

Materiality and Stakeholder Engagement

Materiality Process

A materiality determination process involves identifying aspects of our performance and determining their materiality (i.e., the importance and relevance of an issue) to stakeholders and Vancity. We use this information to help us prioritize what we manage, and what we include in our accountability reports. Determining materiality is not a science; and issues and stakeholder interests evolve over time. Our materiality process guides, but does not dictate, what we manage and report.

Step 1. Stakeholder mapping exercise

Vancity's accountability reporting process has involved stakeholder engagement since it began, as we feel reporting should reflect what stakeholders want to know. Also, we need take into consideration the impact our operations have on stakeholders.

However, we had not formally redefined our stakeholders since we developed our Statement of Values and Commitments in 2000 through a consultative process, through which members, employees and the community were identified as our key stakeholders. In 2009, we pulled together a cross-functional employee group to conduct a stakeholder mapping exercise, guided by best practices. Specifically, we used the *Stakeholder Engagement Manual, Volume 2: The Practitioner's Handbook on Stakeholder Engagement*. As a result, we identified the following stakeholders:

- Key: Members, employees, local communities, regulators
- Secondary: Board of Directors, suppliers, public interest groups, competitors and peers (including other credit unions)
- Peripheral: Media

The group noted that the importance and influence of specific stakeholder groups may change over time. The group also agreed that our members should be weighted higher than other key stakeholders since credit union members are both owners and customers, and because members are part of our community. We added regulators as key stakeholders, in recognition of the nature of our business and the scrutiny of financial institutions.

Step 2. Issue identification

Finance's Accountability Team compiled a draft list of issues using AA1000's five-part materiality test:

1. Direct short-term financial performance
2. Our ability to deliver on strategy and policies
3. Best-practice norms exhibited by peers
4. Stakeholder behaviour and concerns
5. Societal norms, particularly where linked to possible future regulation

Deciding what constitutes an issue remains a challenge. Issues include opportunities as well as risks, in both the short and longer term. Sub-issues were clustered into larger ones to results in 39 distinct issues (see below). The issues are not necessarily of the same scope or level. Some issues were based on

required GRI content; some issues included sub-issues that subsequently became prominent. There was also a significant amount of overlap between issues.

Step 3. Identifying level of stakeholder interest

We administered online surveys to determine the relative importance of each issue to each stakeholder group. Where feasible, we gathered direct input from stakeholders. In other cases, we used proxies. The same questions and scale were used to allow for comparability and combining of results (a scale of 1 to 5 = “Not important” to “Very important”). Each stakeholder was presented with the list of 39 issues and rating choices, as well as an option to add an issue and rate it. No issues were added.

Materiality process surveys, May-June 2009

Stakeholder groups	Respondents	Surveyed directly or through Vancity staff proxy?
Members		
VC personal members	770	Directly
VC business members	235	Directly
Citizens Bank members	396	Directly
Employees	345	Directly
Community	4	By proxy: Community Investment Team employees
Regulators	1	By proxy: Regulatory Reporting employees
Board of Directors	3	Directly
Suppliers	4	Mix: Some suppliers plus Procurement employees
Public Interest Groups	0	Not surveyed
Competitors	0	Not surveyed
Media	1	Proxy: Communications employees

We gave the same survey to an internal Vancity cross-functional group comprising seven employees, mainly at the Director level. They were asked to estimate the likely effect and potential consequence a given issue would have on five intangible value drivers. These intangibles have the potential to drive value up or down for Vancity and thereby impact business success:

- Human capital: Ability to attract, motivate and retain necessary employees
- Organizational performance and efficiency: Ability to manage organizational resources, processes and relationships
- Regulations and compliance: Ability to anticipate and meet regulatory compliance requirements
- Brand and reputation: Ability to manage expectations and trust in a company, its products and services
- Access to markets: Ability to secure and grow market position

Step 4. Analysis

As we had clearly identified our target audience as members, we gave member results three times the weighting of other key stakeholder results. Member results included feedback from personal and business members, weighted in proportion to our memberships (9:1). Our other key stakeholders are employees, community and regulators. We did not use results for Citizens Bank given the organizational changes that occurred after the surveys were conducted. We did not include results for secondary or tertiary stakeholders in the final materiality ratings, but rather reviewed them to guide us as we prepared the report. The results will also be good baseline information for future engagement.

