December 31, 2018

10. Income taxes (continued)

(c) Deferred tax assets and liabilities (continued)

	Balance at January 1, 2017	Recognized in net income	Recognized in in OCI	Balance at December 31, 2017	Impact from IFRS 9 adoption
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	182
Other provisions	1,550	1,340	(35)	2,855	864
Deferred loan fee expenses	279	80	-	359	-
Tax loss carried forward	1,917	(1,502)	-	415	-
	34,692	(5,638)	(373)	28,681	1,046
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	\$ 1,046

Other impacts from the adoption of IFRS 9 reduced current taxes payable by \$376 thousand.

(d) Unrecognized deferred tax liabilities

At December 31, 2018, deferred tax liabilities for temporary differences of \$25.2 million (2017 - \$27.0 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.

11. 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, 2018. The effective date of the last actuarial valuation report for funding purposes was December 31, 2017. The next actuarial valuation report will be prepared with an effective date of December 31, 2018 and is expected to be available in 2019.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
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Year ended December 31, 2018

11. Pension and other retirement benefits (continued)

(a) Retirement benefit obligation

	Pension plans		Other benefit plans		Total	
	2018	2017	2018	2017	2018	2017
Defined benefit obligation - funded	\$ (32,474)	\$ (34,054)	\$ -	\$ -	\$ (32,474)	\$ (34,054)
Defined benefit obligation - unfunded	(18,735)	(19,412)	(26,980)	(31,543)	(45,715)	(50,955)
Fair value of plan assets	28,838	29,106	-	-	28,838	29,106
Net retirement benefit obligation	\$ (22,371)	\$ (24,360)	\$ (26,980)	\$ (31,543)	\$ (49,351)	\$ (55,903)

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

	Pension plans		Other benefit plans		Total	
	2018	2017	2018	2017	2018	2017
Defined benefit obligation at January 1	\$ (53,466)	\$ (47,422)	\$ (31,543)	\$ (32,060)	\$ (85,009)	\$ (79,482)
Current service cost (net of employee contributions)	(2,572)	(2,932)	(1,821)	(1,731)	(4,393)	(4,663)
Interest cost	(1,829)	(1,836)	(1,081)	(1,231)	(2,910)	(3,067)
Employee contributions	(62)	(70)	-	-	(62)	(70)
Actuarial gains (losses) arising from:						
Experience adjustments	571	996	3,734	1,838	4,305	2,834
Financial assumptions	4,191	(3,349)	2,429	575	6,620	(2,774)
Benefit payments	1,958	1,147	1,302	1,066	3,260	2,213
Defined benefit obligation at December 31	\$ (51,209)	\$ (53,466)	\$ (26,980)	\$ (31,543)	\$ (78,189)	\$ (85,009)

(c) Fair value of plan assets

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

	2018	2017
Fair value of plan assets at January 1	\$ 29,106	\$ 25,877
Interest income on plan assets	982	990
Return on plan assets, excluding interest income	(820)	1,872
Employer contributions	2,768	2,510
Employee contributions	62	70
Benefit payments	(3,260)	(2,213)
Fair value of plan assets at December 31	\$ 28,838	\$ 29,106

(ii) Plan assets comprise the following:

	2018	2017
Equity securities	\$ -	\$ 10,594
Debt securities	-	8,441
Pooled funds	28,031	9,576
Other assets	807	495
Fair value of plan assets	\$ 28,838	\$ 29,106

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11. 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	
	2018	2017	2018	2017	2018	2017
Current service cost	\$ (2,572)	\$ (2,932)	\$ (1,821)	\$ (1,731)	\$ (4,393)	\$ (4,663)
Interest cost	(1,829)	(1,836)	(1,081)	(1,231)	(2,910)	(3,067)
Interest income on plan assets	982	990	-	-	982	990
Total included in employee benefits expense (note 20)	\$ (3,419)	\$ (3,778)	\$ (2,902)	\$ (2,962)	\$ (6,321)	\$ (6,740)

(e) The amounts recognized in OCI were as follows:

