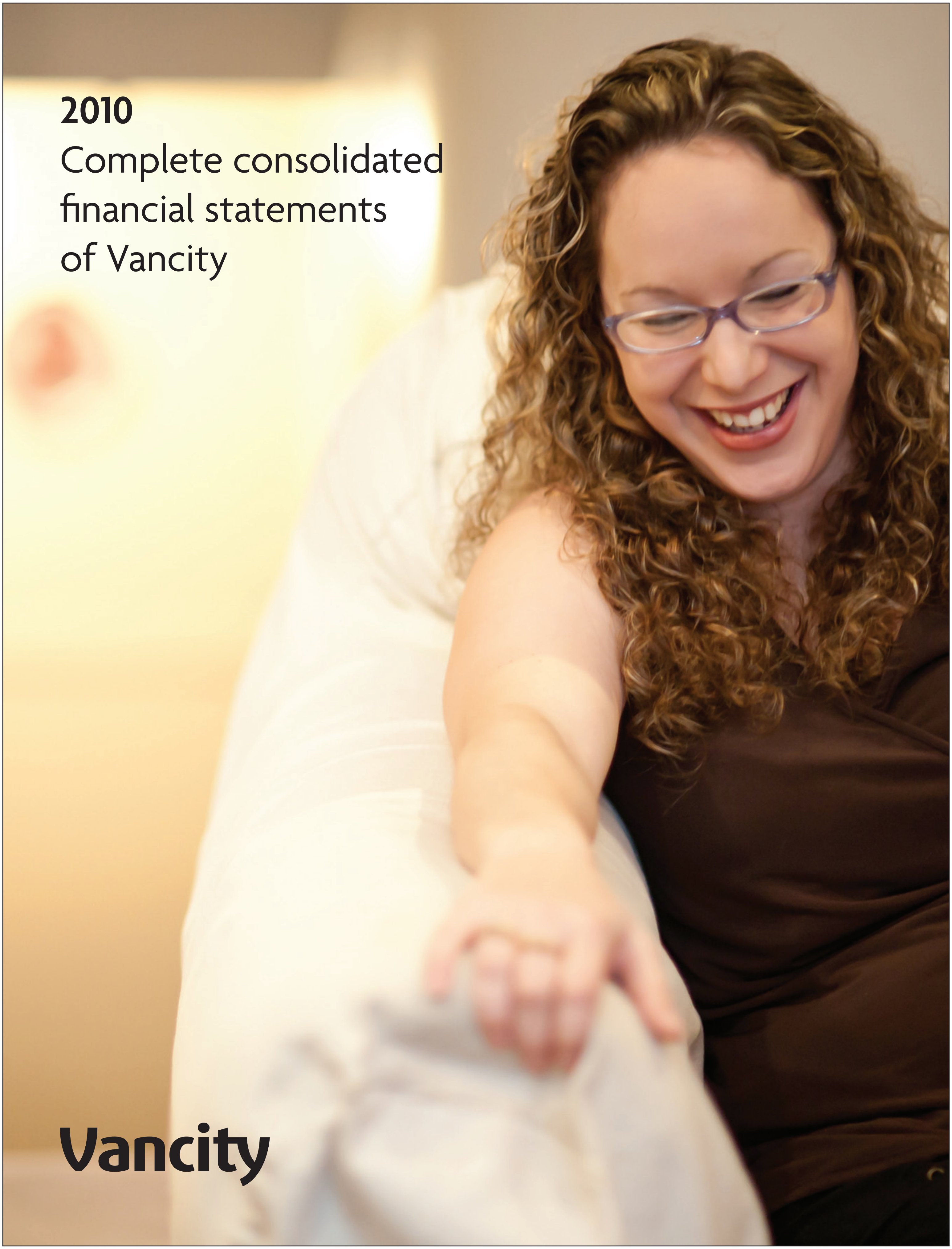
2010
Complete consolidated financial statements of Vancity



Vancity

Vancity is dedicated to supporting the work of social enterprises like **Chrysalis Society**.
Our solid financial results mean more organizations benefit from our community investment.

For more than two decades, Chrysalis Society has helped women overcome chemical dependence and related harms that include homelessness, poverty, exploitation and abuse. A key to the Society's success is the truly comfortable, non-institutional homes it provides to support these women's recovery. In 2009, Chrysalis undertook to purchase one of these homes and was able to jump when the first opportunity came up in 2010. Unfortunately, the market jumped as well, leaving the Society $145,000 short on funding. Vancity not only provided the mortgage to make up the shortfall, but also a line of credit of $25,000 to support future growth. With the nearly $2500 savings in rent, the Society's will soon be able to expand through the addition of a formal Outreach/ Advocacy employee, enabling Chrysalis Society to extend its comprehensive, effective and critical services to women in need.