The chart on page 7 shows external stakeholder ratings compared with internal Vancity ratings by issue. Combining the external and internal ratings resulted in the list of 39 ranked issues, below.

Step 5. Deciding on indicators and report content

We used the chart and ranked list of issues to influence the performance indicators and report content. In general, we gave more material issues more in-depth coverage and/or prominence. For some issues, we provided more coverage than their overall rank (19 of 39) would warrant if it was a clear member concern, for example “privacy.”

Step 6. Verify the results

The Executive Leadership Team, the Audit Committee of the Board and an external stakeholder panel facilitated by Ceres reviewed the materiality process, results, and report outline. This did not lead to any significant changes, though we did make sure we reported thoroughly on the key issues of interest to the panel; for example, we included more coverage of environmental issues and performance.

Step 7. Review and plan ongoing process

We will review this process to revise and streamline it for future years. Our focus will be on integration and alignment with business planning, strategy development and risk management. We also plan to better define what constitutes an issue, explore ways to more clearly prioritize issues (for example, by taking into account each issue’s relative impact), and establish a process that requires more active involvement from senior management.

Overall Ranking of Issues

The rankings below reflects an even weighting of “external stakeholders” and “internal Vancity” results. External stakeholders include results for the key stakeholders identified in the stakeholder mapping exercise: members (with Vancity personal and business results weighted in proportion to membership, 9:1), employees, community and regulators. Member results were weighted three times more than each of the other key stakeholders.

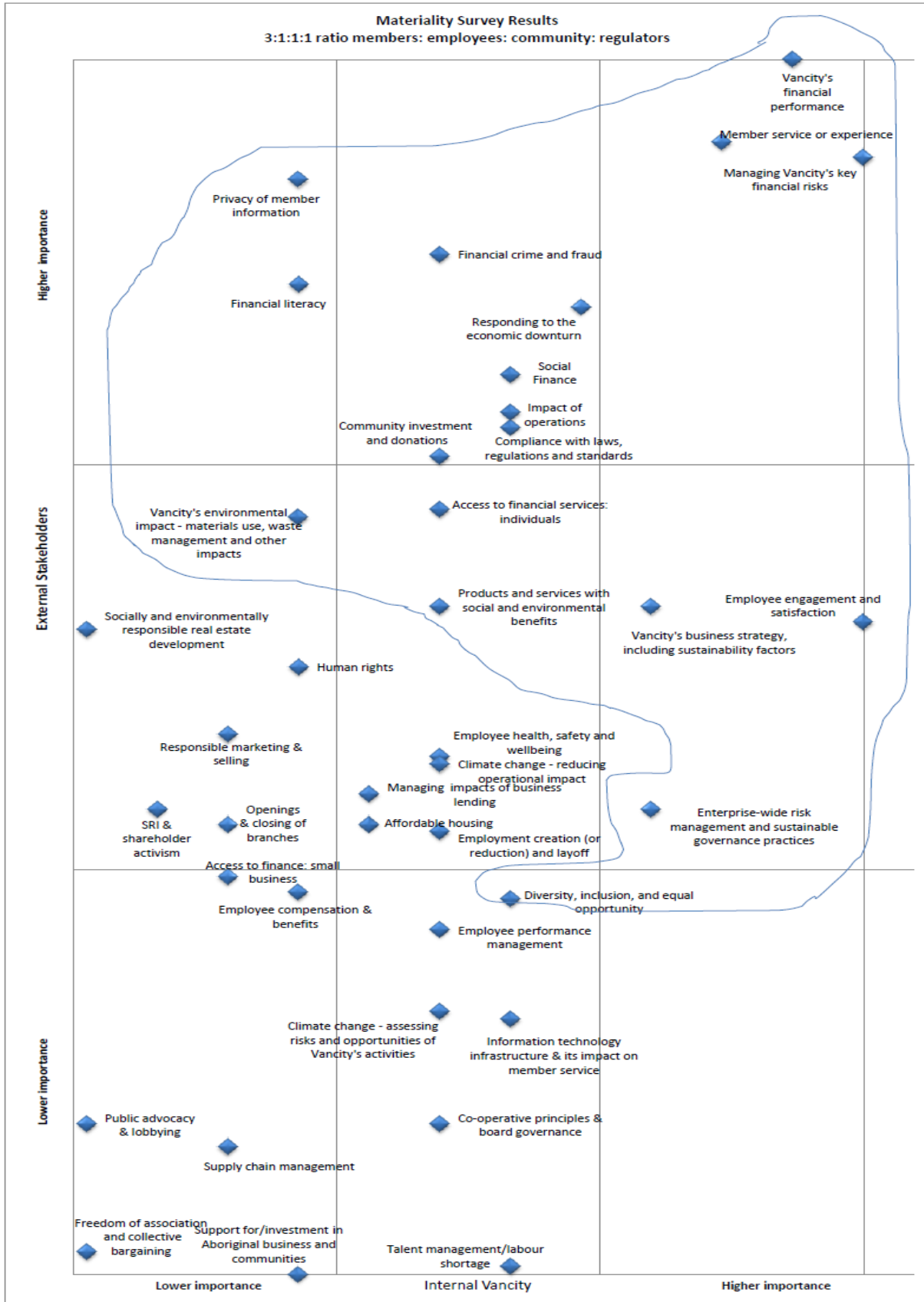
Interestingly, stakeholders rated all the issues at least 3.0 out of a maximum of 5.0. We interpret this to mean that everything listed is actually of some importance to stakeholders. But the results enabled us to focus our report on the issues of greatest materiality.