	Pension plans		Other benefit plans		Total	
	2018	2017	2018	2017	2018	2017
Cumulative actuarial gains (losses) at January 1	\$ (8,412)	\$ (7,931)	\$ 9,647	\$ 7,234	\$ 1,235	\$ (697)
Remeasurements:						
Actuarial gain (loss) in the year	4,762	(2,353)	6,163	2,413	10,925	60
Return on plan assets, excluding interest income	(820)	1,872	-	-	(820)	1,872
Cumulative actuarial gains (losses) at December 31	\$ (4,470)	\$ (8,412)	\$ 15,810	\$ 9,647	\$ 11,340	\$ 1,235

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

	Pension plans		Other benefit plans	
	2018	2017	2018	2017
Discount rate	3.8%	3.4%	3.8%	3.4%
Future salary increases	3.0%	3.0%	n/a	n/a
Health care cost trend ¹	n/a	n/a	5.5%	5.3%

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).

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Notes to the Consolidated Financial Statements
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11. 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, 2018, the weighted average duration of the defined benefit obligation was 14 years (2017 - 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	
	2018	2017	2018	2017
Discount rate	3.8%	3.4%	3.8%	3.4%
Impact of: 1% increase	\$ (7,059)	\$ (7,808)	\$ (2,263)	\$ (2,848)
1% decrease	8,934	9,982	3,089	3,381
Salary growth rate	3.0%	3.0%	n/a	n/a
Impact of: 0.25% increase	58	24	n/a	n/a
0.25% decrease	(14)	(11)	n/a	n/a
Assumed overall health care trend rate	n/a	n/a	5.5%	5.3%
Impact of: 1% increase	n/a	n/a	106	373
1% decrease	n/a	n/a	(124)	(349)

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.

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11. Pension and other retirement benefits (continued)

(g) Future contributions

The expected contributions for the year ending December 31, 2019 are as follows:

	Pension plans	Other benefit plans	Total
Company contributions	\$ 1,441	\$ 1,302	\$ 2,743
Employee contributions	64	-	64
	\$ 1,505	\$ 1,302	\$ 2,807

(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 September 2019.

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12. Other assets

	2018	2017
Trade and other receivables	\$ 8,965	\$ 8,285
Prepaid and deferred expenses	8,703	8,655
Investment property	2,581	2,883
Security deposits	1,362	60
	\$ 21,611	\$ 19,883

In 2018, Vancity disposed of investment properties with a total carrying cost of \$0.3 million (2017 - \$19.3 million) and realized a net gain on sale of \$0.4 million (2017 - \$33.9 million) in the consolidated statement of income.

13. Deposits from members

	2018	2017
Demand deposits	\$ 7,779,773	\$ 7,616,270
Term deposits	11,538,549	10,682,620
Shares (note 14)	146,098	147,906
Accrued interest and dividend payable	130,425	100,653
	\$ 19,594,845	\$ 18,547,449

14. Shares

	2018	2017
Membership shares	\$ 77,111	\$ 77,435
Class C investment shares	31,757	33,316
Class E investment shares	35,406	35,228
Savings shares	1,824	1,927
	\$ 146,098	\$ 147,906

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. Current outstanding Class E investment shares, 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.

VANCOUVER CITY SAVINGS CREDIT UNION

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15. Borrowings

(a) Secured borrowings

During the year, Vancity had participated in the CMB program by transferring \$101.6 million (2017 - nil) in MBS into the program. At December 31, 2018, the carrying amount of secured borrowings was \$1.08 billion (2017 - \$976.0 million), which includes accrued interest amounting to \$1.0 million (2017 - \$0.7 million) and the carrying amount of the assets held as security was \$1,093.8 million (2017 - \$991.1 million). The security comprises \$539.3 million of residential mortgages (2017 - \$667.5 million), \$521.8 million of reinvestment assets (2017 - \$298.8 million) and \$32.7 million in cash (2017 - \$24.8 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 23(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, 2018	\$ 248	\$ 68,544	\$ 975,998	\$ 514,216	\$ 1,559,006
Change in partnership shares	(248)	-	-	-	(248)
Increase (decrease) in borrowings	-	-	101,424	95,142	196,566
Investment share dividends	-	2,252	-	-	2,252
Investment share redemptions	-	(3,633)	-	-	(3,633)
Total changes from financing cash flows	\$ (248)	\$ (1,381)	\$ 101,424	\$ 95,142	\$ 194,937
Interest expense	\$ -	\$ -	\$ 19,808	\$ 12,742	\$ 32,550
Interest paid	-	-	(19,518)	(12,399)	(31,917)
Total liability-related other changes	\$ -	\$ -	\$ 290	\$ 343	\$ 633
Balance at December 31, 2018	\$ -	\$ 67,163	\$ 1,077,712	\$ 609,701	\$ 1,754,576
	NCI	Investment shares	Secured borrowings	Wholesale borrowings	Total
Balance at January 1, 2017	\$ 223	\$ 35,387	\$ 975,939	\$ 500,057	\$ 1,511,606
Change 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

