



2019 Annual Report

Consolidated Financial Statements



Consolidated Financial Statements of

**VANCOUVER CITY SAVINGS
CREDIT UNION**

Year ended December 31, 2019

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 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



Clayton Buckingham
Chief Financial Officer

March 3, 2020



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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, 2019
- 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, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "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 – Prospective Change in Accounting Policy

We draw attention to Note 3(k) to the financial statements which indicates that Vancity has changed its accounting policy for leases in 2019 due to the adoption of IFRS 16 - *Leases* and has applied that change prospectively.



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 (IFRS), 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 has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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 the 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 the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

Vancouver, Canada

March 4, 2020

VANCOUVER CITY SAVINGS CREDIT UNION

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

December 31, 2019, with comparative information for 2018

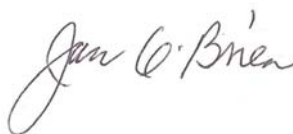
	Note	2019	2018
Assets			
Cash and cash equivalents		\$ 132,716	\$ 167,160
Interest bearing deposits with financial institutions		1,314,185	1,502,165
Financial investments	5	1,886,483	1,882,940
Derivative assets	6	9,197	5,264
Loans and advances to members	7(a)	19,538,376	19,136,223
Current tax assets		6,135	-
Premises and equipment	8(a), 9(a)	143,914	82,904
Intangible assets	8(b)	72,807	67,140
Deferred tax assets	10(c)	32,898	27,164
Other assets	12	20,657	21,611
Total assets		\$ 23,157,368	\$ 22,892,571
Liabilities and Equity			
Deposits from members	13	\$ 20,008,340	\$ 19,594,845
Derivative liabilities	6	1,319	6,086
Wholesale borrowings		488,607	609,701
Secured borrowings	15(a)	930,882	1,077,712
Accounts payable and accrued liabilities	16	214,633	216,400
Current tax liabilities		-	404
Retirement benefit obligation	11(a)	57,380	49,351
Other liabilities	9(b)	59,823	6,461
Total liabilities		21,760,984	21,560,960
Members' equity:			
Capital and reserves attributable to members:			
Contributed surplus		29,275	29,275
Retained earnings		1,357,549	1,296,550
Accumulated other comprehensive income		9,560	5,786
Total members' equity		1,396,384	1,331,611
Total liabilities and equity		\$ 23,157,368	\$ 22,892,571

Commitments and contingencies (note 27)

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

Approved on behalf of the Board on March 3, 2020





VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Income
(Expressed in thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

	Note	2019	2018
Interest income		\$ 804,145	\$ 745,727
Interest expense		369,299	295,703
Net interest income	17	434,846	450,024
Impairment expense on financial instruments	7(c)	22,712	11,891
Fee and commission income		120,747	120,362
Fee and commission expense		31,982	31,607
Net fee and commission income	18	88,765	88,755
Net gains on financial instruments	19	3,920	81
Other income (loss)		2,138	(285)
Gain on sale of investment property	12	-	394
Total operating income		506,957	527,078
Operating expenses:			
Salary and employee benefits	20	262,831	252,002
Occupancy and equipment		52,859	53,373
General and administrative	21	97,722	105,215
		413,412	410,590
Income before distribution and tax		93,545	116,488
Distribution to community and members	22	20,424	26,426
Income before tax		73,121	90,062
Income tax expense	10(a)	12,122	9,481
Net income attributable to members		\$ 60,999	\$ 80,581

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)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Net income attributable to members	\$ 60,999	\$ 80,581
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 \$991 (2018 – \$1,095)	3,711	5,218
Reclassification of realized gains to the consolidated statement of income, net of tax expense of \$167 (2018 - \$17)	(640)	(83)
	3,071	5,135
Cash flow hedges:		
Effective portion of changes in fair value, net of tax expense of \$1,358 (2018 - \$755)	5,204	3,641
Items that will never be reclassified to the consolidated statement of income:		
Actuarial gain (loss) on defined benefit pension plans, net of tax recovery of \$1,030 (2018 - \$2,296 tax expense)	(4,501)	7,809
Other comprehensive income for the year	3,774	16,585
Comprehensive income attributable to members	\$ 64,773	\$ 97,166

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)

Year ended December 31, 2019, with comparative information for 2018

	Contributed surplus	AOCI			Retained earnings	Total members' equity	Non-controlling interest	Total equity
		Hedging reserve	Fair value reserve	Employee benefits				
Balance at December 31, 2018	\$ 29,275	\$ (1,601)	\$ (1,753)	\$ 9,140	\$ 1,296,550	\$ 1,331,611	\$ -	\$ 1,331,611
Net income	-	-	-	-	60,999	60,999	-	60,999
Other comprehensive income (loss) for the year, net of tax:								
Net gains on financial assets measured at FVOCI	-	-	3,071	-	-	3,071	-	3,071
Cash flow hedges	-	5,204	-	-	-	5,204	-	5,204
Actuarial loss on defined benefit pension plan	-	-	-	(4,501)	-	(4,501)	-	(4,501)
Other comprehensive income (loss) for the year	-	5,204	3,071	(4,501)	-	3,774	-	3,774
Total comprehensive income (loss) for the year	-	5,204	3,071	(4,501)	60,999	64,773	-	64,773
Balance at December 31, 2019	29,275	3,603	1,318	4,639	1,357,549	1,396,384	-	\$ 1,396,384
Balance at January 1, 2018 (prior to IFRS 9)	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	-	-	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