Rank	Issue	This issue could also include, for example:
1	Vancity's financial performance	Financial results and analysis; asset-backed commercial paper write-down
2	Managing Vancity's key financial risks	Credit, market and liquidity risk; capital management
3	Member service/experience	Member satisfaction with service; member loyalty; membership growth and retention; communicating with members; errors; wait times; complaints
4	Responding to the economic downturn	Unlimited deposit insurance coverage; supporting members in tough times; impacts on lending, liquidity, market and credit risks

Rank	Issue	This issue could also include, for example:
5	Employee engagement and satisfaction	Employee engagement index survey results and Vancity's response; turnover, churnover and retention
6	Vancity's business strategy, including sustainability factors	Three Year Plan and strategic objectives; Vision; key risks and opportunities; growth strategy/mergers; organizational restructuring
7	Social finance (seeking business opportunities with social and environmental benefits, as well as an economic return)	Identifying and evaluating opportunities
8	Impact of Vancity's operations on the economy and communities	Direct economic value generated and distributed (taxes paid, employee wages and benefits, community investments, etc); indirect impacts; programs and practices to manage impacts of operations on communities
9	Compliance with laws, regulations and standards	Fines; legal actions; non-monetary sanctions; audits to assess implementation of environmental and social policies and risk assessment procedures
10	Enterprise-wide risk management and sustainable governance practices	Key sustainability-related policies; Oversight for sustainability and environmental, social and governance (ESG) risk management; stakeholder engagement practices; senior executive and director compensation and links to sustainability performance; business ethics; reputation and brand management
11	Financial crime and fraud	Online and VISA account security; employee training; member awareness; anti-money-laundering and anti-terrorist legislation; employee-related fraud and corruption; whistle-blowing policy
12	Community investment and donations	Donations by theme (climate change, poverty, social economy); granting programs; changes to Shared Success program; sponsorships; goals for community development; Vancity Community Foundation; employee volunteering and fundraising on work time; support for non-profits, social enterprises, arts and culture, environment, transportation, health, etc.
13	Access to financial services - individuals (for low-income individuals, youth, seniors and disabled)	Access to basic banking services; access points in low-populated or economically disadvantaged areas; Pigeon Park Savings; initiatives to improve access for low-income individuals, seniors, youth, disabled persons; alternatives to payday lending
14	Diversity, inclusion, and equal opportunity	Vancity's diversity strategy; employee profile by diversity and employment type; salary comparisons by gender
15	Products and services with social and environmental benefits	Monetary value of products and services designed to deliver a specific social or environmental benefit; initiatives to mitigate environmental impacts of products and services
16	Information technology infrastructure and its impact on member service	Core banking system updates