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16. Accounts payable and accrued liabilities

	2018	2017	Impact from IFRS 9 adoption
Visa prepaid liability	\$ 49,988	\$ 52,854	\$ -
Accruals	53,908	56,139	-
Accounts payable	33,688	66,525	-
Outstanding drafts	3,239	4,430	-
Outstanding certified cheques	34,883	34,558	-
Visa reward points liability (note 4(d))	38,261	30,928	4,955
Other	2,433	3,526	-
	\$ 216,400	\$ 248,960	\$ 4,955

17. Net interest income

	2018	2017
Interest income		
Cash and cash equivalents	\$ 194	\$ 123
Interest bearing deposits with financial institutions	21,728	18,039
Financial instruments:		
Fair value through profit or loss	12	117
Fair value through OCI	27,917	n/a
Available-for-sale	n/a	18,967
Loans and advances to members	692,625	603,895
Other assets	3,251	232
	745,727	641,373
Interest expense		
Deposits from members	238,857	183,571
Secured borrowings	19,808	13,683
Wholesale borrowings	12,742	6,765
Other liabilities	24,296	21,764
	295,703	225,783
	\$ 450,024	\$ 415,590

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18. Net fee and commission income

	2018	2017
Fee and commission income:		
Account service fees	\$ 21,751	\$ 21,680
Prepaid card and credit card fees	37,536	56,656
Foreign exchange	10,946	9,024
Insurance broker commissions and fees	2,442	2,405
Loan fees	3,024	2,413
Loan insurance fees	5,423	5,806
Trust and investment fees	39,240	36,154
	120,362	134,138
Fee and commission expense:		
Prepaid card and credit card fees	24,547	36,906
Other fees	7,060	7,372
	31,607	44,278
	\$ 88,755	\$ 89,860

19. Net gains (losses) on financial instruments

	2018	2017
Realized gains (losses) on disposal of financial instruments:		
Instruments held at amortized cost	\$ (8)	\$ -
Instruments designated as FVTPL	126	-
Fair value of instruments held as AFS reclassified from equity	n/a	3,262
Debt investment securities measured at FVOCI	69	n/a
Unrealized change in fair value of financial instrument:		
Instruments designated as FVTPL	(106)	(56)
	\$ 81	\$ 3,206

20. Salary and employee benefits

	2018	2017
Salaries	\$ 201,570	\$ 188,745
Benefits	30,309	30,069
Pension costs:		
Defined benefit plans (note 11(d))	3,419	3,778
Defined contribution plans	13,802	13,006
Post-employment benefits (note 11(d))	2,902	2,962
	\$ 252,002	\$ 238,560

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21. General and administrative expenses

	2018	2017
Professional and consulting	\$ 21,557	\$ 16,948
Dues and assessments	19,663	18,109
Marketing and advertising	9,344	7,959
Telecommunication, stationery and postage	11,327	10,973
Member service and lending	10,625	11,196
Data processing	14,989	13,525
Insurance	2,839	2,803
Travel, meeting and entertainment	4,235	4,022
Miscellaneous	10,636	8,678
	\$ 105,215	\$ 94,213

22. Distribution to community and members

	2018	2017
Donations to community	\$ 12,090	\$ 14,689
Membership distribution - dividends	3,193	2,993
Membership distribution - patronage	8,891	9,852
Total shared success	24,174	27,534
Investment share dividends	2,252	1,147
Total distributions to community and members	\$ 26,426	\$ 28,681

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

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23. Financial risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of Vancity's risk management framework. The Risk Committee, which is established by the Board, is responsible for reviewing and recommending risk management policies.