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)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash flows from operating activities:		
Net income	\$ 60,999	\$ 80,581
Adjustments for:		
Impairment expense on financial instruments	22,712	11,891
Amortization, depreciation and impairment	34,740	20,900
Loss on sale of premises and equipment	-	36
Net interest income	(434,846)	(450,024)
Net gains on financial instruments	(3,920)	(81)
Gain on sale of investment property	-	(394)
Income tax expense	12,122	9,481
	(308,193)	(327,610)
Change in derivative instruments	(7,967)	(4,406)
Change in interest bearing deposits with financial institutions	187,391	(15,293)
Change in loans and advances to members	(423,893)	(753,351)
Change in other assets	533	(2,034)
Change in deposits from members	387,218	1,020,404
Change in accounts payable and accrued liabilities	(2,655)	(32,560)
Change in retirement benefit obligation	2,498	3,553
Change in other liabilities	(4,056)	4,174
	(169,124)	(107,123)
Interest received	802,103	735,425
Interest paid	(341,294)	(266,243)
Income taxes paid	(25,547)	(18,019)
Net cash generated from (used in) operating activities	266,138	344,040
Cash flows from investing activities:		
Change in financial investments	12,367	(374,531)
Purchase of premises and equipment	(17,637)	(17,432)
Proceeds from the sale of investment property	-	700
Purchase of intangibles	(10,447)	(6,798)
VCIB acquisition of CoPower Inc.	(1,780)	-
Net cash generated from (used in) investing activities	(17,497)	(398,061)
Cash flows from financing activities:		
Change in partnership shares	-	(248)
Change in investment shares	(2,029)	(1,381)
Change in secured borrowings	(146,672)	101,424
Change in wholesale borrowings	(121,558)	95,142
Change in lease liabilities	(12,826)	-
Net cash generated from (used in) financing activities	(283,085)	194,937
Net increase (decrease) in cash and cash equivalents	(34,444)	140,916
Cash and cash equivalents at the beginning of the year	167,160	26,244
Cash and cash equivalents at the end of the year	\$ 132,716	\$ 167,160
Cash and cash equivalents are comprised of:		
Cash and deposits held with Central 1 and other banks	\$ 99,411	\$ 122,027
Cheques and other items in transit	5,792	5,582
Restricted cash (note 27(c))	27,513	39,551
	\$ 132,716	\$ 167,160

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, 2019

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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, 2019

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, 2019 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 March 3, 2020.

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 9. As explained in those notes, Vancity has adopted IFRS 16 *Leases* with a date of initial application of January 1, 2019.

(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; 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.

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2019

2. Basis of presentation (continued)

(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 4.

(e) Comparative information

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

3. Summary of significant accounting policies

(a) Basis of consolidation

The consolidated financial statements include the assets, liabilities and the results of operations and cash flows of Vancity. The wholly owned active subsidiaries are Vancity Community Investment Bank, Citizens Trust Company, CoPower Inc., 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, 2019

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.

Vancity accounts for business combinations using the acquisition method when control is transferred to Vancity. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment.

(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 equity instruments measured at FVOCI, 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.

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2019

3. Summary of significant accounting policies (continued)

(d) Financial instruments

(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.

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 debt securities measured at FVOCI, gains and losses on disposal and impairment losses (recoveries) are recorded in the consolidated statement of income. For equity securities designated at FVOCI, gains or losses on these instruments will never be recognized in profit or loss.

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2019

3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Recognition, classification and measurement (continued)

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.

(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 years ended December 31, 2019 and 2018.

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3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Impairment

The expected credit loss (“ECL”) 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 (Stage 1): these are expected losses that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECL (Stage 2 and 3): these are expected losses that result from all possible default events over the expected life of a financial instrument.

Stage 2 comprise assets which have shown a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. Stage 3 comprise credit-impaired assets that have shown objective evidence of impairment at the reporting date.

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 (“SICR”) 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, delinquency, risk ratings and monitoring. The importance and relevance of each specific macroeconomic factor depends on the portfolio, characteristics of the financial instruments, and the borrower’s credit profile. 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 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 which would move the loan to Stage 2, the backstop criterion for the portfolio has been met which would move the loan to Stage 2 or 3, or other portfolio specific considerations which would move the loan to Stage 2 or 3.

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3. Summary of significant accounting policies (continued)

(d) Financial instruments (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 Stage 2 backstop criterion is met when an account is 30 or more days in arrears and will be transferred to Stage 2.

For the Visa portfolio, the Stage 3 backstop criterion is met when an account is 180 or more days in arrears. For all other loans and advances, the Stage 3 backstop criterion is met when an account is 90 or more days in arrears.

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 product types 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 is 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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3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Impairment (continued)

Probability of default

To calculate the 12-month (Stage 1) PDs (except for the Visa portfolio), 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.

The Visa 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 Stage 2 PD is a lifetime PD based on the average life of the asset.

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 ECL. In determining the FLI input to the ECL calculation, Vancity identifies macroeconomic factors that are deemed to be applicable to various loan portfolios. Vancity runs a regression analysis against each product type to determine which macroeconomic factors will be applied in determining FLI. Vancity uses forecasts for multiple external sources and management applies a probability-weighted factor for each of the macroeconomic scenarios.

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.

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Year ended December 31, 2019

3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Impairment (continued)

Exposure at default (continued)

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.

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.

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Year ended December 31, 2019

3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Impairment (continued)

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

Vancity derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which Vancity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Vancity derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. Vancity also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

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.

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3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iv) Derecognition of financial instruments (continued)

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 the borrower's default. Once the mortgages are securitized, Vancity may periodically transfer these MBS to Canada Housing Trust under the Canada Mortgage Bonds ("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

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

(e) Derivative instruments and hedge accounting

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

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

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

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3. Summary of significant accounting policies (continued)

(e) Derivative instruments and hedge accounting (continued)

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

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

IFRS 9 *Financial Instruments* includes an accounting policy choice to retain IAS 39 *Financial Instruments: Recognition and Measurement* for hedge accounting requirements until an amended standard is effective. Vancity has elected to continue applying hedge accounting under IAS 39.

(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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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) 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.

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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. Vancity recognizes revenues over time for providing access over a contractual period and recognizes revenues at a point in time for transactional services performed.

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.

Trust and investment fees consist 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.

Other fee and commission income, including foreign exchange and insurance broker commissions and 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.

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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.

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3. Summary of significant accounting policies (continued)

(j) Intangibles (continued)

(iii) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortized and it is assessed for impairment annually.

(k) Leases

Vancity applied IFRS 16 *Leases* with a date of initial application of January 1, 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. The details of the changes in accounting policies are disclosed below and the details of the transition impacts are disclosed in note 9.

Policy applicable from January 1, 2019

At inception of a contract, Vancity assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Vancity assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- Vancity has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- Vancity has the right to direct the use of the asset. Vancity has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, Vancity allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(i) Vancity as a lessee

Vancity recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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Year ended December 31, 2019

3. Summary of significant accounting policies (continued)

(k) Leases (continued)

Policy applicable from January 1, 2019 (continued)

(i) Vancity as a lessee (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Vancity's incremental borrowing rate. Generally, Vancity uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that Vancity is reasonably certain to exercise, lease payments in an optional renewal period if Vancity is reasonably certain to exercise an extension option, and penalties for early termination unless Vancity is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Vancity's estimate of the amount expected to be payable under a residual value guarantee or if Vancity changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to nil. Vancity presents right-of-use assets in 'premises and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Vancity elected to apply the transition practical expedient that permits the entity not to reassess if a contract is, or contains, a lease at the date of initial application. The following practical expedients were also used when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of a lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

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3. Summary of significant accounting policies (continued)

(k) Leases (continued)

Policy applicable from January 1, 2019 (continued)

(i) Vancity as a lessor

When Vancity acts as a lessor, it determines at lease commencement whether each lease is a finance or an operating lease. To classify each lease, Vancity makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, Vancity considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When Vancity is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which Vancity applies the exemption described above, then it classifies the sub-lease as an operating lease. Vancity recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

Policy applicable before January 1, 2019

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, 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.