Rank	Issue	This issue could also include, for example:
17	Employee health, safety and wellbeing	Work-life balance; health and safety committees; injury rates; post-robbery counselling; employee assistance program; mental health; support for serious disease prevention; health & safety topics covered in agreements with unions
18	Climate change - reducing operational impact	Maintaining Vancity's commitment to be carbon neutral; GHG emissions reduction initiatives and performance; direct and indirect energy consumption; direct and indirect energy conservation initiatives and performance
19	Privacy of member information	Substantiated privacy complaints; privacy training for employees; <i>US Patriot Act</i>
20	Employment creation (or reduction) and layoff practices	Vacancy management; hiring freeze; voluntary departure program; change in number of employees; layoffs and organizational changes
21	Financial literacy (to help people build financial skills and learn about money management)	Initiatives to enhance financial literacy
22	Managing social and environmental impacts of business lending and business relationships	Ethical Policy scope (business members, Vancity's own investments, suppliers, business partners); screening process and results; managing non-aligned relationships; social and environmental criteria in lending policy; how Vancity invests
23	Affordable housing and homelessness	Rental costs; mortgage rates
24	Employee performance management and development	Revising the performance management framework; development opportunities; percent of employees receiving regular performance and career development reviews; programs to support continued employability of employees; hours of training
25	Vancity's environmental impact - materials use, waste management and other impacts	Recycled paper; information technology waste; water impacts; building and facilities management
26	Climate change - assessing risks and opportunities of Vancity's activities	Financial implications and other risks and opportunities for Vancity's activities due to climate change; carbon risk assessment of lending and insurance portfolio
27	Protecting human rights	Human rights training; screening investments and suppliers for human rights; child labour; forced labour; incidents of discrimination
28	Talent management/labour shortage	Attracting and retaining skilled employees; internal vs. external hiring; local recruitment; fairness of promotions; demographic changes
29	Co-operative principles and board governance	Director election process and participation rates; Board functioning, independence, evaluation; AGM attendance; Vancity's support of the co-operative movement
30	Employee compensation and benefits	Compensation and incentive pay; profit sharing; salaries compared to minimum/livable wage; salary freezes; funding defined benefit pension plan; compensation management system; child care support

Rank	Issue	This issue could also include, for example:
31	Responsible marketing and selling	Credit, debit and gift card conditions, rates and fees; policies for the fair design and sale of financial products; programs for adherence codes related to marketing communications; Creditline documentation and re-pricing; contract language; products that meet member needs; product and pricing review; lending criteria; debt management
32	Openings and closings of branches	Automatic Teller Machines
33	Access to financial services - small business and not-for-profits (for technical assistance, micro-credit, etc.)	Technical assistance and other initiatives; micro-credit; business lending by size of loan, region, sector
34	Socially responsible investment and shareholder activism	Socially responsible investment products; interactions with companies on environmental or social issues; voting policies applied to environmental or social issues; proxies voted
35	Support for/investment in Aboriginal business and communities	Aboriginal strategy; violations of rights; serving Aboriginal clients at Pigeon Park Savings
36	Supply chain management	Procurement and Ethical policies; influencing supply chain; buying from locally based suppliers; hiring locally; fair pay for contract workers; sustainable purchasing network
37	Socially and environmentally responsible real estate development	Dockside Green; promoting green building
38	Public advocacy and lobbying	Vancity's public policy positions and participation in public policy development and lobbying; contributions to political parties
39	Freedom of association and collective bargaining	Management relationship with union; respect for collective bargaining; percent of employees covered by collective bargaining agreements; minimum notice periods regarding operational changes