Risk management policies are established to identify and analyze the risks faced by Vancity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and Vancity's activities. Vancity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the established risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by Vancity. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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. 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.

VANCOUVER CITY SAVINGS CREDIT UNION

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23. Financial 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.

	2018	2017
On-balance sheet exposures	\$ 22,693,752	\$ 21,480,300
Off-balance sheet exposures (note 27(a))	6,395,503	6,205,428
	\$ 29,089,255	\$ 27,685,728

The table below provides a distribution of Vancity's retail 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	Stage 1	Stage 2	Stage 3	2018	2017
High	less than 620	\$ 153,489	\$ 319,829	\$ 13,581	\$ 486,899	\$ 372,270
Medium	620 - 720	2,360,329	817,761	24,470	3,202,560	2,601,871
Low	more than 720	8,445,102	768,543	21,718	9,235,363	9,825,509
		\$ 10,958,920	\$ 1,906,133	\$ 59,769	\$ 12,924,822	\$ 12,799,650

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	Stage 1	Stage 2	Stage 3	2018	2017
11 – 21: Minimal to normal	\$ 971,861	\$ 121,133	\$ 1,005	\$ 1,093,999	\$ 1,070,091
22 – 32: Acceptable	2,375,698	2,732,174	13,491	5,121,363	4,522,363
41 – 52: High	5,970	15,591	13,024	34,585	35,748
	\$ 3,353,529	\$ 2,868,898	\$ 27,520	\$ 6,249,947	\$ 5,628,202

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23. Financial 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:

	2018	2017
At December 31	13.35%	12.88%
Average for the year	12.95%	13.21%
Maximum for the year	13.80%	14.15%
Minimum for the year	12.60%	12.55%
Total liquid assets	\$ 2,821,985	\$ 2,577,558

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23. Financial 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:

	2018	2017
At December 31	76.57%	84.12%
Average for the year	81.14%	82.50%
Maximum for the year	84.85%	84.32%
Minimum for the year	76.57%	78.96%
Total liquid assets	80,348	95,711
Total assets	\$ 104,933	\$ 113,781

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	\$ 17,991,199	\$ 2,650,759	\$ 102,287	\$ 19	\$ 20,744,264
Wholesale borrowings	623,328	-	-	-	623,328
Secured borrowings	250,951	771,085	105,140	-	1,127,176
Other financial liabilities	214,060	-	-	-	214,060
Derivative liabilities	5,851	235	-	-	6,086
December 31, 2018	\$ 19,085,389	\$ 3,422,079	\$ 207,427	\$ 19	\$ 22,714,914
December 31, 2017	\$ 17,744,210	\$ 2,633,830	\$ 634,133	\$ 271	\$ 21,012,444

(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.

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23. Financial 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.

Interest rate sensitivity	2018		2017	
	Market value impact	Net interest income	Market value impact	Net interest income
Before tax impact of:				
1.0% decrease in rates	\$ 83,591	\$ (5,770)	\$ 93,079	\$ (1,857)
1.0% increase in rates	(83,414)	1,017	(91,686)	(2,054)

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23. Financial 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, 2018 and 2017 were as follows:

Assets

Fixed term assets, such as residential mortgage loans and personal 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.