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Year ended December 31, 2019

3. Summary of significant accounting policies (continued)

(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.

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).

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Year ended December 31, 2019

3. Summary of significant accounting policies (continued)

(m) Employee benefits (continued)

(i) Defined benefit plans (continued)

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.

(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.

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3. Summary of significant accounting policies (continued)

(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, 2019, 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) 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.

4. Use of estimates and judgments

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

Actual results may differ from these estimates. 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) 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.

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4. Use of estimates and judgments (continued)

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

(i) Expected credit loss allowance (continued)

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.

(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.

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4. Use of estimates and judgments (continued)

- (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 5.

- (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.

(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).

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5. Financial investments

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

	2019		2018	
	Effective yield	Total fair value	Effective yield	Total fair value
Financial investments classified as FVOCI:				
Securities issued or guaranteed by the Canadian federal and provincial government	1.85%	1,803,477	2.13%	1,715,894
Financial investments designated as FVOCI:				
Central 1 shares	4.33%	58,362	3.04%	71,983
Other securities	0.72%	2,535	2.65%	77,714
Financial investments measured at FVTPL:				
Other securities	0.00%	14,485	0.00%	11,258
Accrued interest		7,624		6,091
Total financial investments		\$ 1,886,483		\$ 1,882,940

Included in the above investments are reinvestment assets relating to the CMB program of \$489.0 million (2018 - \$521.8 million). These assets have been pledged as collateral for the secured borrowings of \$930.8 million (2018 - \$1,077.7 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. During the year ended December 31, 2019, there was no further restructuring besides the Class F in-cycle share calls scheduled in accordance with Central 1's Capital Policy.

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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6. Derivative instruments

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

December 31, 2019	Notional amounts			Fair values	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate contracts:					
Swap contracts	\$ 860,000	\$ 700,000	\$ 1,560,000	\$ 2,983	\$ 977
Foreign exchange contracts:					
Forward contracts	139,825	-	139,825	3,049	342
Other:					
Equity index-linked option	9,925	27,353	37,278	3,165	-
Total derivative contracts	1,009,750	727,353	1,737,103	9,197	1,319
Amounts subject to master netting agreements				(1,019)	(1,019)
Net exposure on derivatives				\$ 8,178	\$ 300

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

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, 2019, Vancity recognized \$0.6 million of unrealized gains in interest income from changes in the fair value of derivatives (2018 - \$1.4 million) and no realized gains or losses (2018 - nil) on the sale of financial instruments.

VANCOUVER CITY SAVINGS CREDIT UNION

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7. Loans and advances to members

(a) Loan balances measured at amortized cost

	2019	2018
Retail:		
Residential mortgages	\$ 12,384,049	\$ 12,233,964
Personal loans	682,097	690,858
Business:		
Commercial mortgages and loans	6,521,908	6,249,947
	19,588,054	19,174,769
Loans and advances to members classified as:		
Stage 1	13,884,984	14,312,449
Stage 2	5,591,873	4,775,031
Stage 3	111,197	87,289
	19,588,054	19,174,769
Accrued interest receivable	32,969	31,997
Less: Allowance for expected credit losses (note 7(b))	(82,647)	(70,543)
	\$ 19,538,376	\$ 19,136,223

At December 31, 2019, Vancity had \$580.2 million (2018 - \$537.5 million) of loans which had been securitized in the CMB and MBS programs and included in the consolidated statement of financial position as the securitization transactions did not meet the requirements for derecognition.

Loans that have been securitized through the CMB program and pledged as collateral for secured borrowings are disclosed in note 15(a).

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7. 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 December 31, 2018	\$ 7,278	\$ 25,774	\$ 6,295	\$ 39,347
Net remeasurement	(7,626)	14,439	5,196	12,009
Originations	378	938	845	2,161
Derecognitions and maturities	(225)	(1,048)	(889)	(2,162)
Transfers to Stage 1	10,771	(7,890)	(2,881)	-
Transfers to Stage 2	(1,482)	3,600	(2,118)	-
Transfers to Stage 3	(9)	(123)	132	-
Balance at December 31, 2019	9,085	35,690	6,580	51,355
ECL on loans and advances to members - Business				
Balance at December 31, 2018	21,232	8,749	1,215	31,196
Net remeasurement	(20,724)	7,161	7,962	(5,601)
Originations	3,069	2,865	8	5,942
Derecognitions and maturities	(41)	(15)	(189)	(245)
Transfers to Stage 1	12,362	(11,908)	(454)	-
Transfers to Stage 2	(202)	745	(543)	-
Transfers to Stage 3	(131)	(30)	161	-
Balance at December 31, 2019	15,565	7,567	8,160	31,292
ECL on other financial instruments				
Balance at December 31, 2018	724	-	4	728
Net remeasurement	(102)	-	-	(102)
Originations	36	-	-	36
Derecognitions and maturities	(258)	-	-	(258)
Balance at December 31, 2019	400	-	4	404
Total ECL				
Balance at December 31, 2018	29,234	34,523	7,514	71,271
Net remeasurement	(28,452)	21,600	13,158	6,306
Originations	3,483	3,803	853	8,139
Derecognitions and maturities	(524)	(1,063)	(1,078)	(2,665)
Transfers to Stage 1	23,133	(19,798)	(3,335)	-
Transfers to Stage 2	(1,684)	4,345	(2,661)	-
Transfers to Stage 3	(140)	(153)	293	-
Balance at December 31, 2019	\$ 25,050	\$ 43,257	\$ 14,744	\$ 83,051

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7. Loans and advances to members (continued)

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

	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)	(8,986)	(13,537)
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	-
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)	(2,883)	(8,236)
Transfers to Stage 1	1,017	(981)	(36)	-
Transfers to Stage 2	(9,199)	9,199	-	-
Transfers to Stage 3	(271)	(57)	328	-
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)	(11,869)	(21,942)
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	-
Balance at December 31, 2018	\$ 29,234	\$ 34,523	\$ 7,514	\$ 71,271