Stakeholder Engagement

Ways we engage with key stakeholders	Priorities
Members	
<p>Research: We conduct annual personal and business member loyalty studies and weekly Member Experience Tracking Surveys on recent transactions. We use an online member panel (“my2cents”) and focus groups to obtain member feedback on a variety of topics, including the June 2009 materiality survey.</p> <p>One on one: Through our branches, by phone, in writing, and online our employees are available to listen and respond to members.</p> <p>Cooperative governance: Members can run in and vote in Board Director elections, and attend and make resolutions at the Annual General Meeting.</p>	<p>Top six issues:</p> <ol style="list-style-type: none"> 1. Privacy of member information 2. Vancity’s financial performance 3. Financial crime and fraud 4. Managing key financial risks 5. (tie) Community investment and donations 5. (tie) Financial literacy (to help people build financial skills and learn about money management)
Employees	
<p>Research: We conduct an annual employee engagement survey and hold follow-up focus groups and discussions within divisions and departments to better understand results and prioritize actions to improve performance. Employees also participated in the June 2009 materiality survey.</p> <p>Other internal engagement: We use a variety of ways to engage with employees such as our intranet, manager/divisional/ team meetings, online surveys, focus groups and information cascaded down from senior managers.</p> <p>One-on-one: Managers are encouraged to meet regularly with their direct reports, and also their direct reports’ direct reports. As part of our performance management program, employees and managers meet every quarter to review goals.</p>	<p>Top six issues:</p> <ol style="list-style-type: none"> 1. Employee compensation and benefits 2. Employee engagement and satisfaction 3. (tie) Financial performance 3. (tie) Employee health, safety and well-being 5. Employment creation (or reduction) and layoff practices 6. Member service or experience
Community	
<p>Research: We survey and hold focus groups with community groups on an ad-hoc basis. We involve local community groups in our Ceres-facilitated stakeholder panel.</p> <p>Partnerships: We have longstanding partnerships with many community groups.</p> <p>One-on-one: We meet regularly with community groups. As well we provide grants and sponsorships to not-for-profits and community groups. We regularly participate in community events. Many Vancity employees sit on the Boards of community groups, or are involved in working groups.</p>	<p>Top five issues (tied):</p> <ul style="list-style-type: none"> • Member service or experience • Social finance (seeking business opportunities that have social and environmental, as well as financial, benefits) • Products and services with social and environmental benefits • Managing social and environmental impacts of business lending and business relationships • Socially and environmentally responsible real estate

Ways we engage with key stakeholders	Priorities
Regulators	
<p>One-on-one: We meet and correspond regularly with our regulators. We formally report to them on our performance and respond to their questions.</p>	<p>There were 17 issues tied for first in the materiality survey. These were related to financial performance, risk management, strategy, governance, compliance, crime, privacy, service experience and access, impacts on community and supply chain management.</p>

Ways we engage with our other stakeholders
<p>Board of Directors: The Board and Board Committees meet regularly with management. We also engage with the Board through the election process and at community events. Some Directors participated in the June 2009 materiality survey.</p>
<p>Suppliers and Business Partners: We engage with suppliers through the “Request for proposal” process, which includes social and environmental criteria and an ethical policy screen. Our supplier relationship managers have meetings as needed to discuss contractual obligations and delivery. We are a sponsor and member of the BuySmart Network, a coalition of organizations promoting sustainability purchasing practices. We include a supplier on our Ceres-facilitated stakeholder panel. Some suppliers participated in the June 2009 materiality survey.</p>
<p>Public interest groups: We fund and/or work together on public advocacy initiatives. We monitor and respond to specific issues as they are raised. We include representatives of public interest groups on our Ceres-facilitated stakeholder panel.</p>
<p>Competitors and peers: We work with peers on issues of common interest through industry and other working groups and committees, including Central 1. We are involved with peers in the UNEP-FI North American working group and London Benchmarking group. We include at least one peer on our Ceres-facilitated stakeholder panel.</p>
<p>Media : Our public affairs and communications team respond daily to media enquiries and requests for our views on various issues.</p>