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23. Financial 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, 2018	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%	\$ -	\$ -	\$ -	\$ -	\$ 167,160	\$ 167,160
Interest bearing deposits with financial institutions	1.60%	127,121	484,108	890,936	-	-	1,502,165
Financial investments	2.15%	325,082	609,176	677,650	264,656	6,376	1,882,940
Loans and advances to members	3.75%	4,669,818	2,607,304	7,505,394	1,307,473	3,046,234	19,136,223
Other	0.00%	2,065	431	1,487	-	200,100	204,083
		\$ 5,124,086	\$ 3,701,019	\$ 9,075,467	\$ 1,572,129	\$ 3,419,870	\$ 22,892,571
Liabilities and Equity:							
Deposits from members	1.52%	\$ 5,818,756	\$ 6,310,783	\$ 4,306,004	\$ 1,601,443	\$ 1,557,859	\$ 19,594,845
Wholesale borrowings	2.08%	608,469	-	-	-	1,232	609,701
Secured borrowings	1.90%	629,194	230,542	115,324	101,563	1,089	1,077,712
Other	0.00%	812	4,125	240	-	1,605,136	1,610,313
		\$ 7,057,231	\$ 6,545,450	\$ 4,421,568	\$ 1,703,006	\$ 3,165,316	\$ 22,892,571
Balance sheet mismatch		\$ (1,933,145)	\$ (2,844,431)	\$ 4,653,899	\$ (130,877)	\$ 254,554	\$ -
Notional amount of derivatives		(1,000,000)	500,000	350,000	(50,000)	200,000	-
Net mismatch 2018		\$ (2,933,145)	\$ (2,344,431)	\$ 5,003,889	\$ (180,877)	\$ 454,554	\$ -
Net mismatch 2017		(1,034,758)	(2,328,769)	4,303,866	303,344	(1,243,683)	-

(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.

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24. 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:

	2018	2017
Cash	\$ 38,511	\$ 29,793
Securities	525,816	305,007
Mortgages	703,056	830,936
General charge	2,824,000	2,500,000
	<u>\$ 4,091,383</u>	<u>\$ 3,665,736</u>
Assets pledged to, or charged against by:		
Central 1	\$ 1,503,059	\$ 1,503,195
Other financial institutions	1,494,349	1,171,141
Secured borrowings	1,093,975	991,401
	<u>\$ 4,091,383</u>	<u>\$ 3,665,737</u>
Assets pledged in relation to the following available facilities:		
Clearing facilities	\$ 4,000	\$ 4,000
Secured borrowings	1,077,712	975,998
Standby credit facilities	1,210,000	1,330,000
Derivative contracts	4,354	3,150
	<u>\$ 2,296,066</u>	<u>\$ 2,313,148</u>

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25. 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%.

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, 2018 and 2017, VCS's capital ratios were in compliance with the regulatory requirements.

	2018	2017
Primary capital	\$ 1,431,265	\$ 1,357,913
Secondary capital	234,195	160,701
Deductions from capital	(72,261)	(71,275)
Total regulatory capital	\$ 1,593,199	\$ 1,447,339

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.

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25. Regulatory and capital management (continued)

The Bank (continued)

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.

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, 2018 and 2017, the Bank's capital ratios were in compliance with the regulatory requirements.

	2018	2017
Tier 1 capital	\$ 34,167	\$ 32,163
Tier 2 capital	-	-
Deductions from capital	(235)	(337)
Regulatory capital	\$ 33,932	\$ 31,826

26. 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 FVOCI. 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.

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26. Fair value of financial instruments (continued)

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.

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.

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26. Fair value of financial instruments (continued)

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

December 31, 2018	Level 1	Level 2	Level 3	Total fair value	Amortized cost	Carrying value
Assets:						
Cash and cash equivalents	\$ 167,160	\$ -	\$ -	\$ 167,160	\$ 167,160	\$ 167,160
Financial investments	1,332,975	537,994	11,971	1,882,940	n/a	1,882,940
Derivative assets	-	5,264	-	5,264	n/a	5,264
Loans and advances to members	-	19,110,737	-	19,110,737	19,136,223	19,136,223
Interest bearing deposits with financial institutions	-	1,489,820	-	1,489,820	1,502,165	1,502,166
Other financial assets	-	10,326	-	10,326	10,326	10,326
	\$ 1,500,135	\$ 21,154,141	\$ 11,971	\$ 22,666,247	\$ 20,815,874	\$ 22,704,079
Liabilities:						
Derivative liabilities	\$ -	\$ 6,086	\$ -	\$ 6,086	\$ n/a	\$ 6,086
Deposits from members	-	19,582,330	-	19,582,330	19,594,845	19,594,845
Wholesale borrowings	-	609,627	-	609,627	609,701	609,701
Secured borrowings	-	1,075,483	-	1,075,483	1,077,712	1,077,712
Other financial liabilities	-	214,060	-	214,060	214,060	214,060
	\$ -	\$ 21,487,586	\$ -	\$ 21,487,586	\$ 21,496,318	\$ 21,502,404
December 31, 2017						
Assets:						
Cash and cash equivalents	\$ 98,467	\$ -	\$ -	\$ 98,467	\$ 98,467	\$ 98,467
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
	\$ 796,119	\$ 20,596,259	\$ 24,188	\$ 21,416,566	\$ 19,985,081	\$ 21,491,980
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
Borrowings – line of credit	-	72,223	-	72,223	72,223	72,223
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
	\$ -	\$ 20,401,743	\$ -	\$ 20,401,743	\$ 20,429,090	\$ 20,438,045