(c) Impairment expense on financial instruments

	2019	2018
Total change in ECL recognized in impairment expense on financial instruments (note 7(b))	\$ 11,780	\$ 2,216
Write-offs	14,727	13,611
Recoveries	(3,795)	(3,936)
Total impairment expense on financial instruments	\$ 22,712	\$ 11,891

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7. Loans and advances to members (continued)

(d) 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 2019	Total 2018
Retail loans	\$ 41,534	\$ 8,829	\$ 21,347	\$ 71,710	\$ 62,387
Business loans	7,499	1,661	2,609	11,769	15,300
	\$ 49,033	\$ 10,490	\$ 23,956	\$ 83,479	\$ 77,687

8. Premises, equipment, intangibles and goodwill

(a) Premises and equipment

Premises and equipment comprise owned and leased assets that do not meet the definition of investment property.

	2019
Premises and equipment owned	\$ 86,849
Right-of-use assets (note 9a)	57,065
	\$ 143,914

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8. Premises, equipment, intangibles and goodwill (continued)

(a) Premises and equipment (continued)

The movement of premises and equipment during the years ended December 31, 2019 and 2018 is as follows:

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
Cost:						
Balance at January 1, 2019	\$ 9,933	\$ 63,812	\$ 75,183	\$ 48,950	\$ 35,317	\$ 233,195
Acquisitions	29	2,296	7,287	4,045	3,980	17,637
Balance at December 31, 2019	\$ 9,962	\$ 66,108	\$ 82,470	\$ 52,995	\$ 39,297	\$ 250,832
Accumulated depreciation and impairment losses:						
Balance at January 1, 2019	\$ -	\$ 38,667	\$ 46,624	\$ 39,179	\$ 25,821	\$ 150,291
Depreciation	-	2,619	4,642	3,995	2,294	13,550
Impairment	-	-	142	-	-	142
Balance at December 31, 2019	\$ -	\$ 41,286	\$ 51,408	\$ 43,174	\$ 28,115	\$ 163,983
Carrying amounts:						
Balance at January 1, 2019	\$ 9,933	\$ 25,145	\$ 28,559	\$ 9,771	\$ 9,496	\$ 82,904
Balance at December 31, 2019	9,962	24,822	31,062	9,821	11,182	86,849
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

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8. Premises, equipment, intangibles and goodwill (continued)

(b) Intangibles and goodwill

The movement of intangibles and goodwill during the years ended December 31, 2019 and 2018 is as follows:

	Software	Goodwill	Other	Total
Cost:				
Balance at January 1, 2019	\$ 99,067	\$ -	\$ 25	\$ 99,092
Acquisitions	10,444	3,089	3	13,536
Balance at December 31, 2019	\$ 109,511	\$ 3,089	\$ 28	\$ 112,628
Accumulated amortization:				
Balance at January 1, 2019	\$ 31,952	\$ -	\$ -	\$ 31,952
Amortization	7,869	-	-	7,869
Balance at December 31, 2019	\$ 39,821	\$ -	\$ -	\$ 39,821
Carrying amounts:				
Balance at January 1, 2019	\$ 67,115	\$ -	\$ 25	\$ 67,140
Balance at December 31, 2019	69,690	3,089	28	72,807

On November 8, 2019, the Bank acquired 100% of the shares and voting interests in CoPower Inc. and recognized \$3.1 million in goodwill from the acquisition (note 29).

	Software	Other	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

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9. Leases

(a) Vancity as a lessee - right-of-use assets

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 movement of right-of-use assets during the year ended December 31, 2019 is as follows:

	Total
Balance at January 1, 2019 – Real Estate	\$ 66,481
Additions to right-of-use assets	3,763
Depreciation	(13,179)
Balance at December 31, 2019	\$ 57,065

Vancity received income of \$237.5 thousand from the sublease of right-of-use assets for year ended December 31, 2019.

Prior to the adoption of IFRS 16, total lease payments of \$18.9 million were expensed during the year ended December 31, 2018 and the future minimum lease payments under non-cancellable operating leases as at December 31, 2018 were as follows:

	2018
No later than one year	\$ 13,968
Later than one year and no later than five years	40,831
Later than five years	12,047
	\$ 66,846

Sub-lease payments

Future minimum lease payments expected to be received under non-cancellable sub-leases of operating leases	\$ 481
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(b) Vancity as a lessee – lease liabilities

On transition to IFRS 16, Vancity recognized \$66.5 million of right-of-use assets and \$66.6 million of lease liabilities.

When measuring lease liabilities, Vancity discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 2.33%. The expense relating to interest on lease liabilities was \$1.4 million and the expense related to short term leases was \$0.5 million for the year ended December 31, 2019.

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Year ended December 31, 2019

9. Leases (continued)

(b) Vancity as a lessee – lease liabilities (continued)

	January 1, 2019
Operating lease commitment at December 31, 2018	\$ 66,846
Discounted using the incremental borrowing rate at January 1, 2019	(4,566)
Recognition exemption for short-term leases	(500)
Lease commitments of acquired company	266
Reduction of commitment due to broken lease	(232)
Renewal options reasonably certain to be exercised	4,745
Lease liabilities recognized at January 1, 2019	\$ 66,559
	2019
Maturity analysis – contractual undiscounted cash flows	
Less than one year	\$ 15,109
One to five years	42,828
More than five years	9,132
Total undiscounted lease liabilities at December 31	\$ 67,069
Current portion of lease liabilities	\$ 12,167
Non-current portion of lease liabilities	45,251
Total lease liabilities included in other liabilities at December 31	\$ 57,418

(c) Vancity as a lessor – future minimum lease payments

Vancity acts as a head lessor and an intermediate 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 \$409 thousand (2018 - \$431 thousand) were received during the year ended December 31, 2019.

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

	2019	2018
No later than one year	\$ 272	\$ 416
Later than one year and no later than five years	510	654
More than five years	11	-
	\$ 793	\$ 1,070

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Year ended December 31, 2019

10. Income taxes

(a) Income tax expense (recovery)

	2019	2018
Current tax expense	\$ 16,826	\$ 18,016
Deferred tax expense:		
Origination and reversal of temporary differences	(256)	(4,291)
Change in tax rate	(4,448)	(4,244)
	(4,704)	(8,535)
	\$ 12,122	\$ 9,481

(b) Reconciliation of effective tax rate

The effective tax rate of 16.6% (2018 – 10.5%) differed from the combined federal and provincial tax rate for the following reasons:

	2019	2018
Combined federal and provincial statutory tax rate	27.0%	27.0%
Credit union preferred rate reduction	(4.4)	(10.8)
Change in predicted future tax rates	(5.3)	(2.2)
Non-deductible and other items	(0.7)	(3.5)
	16.6%	10.5%

(c) Deferred tax assets and liabilities

	Balance at January 1, 2019	Recognized in net income	Recognized in in OCI	Derecognized during the year	Balance at December 31, 2019
Deferred tax assets:					
Pensions and post-retirement benefits	\$ 11,212	\$ 2,713	\$ 1,030	\$ -	\$ 14,955
Deferred revenue	4,193	125	-	-	4,318
Lease liability	-	14,082	-	-	14,082
Allowance for expected credit losses	13,540	3,480	-	-	17,020
Other provisions	6,014	1,029	-	-	7,043
Deferred loan fee expenses	1,322	(294)	-	-	1,028
Tax loss carried forward	544	268	-	-	812
	36,825	21,403	1,030	-	59,258
Deferred tax liabilities:					
Premises and equipment	(9,661)	(2,729)	-	-	(12,390)
Right-of-use asset	-	(13,970)	-	-	(13,970)
	(9,661)	(16,699)	-	-	(26,360)
Total	\$ 27,164	\$ 4,704	\$ 1,030	\$ -	\$ 32,898

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Year ended December 31, 2019

10. Income taxes (continued)

(c) Deferred tax assets and liabilities (continued)

	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

(d) Unrecognized deferred tax liabilities

At December 31, 2019, deferred tax liabilities for temporary differences of \$18.3 million (2018 - \$25.2 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, 2019. The effective date of the last actuarial valuation report for funding purposes was December 31, 2018. The next actuarial valuation report will be prepared with an effective date of December 31, 2019 and is expected to be available in 2020.

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Notes to the Consolidated Financial Statements
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Year ended December 31, 2019

11. Pension and other retirement benefits (continued)

(a) Retirement benefit obligation

	Pension plans		Other benefit plans		Total	
	2019	2018	2019	2018	2019	2018
Defined benefit obligation - funded	\$ (37,369)	\$ (32,474)	\$ -	\$ -	\$ (37,369)	\$ (32,474)
Defined benefit obligation - unfunded	(22,851)	(18,735)	(30,055)	(26,980)	(52,906)	(45,715)
Fair value of plan assets	32,895	28,838	-	-	32,895	28,838
Net retirement benefit obligation	\$ (27,325)	\$ (22,371)	\$ (30,055)	\$ (26,980)	\$ (57,380)	\$ (49,351)

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

	Pension plans		Other benefit plans		Total	
	2019	2018	2019	2018	2019	2018
Defined benefit obligation at January 1	\$ (51,209)	\$ (53,466)	\$ (26,980)	\$ (31,543)	\$ (78,189)	\$ (85,009)
Current service cost (net of employee contributions)	(2,320)	(2,572)	(1,543)	(1,821)	(3,863)	(4,393)
Interest cost	(1,960)	(1,829)	(1,023)	(1,081)	(2,983)	(2,910)
Employee contributions	(70)	(62)	-	-	(70)	(62)
Actuarial gains (losses) arising from:						
Experience adjustments	251	571	(238)	3,734	13	4,305
Demographic adjustments	(1,065)	-	-	-	(1,065)	-
Financial assumptions	(5,465)	4,191	(1,898)	2,429	(7,363)	6,620
Benefit payments	1,618	1,958	1,627	1,302	3,245	3,260
Defined benefit obligation at December 31	\$ (60,220)	\$ (51,209)	\$ (30,055)	\$ (26,980)	\$ (90,275)	\$ (78,189)

(c) Fair value of plan assets

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

	2019	2018
Fair value of plan assets at January 1	\$ 28,838	\$ 29,106
Interest income on plan assets	1,098	982
Return on plan assets, excluding interest income	2,884	(820)
Employer contributions	3,250	2,768
Employee contributions	70	62
Benefit payments	(3,245)	(3,260)
Fair value of plan assets at December 31	\$ 32,895	\$ 28,838

(ii) Plan assets comprise the following:

	2019	2018
Pooled funds	\$ 32,665	\$ 28,031
Other assets	230	807
Fair value of plan assets	\$ 32,895	\$ 28,838

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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	
	2019	2018	2019	2018	2019	2018
Current service cost	\$ (2,320)	\$ (2,572)	\$ (1,543)	\$ (1,821)	\$ (3,863)	\$ (4,393)
Interest cost	(1,960)	(1,829)	(1,023)	(1,081)	(2,983)	(2,910)
Interest income on plan assets	1,098	982	-	-	1,098	982
Total included in employee benefits expense (note 20)	\$ (3,182)	\$ (3,419)	\$ (2,566)	\$ (2,902)	\$ (5,748)	\$ (6,321)

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

	Pension plans		Other benefit plans		Total	
	2019	2018	2019	2018	2019	2018
Cumulative actuarial gains (losses) at January 1	\$ (4,470)	\$ (8,412)	\$ 15,810	\$ 9,647	\$ 11,340	\$ 1,235
Remeasurements:						
Actuarial gain (loss) in the year	(6,279)	4,762	(2,136)	6,163	(8,415)	10,925
Return on plan assets, excluding interest income	2,884	(820)	-	-	2,884	(820)
Cumulative actuarial gains (losses) at December 31	\$ (7,865)	\$ (4,470)	\$ 13,674	\$ 15,810	\$ 5,809	\$ 11,340

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

	Pension plans		Other benefit plans	
	2019	2018	2019	2018
Discount rate	3.1%	3.8%	3.1%	3.8%
Inflation rate	2.0%	2.1%	2.0%	2.1%
Future salary increases ¹	2.5%	3.0%	n/a	n/a
Future pension increases	3.0%	3.1%	n/a	n/a
Health care cost trend ²	n/a	n/a	5.6%	5.5%

¹ 2.5% for 2020 and 3% thereafter

² 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 the CPM 2014 Combined Table (2018 – CPM 2014 Private Sector Mortality Table) with generational projection using Improvement Scale CPM-B and pension size adjustment factors of 0.83 for both male and female (2018 - 0.85).