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26. Fair value of financial instruments (continued)

During the years ended December 31, 2018 and 2017, 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:

	2018	2017
Balance at January 1	\$ 24,188	\$ 8,570
Losses included in net income attributable to members	314	-
Gains (losses) included in OCI	-	14,723
Purchases	4,178	1,645
Settlements	(16,709)	(750)
Balance at December 31	\$ 11,971	\$ 24,188

27. Commitments and contingencies

(a) Credit commitments

The following amounts represent the maximum amount of additional credit that Vancity could be obligated to extend. The amounts of these arrangements may expire or terminate without being utilized and may not be representative of the funding likely to be required for these commitments.

	2018	2017
Undrawn lines of credit	\$ 4,635,046	\$ 4,494,317
Commitments to extend credit	753,439	714,374
Undrawn credit on credit cards issued	960,412	963,300
Documentary letters of credit	46,606	33,437
	\$ 6,395,503	\$ 6,205,428

(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, 2018 (2017 - \$1.5 billion), including deposits under contractual requirements. At December 31, 2018, Vancity's minimum required deposit with Central 1 under contractual requirements is \$1.0 billion (2017 - \$1.2 billion).

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27. Commitments and contingencies (continued)

(c) Guarantees

There are no guarantees outstanding as at December 31, 2018 and December 31, 2017.

(d) Restricted cash

Included in cash and cash equivalents are restricted funds from third parties totaling \$1.0 million (2017 - \$2.2 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 \$4.4 million (2017 - \$3.2 million) of restricted cash pledged as collateral for derivative contracts.

Included in the cash and cash equivalents balance is cash of \$34.2 million (2017 - \$26.7 million) relating to the CMB program. This cash forms part of the security for the secured borrowings of \$1.08 billion (2017 - \$976.0 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 \$18.9 million (2017 - \$17.3 million) were expensed during the year ended December 31, 2018.

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

	2018	2017
No later than one year	\$ 13,968	\$ 13,705
Later than one year and no later than five years	40,831	28,598
Later than five years	12,047	7,020
	\$ 66,846	\$ 49,323

Sub-lease payments

Future minimum lease payments expected to be received under non-cancellable sub-leases of operating leases	\$ 481	\$ 356
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27. 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 (2017 - \$0.4 million) were received during the year ended December 31, 2018.

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

	2018	2017
No later than one year	\$ 175	\$ 156
Later than one year and no later than five years	414	305
	\$ 589	\$ 461

(f) Legacy fund commitment

Vancity committed to making a \$5.0 million contribution to the Greater Victoria Savings Credit Union Legacy Fund and has paid a cumulative total of \$5.0 million as at December 31, 2018 (2017 - \$4.8 million). There is no further commitments as at December 31, 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 \$54.0 million (2017 - \$14.1 million) in contractual commitments for hardware, software and software maintenance.

(ii) Vancity has \$9.3 million (2017 - \$8.3 million) in contractual commitments to acquire units in several private investment funds.

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28. 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 11 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, 2018 were loans of \$8.0 million (2017 - \$6.4 million) and deposits of \$5.5 million (2017 - \$5.2 million).

(b) Key management compensation

	2018	2017
Salaries and other short-term employee benefits	\$ 7,203	\$ 6,409
Post employment benefits	884	713
Termination and other long-term benefits	563	414
	<u>\$ 8,650</u>	<u>\$ 7,536</u>

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.