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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, 2019, the weighted average duration of the defined benefit obligation was 14 years (2018 - 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	
	2019	2018	2019	2018
Discount rate	3.1%	3.8%	3.1%	3.8%
Impact of: 1% increase	\$ (8,702)	\$ (7,059)	\$ (2,636)	\$ (2,263)
1% decrease	11,112	8,934	3,116	3,089
Salary growth rate	2.5%	3.0%	n/a	n/a
Impact of: 0.25% increase	108	58	n/a	n/a
0.25% decrease	(16)	(14)	n/a	n/a
Assumed overall health care trend rate	n/a	n/a	5.6%	5.5%
Impact of: 1% increase	n/a	n/a	106	106
1% decrease	n/a	n/a	(129)	(124)

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, 2020 are as follows:

	Pension plans	Other benefit plans	Total
Company contributions	\$ 1,675	\$ 1,627	\$ 3,302
Employee contributions	74	-	74
	\$ 1,749	\$ 1,627	\$ 3,376

(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, 2018. It was determined that the overall Plan had an actuarial going concern surplus of \$31.6 million and a solvency deficiency of \$99.5 million, based on market value assets of \$735 million. Employer contributions to the Plan are established by the trustees of the Plan upon advice from the Plan actuaries, including amounts to finance any solvency deficiencies over time.

The next actuarial valuation is scheduled for December 31, 2021 with results expected to be available in September 2022.

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12. Other assets

	2019	2018
Trade and other receivables	\$ 9,354	\$ 8,965
Prepaid and deferred expenses	7,467	8,703
Investment property	2,577	2,581
Security deposits	1,259	1,362
	\$ 20,657	\$ 21,611

In 2019, Vancity disposed of investment properties with a total carrying cost of nil (2018 - \$0.3 million) and realized a net gain on sale of nil (2018 - \$0.4 million) in the consolidated statement of income.

13. Deposits from members

	2019	2018
Demand deposits	\$ 8,048,874	\$ 7,779,773
Term deposits	11,657,677	11,538,549
Shares (note 14)	144,458	146,098
Accrued interest and dividend payable	157,331	130,425
	\$ 20,008,340	\$ 19,594,845

14. Shares

	2019	2018
Membership shares	\$ 77,402	\$ 77,111
Class C investment shares	30,978	31,757
Class E investment shares	34,156	35,406
Savings shares	1,922	1,824
	\$ 144,458	\$ 146,098

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% or 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.

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15. Borrowings

(a) Secured borrowings

During the year, Vancity had participated in the CMB program by transferring \$146.7 million (2018 - \$101.6 million) in MBS into the program. At December 31, 2019, the carrying amount of secured borrowings was \$930.8 million (2018 - \$1,077.7 million), which includes accrued interest amounting to \$0.8 million (2018 - \$1.0 million) and the carrying amount of the assets held as security was \$951.6 million (2018 - \$1.09 billion). The security comprises \$437.7 million of mortgages and accrued interest (2018 - \$539.3 million), \$489.0 million of reinvestment assets (2018 - \$521.8 million) and \$25.0 million in cash (2018 - \$32.7 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:

	Lease liabilities	Investment shares	Secured borrowings	Wholesale borrowings	Total
Balance at January 1, 2019	\$ 66,559	\$ 67,163	\$ 1,077,712	\$ 609,701	\$ 1,821,135
Increase (decrease) in borrowings	-	-	(146,672)	(121,558)	(268,230)
Investment share dividends	-	2,124	-	-	2,124
Investment share redemptions	-	(4,153)	-	-	(4,153)
Decrease in lease liabilities	(12,826)	-	-	-	(12,826)
Total changes from financing cash flows	\$ (12,826)	\$ (2,029)	\$ (146,672)	\$ (121,558)	\$ (283,085)
Interest expense	\$ 1,048	\$ -	\$ 19,946	\$ 11,941	\$ 32,935
Interest paid	(1,048)	-	(20,104)	(11,477)	(32,629)
Non-cash changes to lease liabilities	3,685	-	-	-	3,685
Total liability-related other changes	\$ 3,685	\$ -	\$ (158)	\$ 464	\$ 3,991
Balance at December 31, 2019	\$ 57,418	\$ 65,134	\$ 930,882	\$ 488,607	\$ 1,542,041

	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

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16. Accounts payable and accrued liabilities

	2019	2018
Visa prepaid liability	\$ 50,579	\$ 49,988
Accruals	58,912	53,908
Accounts payable	22,982	33,688
Outstanding drafts	4,790	3,239
Outstanding certified cheques	34,829	34,883
Visa reward points liability	39,418	38,261
Miscellaneous	3,123	2,433
	<u>\$ 214,633</u>	<u>\$ 216,400</u>

17. Net interest income

	2019	2018
Interest income		
Cash and cash equivalents	\$ 222	\$ 194
Interest bearing deposits with financial institutions	20,790	21,728
Financial instruments:		
Fair value through profit or loss	32	12
Fair value through OCI	41,329	27,917
Loans and advances to members	740,158	692,625
Other assets	1,614	3,251
	<u>804,145</u>	<u>745,727</u>
Interest expense		
Deposits from members	313,292	238,857
Secured borrowings	19,946	19,808
Wholesale borrowings	11,941	12,742
Lease liabilities	1,408	-
Other liabilities	22,712	24,296
	<u>369,299</u>	<u>295,703</u>
	<u>\$ 434,846</u>	<u>\$ 450,024</u>

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18. Net fee and commission income

	2019	2018
Fee and commission income:		
Account service fees	\$ 23,116	\$ 21,751
Prepaid card and credit card fees	38,289	37,536
Foreign exchange	8,666	10,946
Insurance broker commissions and fees	2,578	2,442
Loan fees	3,452	3,024
Loan insurance fees	5,090	5,423
Trust and investment fees	39,556	39,240
	120,747	120,362
Fee and commission expense:		
Prepaid card and credit card fees	24,775	24,547
Other fees	7,207	7,060
	31,982	31,607
	\$ 88,765	\$ 88,755

19. Net gains (losses) on financial instruments

	2019	2018
Realized gains (losses) on disposal of financial instruments:		
Instruments held at amortized cost	\$ 1,037	\$ (8)
Instruments designated as FVTPL	10	126
Debt investment securities measured at FVOCI	2,554	69
Unrealized change in fair value of financial instrument:		
Instruments designated as FVTPL	319	(106)
	\$ 3,920	\$ 81

20. Salary and employee benefits

	2019	2018
Salaries	\$ 204,515	\$ 201,570
Benefits	37,636	30,309
Pension costs:		
Defined benefit plans (note 11(d))	3,182	3,419
Defined contribution plans	14,932	13,802
Post-employment benefits (note 11(d))	2,566	2,902
	\$ 262,831	\$ 252,002

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21. General and administrative expenses

	2019	2018
Professional and consulting	\$ 21,002	\$ 21,557
Dues and assessments	14,951	19,663
Marketing and advertising	9,507	9,344
Telecommunication, stationery and postage	10,067	11,327
Member service and lending	11,820	10,625
Data processing	16,983	14,989
Insurance	2,795	2,839
Travel, meeting and entertainment	3,659	4,235
Miscellaneous	6,938	10,636
	\$ 97,722	\$ 105,215

22. Distribution to community and members

	2019	2018
Donations to community	\$ 9,150	\$ 12,090
Membership distribution - dividends	2,469	3,193
Membership distribution - patronage	6,681	8,891
Total shared success	18,300	24,174
Investment share dividends	2,124	2,252
Total distributions to community and members	\$ 20,424	\$ 26,426

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.

(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.

	2019	2018
On-balance sheet exposures	\$ 22,880,957	\$ 22,693,752
Off-balance sheet exposures (note 27(a))	6,080,008	6,395,503
	<u>\$ 28,960,965</u>	<u>\$ 29,089,255</u>

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23. Financial risk management framework (continued)

(a) Credit risk (continued)

(ii) Credit risk exposure (continued)

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

Risk category	FICO score range	Stage 1	Stage 2	Stage 3	2019	2018
Low	more than 720	\$ 6,262,241	\$ 3,029,410	\$ 3,729	\$ 9,295,380	\$ 9,235,363
Medium	620 - 720	1,961,900	1,254,551	5,847	3,222,298	3,202,560
High	less than 620	68,461	463,970	16,037	548,468	486,899
		\$ 8,292,602	\$ 4,747,931	\$ 25,613	\$ 13,066,146	\$ 12,924,822

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	2019	2018	
11 – 21: Minimal to normal	\$ 1,492,971	\$ 15,849	\$ -	\$ 1,508,820	\$ 1,093,999	
22 – 32: Acceptable	4,099,411	790,044	-	4,889,455	5,121,363	
41 – 52: High	-	38,049	85,584	123,633	34,585	
		\$ 5,592,382	\$ 843,942	\$ 85,584	\$ 6,521,908	\$ 6,249,947

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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:

	2019	2018
At December 31	13.12%	13.35%
Average for the year	13.53%	12.95%
Maximum for the year	14.21%	13.80%
Minimum for the year	12.97%	12.60%
Total liquid assets	\$ 2,792,267	\$ 2,821,985

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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:

	2019	2018
At December 31	55.00%	76.57%
Average for the year	67.51%	81.14%
Maximum for the year	75.07%	84.85%
Minimum for the year	55.00%	76.57%
Total liquid assets	77,992	80,348
Total assets	\$ 142,140	\$ 104,933

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	\$ 18,166,026	\$ 3,067,960	\$ 137,011	\$ 163	\$ 21,371,160
Wholesale borrowings	496,963	-	-	-	496,963
Secured borrowings	264,785	511,889	167,985	-	944,659
Other financial liabilities	331,836	-	-	-	331,836
Derivative liabilities	1,195	124	-	-	1,319
December 31, 2019	\$ 19,260,805	\$ 3,579,973	\$ 304,996	\$ 163	\$ 23,145,937
December 31, 2018	\$ 19,085,389	\$ 3,422,079	\$ 207,427	\$ 19	\$ 22,714,914

(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	2019		2018	
	Market value impact	Net interest income	Market value impact	Net interest income
Before tax impact of:				
1.0% decrease in rates	\$ 83,920	\$ (4,249)	\$ 83,591	\$ (5,770)
1.0% increase in rates	(85,168)	(2,183)	(83,414)	1,017

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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, 2019 and 2018 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 months 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, 2019	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%	\$ -	\$ -	\$ -	\$ -	\$ 132,716	\$ 132,716
Interest bearing deposits with financial institutions	1.61%	194,372	607,961	511,852	-	-	1,314,185
Financial investments	1.83%	283,860	493,694	771,635	319,043	18,251	1,886,483
Loans and advances to members	3.42%	4,309,057	3,236,458	7,359,103	1,779,003	2,854,755	19,538,376
Other	0.00%	5,820	1,223	1,575	-	276,990	285,608
		\$ 4,793,109	\$ 4,339,336	\$ 8,644,165	\$ 2,098,046	\$ 3,282,712	\$ 23,157,368
Liabilities and Equity:							
Deposits from members	2.07%	\$ 5,623,564	\$ 6,150,725	\$ 4,771,416	\$ 1,664,984	\$ 1,797,651	\$ 20,008,340
Wholesale borrowings	2.10%	488,280	-	-	-	327	488,607
Secured borrowings	2.04%	628,754	115,324	147,118	39,610	76	930,882
Other	0.00%	105	739	124	-	1,728,571	1,729,539
		\$ 6,740,703	\$ 6,266,788	\$ 4,918,658	\$ 1,704,594	\$ 3,526,625	\$ 23,157,368
Balance sheet mismatch		\$ (1,947,594)	\$ (1,927,452)	\$ 3,725,507	\$ 393,452	\$ (243,913)	\$ -
Notional amount of derivatives		(700,000)	400,000	300,000	-	-	-
Net mismatch 2019		\$ (2,647,594)	\$ (1,527,452)	\$ 4,025,507	\$ 393,452	\$ (243,913)	\$ -
Net mismatch 2018		(2,933,145)	(2,344,431)	5,003,899	(180,877)	454,554	-

(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:

	2019	2018
Cash	\$ 27,642	\$ 38,511
Securities	493,011	525,816
Mortgages	656,733	703,056
General charge	1,060,000	1,060,000
	<u>\$ 2,237,386</u>	<u>\$ 2,327,383</u>
Assets pledged in relation to the following available facilities:		
Clearing facilities	\$ 4,000	\$ 4,000
Secured borrowings	930,882	1,077,712
Standby credit facilities	1,210,000	1,210,000
Derivative contracts	1,000	4,354
	<u>\$ 2,145,882</u>	<u>\$ 2,296,066</u>

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 BC Financial Services Authority ("BCFSA"), formerly known as 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 BCFSA or VCS's retained earnings and contributed surplus divided by 35%.

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25. Regulatory and capital management (continued)

VCS (continued)

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 BCSFA for on-balance sheet and off-balance sheet exposures.

As at December 31, 2019 and 2018, VCS's capital ratios were in compliance with the regulatory requirements.

	2019	2018
Primary capital	\$ 1,489,985	\$ 1,431,265
Secondary capital	226,930	234,195
Deductions from capital	(78,465)	(72,261)
Total regulatory capital	\$ 1,638,450	\$ 1,593,199

The Bank

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

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

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

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.

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25. Regulatory and capital management (continued)

The Bank (continued)

As at December 31, 2019 and 2018, the Bank's capital ratios were in compliance with the regulatory requirements.

	2019		2018	
Tier 1 capital	\$	58,998	\$	34,167
Deductions from capital		(3,433)		(235)
Regulatory capital	\$	55,565	\$	33,932

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.

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.

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26. Fair value of financial instruments (continued)

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.

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

December 31, 2019	Level 1	Level 2	Level 3	Total fair value	Amortized cost	Carrying value
Assets:						
Cash and cash equivalents	\$ 132,716	\$ -	\$ -	\$ 132,716	\$ 132,716	\$ 132,716
Financial investments	1,211,539	659,751	15,193	1,886,483	n/a	1,886,483
Derivative assets	-	9,197	-	9,197	n/a	9,197
Loans and advances to members	-	19,404,347	-	19,404,347	19,538,376	19,538,376
Interest bearing deposits with financial institutions	-	1,312,258	-	1,312,258	1,314,185	1,314,185
Other financial assets	-	18,080	-	18,080	18,080	18,080
	\$1,344,255	\$ 21,403,633	\$ 15,193	\$ 22,763,081	\$ 21,003,357	\$ 22,899,037
Liabilities:						
Derivative liabilities	\$ -	\$ 1,319	\$ -	\$ 1,319	\$ n/a	\$ 1,319
Deposits from members	-	20,004,374	-	20,004,374	20,008,340	20,008,340
Wholesale borrowings	-	488,576	-	488,576	488,607	488,607
Secured borrowings	-	924,696	-	924,696	930,882	930,882
Other financial liabilities	-	331,836	-	331,836	331,836	331,836
	\$ -	\$ 21,750,801	\$ -	\$ 21,750,801	\$ 21,759,665	\$ 21,760,984

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26. Fair value of financial instruments (continued)

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

During the years ended December 31, 2019 and 2018, 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:

	2019	2018
Balance at January 1	\$ 11,971	\$ 24,188
Gains included in net income attributable to members	481	314
Purchases	2,741	4,178
Settlements	-	(16,709)
Balance at December 31	\$ 15,193	\$ 11,971

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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.

	2019	2018
Undrawn lines of credit	\$ 4,476,601	\$ 4,635,046
Commitments to extend credit	598,200	753,439
Undrawn credit on credit cards issued	954,125	960,412
Documentary letters of credit	51,082	46,606
	\$ 6,080,008	\$ 6,395,503

(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 \$1.3 billion at December 31, 2019 (2018 - \$1.5 billion), including deposits under contractual requirements. At December 31, 2019, Vancity's minimum required deposit with Central 1 under contractual requirements is \$1.0 billion (2018 - \$1.0 billion).

(c) Restricted cash

Included in cash and cash equivalents are restricted funds from third parties totaling \$0.7 million (2018 - \$1.0 million) 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 \$1.7 million (2018 - \$4.4 million) of restricted cash pledged as collateral for derivative contracts.

Included in the cash and cash equivalents balance is cash of \$25.0 million (2018 - \$34.2 million) relating to the CMB program. This cash forms part of the security for the secured borrowings of \$930.9 million (2018 - \$1,077.7 million).

Included in the cash and cash equivalents balance is cash of \$0.2 million (2018 - nil) held in trust for investors.

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27. Commitments and contingencies (continued)

(d) 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.

(e) Contractual commitment

(i) Vancity has \$42.3 million (2018 - \$54.0 million) in contractual commitments for hardware, software and software maintenance.

(ii) Vancity has \$12.8 million (2018 - \$9.3 million) in contractual commitments to acquire units in several private investment funds.

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, 2019 were loans of \$8.5 million (2018 - \$8.0 million) and deposits of \$6.9 million (2018 - \$5.5 million).

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28. Related party transactions (continued)

(b) Key management compensation

	2019		2018	
Salaries and other short-term employee benefits	\$	7,599	\$	7,203
Post employment benefits		776		884
Termination and other long-term benefits		632		563
	\$	9,007	\$	8,650

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.

29. Acquisition of CoPower Inc.

On November 8, 2019, the Bank acquired 100% of the shares and voting interests in CoPower Inc., which is a company that earns various types of management and origination fees on investments in green energy projects. The Bank believes the acquisition helps its core business by expanding the social impact financing business in Canada and investing prudently in socially responsible projects that have a positive impact on Canadian communities, including providing access to financing in the clean energy sector.

For the period between November 8, 2019 and December 31, 2019, CoPower contributed revenue of \$45 thousand and net losses of \$129 thousand to the Bank's results. If the acquisition had occurred on January 1, 2019, the Bank estimates that consolidated comprehensive losses would decrease by \$1.4 million.

The following table summarizes the acquisition date fair value of each major class of consideration transferred:

	November 8, 2019	
Cash	\$	1,780
Contingent consideration (holdbacks)		888
Total	\$	2,668

The Bank incurred acquisition-related costs of \$573 thousand on legal fees and due diligence costs. The Bank also incurred consulting fees of \$428 thousand on the transition to clean energy business. These costs have been included in general and administrative expenses.

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29. Acquisition of CoPower Inc. (continued)

The following table summarizes the total identifiable assets acquired and liabilities assumed at the date of acquisition:

	November 8, 2018
Total assets, consisting of restricted cash, receivables, and investments	\$ 213
Total liabilities, consisting of trade and other payables	(634)
Total net assets (liabilities)	\$ (421)

Investments above include CoPower Inc.'s holding of CoPower Finance Inc. This includes 4,000 Class A preferred shares at \$40 representing 40% of the outstanding shares and voting power, and 40,000 Class B common shares at \$40 thousand representing 100% of the outstanding shares but are non-voting. CoPower Inc. uses the equity method to account for its investment in CoPower Finance Inc.

Goodwill of \$3.1 million arising from the acquisition has been recognized in intangible assets (note 8(b)). The goodwill is attributable mainly to the synergies expected to be achieved from integrating CoPower Inc.'s social impact financing business. None of the goodwill recognized is expected to be deductible for tax purposes.