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INDEPENDENT AUDITORS' REPORT

To the Members of Vancouver City Savings Credit Union

We have audited the accompanying consolidated financial statements of Vancouver City Savings Credit Union ("the Company"), which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Vancouver City Savings Credit Union as at December 31, 2010, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

March 1, 2011
Vancouver, Canada

Management's responsibility for financial reporting

These consolidated financial statements were prepared by the management of Vancouver City Savings Credit Union (the "Credit Union") who are responsible for their accuracy, completeness and integrity. They were developed in accordance with the requirements of the *Financial Institutions Act* of British Columbia and conform in all material respects with Canadian generally accepted accounting principles.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that the financial records are complete and accurate so as to safeguard the assets of the Credit Union. These systems 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. Further, they are reviewed by the Credit Union's external auditors.

The Board of Directors has approved the consolidated financial statements. The Audit and Operational Risk Committee of the Board, comprising four directors who are not officers or employees of the Credit Union, has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. KPMG, the external auditors appointed by the membership, have examined the consolidated financial statements of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full and free access to the internal audit staff, other management staff, and the Audit and Operational Risk Committee of the Board. Their report appears herein.

Tamara Vrooman
President and Chief Executive Officer
March 1, 2011

Rob Malli
Chief Financial Officer

VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Balance Sheet
December 31, 2010, with comparative figures for 2009

(Expressed in thousands of dollars)

	2010	2009
Assets		
Cash and securities:		
Cash and non-interest bearing deposits with financial institutions (note 20e)	$ 196,589	$ 132,637
Interest bearing deposits with financial institutions	1,804,231	2,119,602
Government and corporate securities (note 6)	59,050	515,658
Accrued interest receivable	9,318	11,175
	2,069,188	2,779,072
Loans (note 7):		
Residential mortgages	6,456,735	5,990,134
Commercial mortgages	1,453,256	1,272,422
Consumer loans	2,638,598	2,610,122
Business loans	1,642,950	1,527,471
Accrued interest receivable	23,324	20,755
Allowance for credit losses	(93,970)	(85,620)
	12,120,893	11,335,284
Other:		
Derivative instruments (note 17)	23,506	20,043
Premises and equipment (note 9a)	86,207	79,923
Intangibles (note 9b)	11,687	2,842
Other assets (note 10)	156,684	193,364
	278,084	296,172
	$ 14,468,165	$ 14,410,528
Liabilities and Members' Equity		
Deposits:		
Demand	$ 4,197,454	$ 3,981,827
Term	8,313,020	8,145,344
Shares (note 11)	101,794	101,105
Accrued interest and dividends payable	80,383	91,476
	12,692,651	12,319,752
Wholesale borrowings:		
Demand loans and banker's acceptances	332,468	795,000
Bearer deposit notes	398,888	355,845
Accrued interest payable	1,235	4,319
	732,591	1,155,164
Other liabilities:		
Accounts payable and other accrued liabilities	261,223	227,091
Derivative instruments (note 17)	12,144	10,900
	273,367	237,991
Members' equity:		
Contributed surplus	29,275	29,275
Retained earnings	733,813	656,399
Accumulated other comprehensive income	6,468	11,947
	769,556	697,621
Commitments and contingencies (note 20)		
	$ 14,468,165	$ 14,410,528

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director

Director

VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Operations
Year ended December 31, 2010, with comparative figures for 2009

(Expressed in thousands of dollars)

	2010	2009
Interest income:		
Loans	$ 501,858	$ 527,119
Cash and securities	23,982	26,119
Other (Note 17)	5,688	31,660
	531,528	584,898
Interest expense:		
Deposits	162,043	239,711
Wholesale borrowings	5,672	9,696
Other (Note 17)	19,262	44,843
	186,977	294,250
Net interest income	344,551	290,648
Provision for credit losses (note 7)	27,682	18,457
Other income (loss):		
Account service fees	22,550	22,826
Credit card fees	30,359	27,952
Foreign exchange	10,622	11,249
Insurance service fees	2,872	7,830
Loan fees	2,294	2,835
Trust and investment fees	16,769	13,827
Loan insurance fees	7,770	7,612
Recovery (impairment) of securities (note 6)	6,888	(4,960)
Real estate development income	2,866	7,450
Securitization income	1,425	7,541
Other	2,730	4,812
	107,145	108,974
Net interest and other income	424,014	381,165
Operating expenses:		
Salaries and employee benefits	163,962	157,385
Occupancy and equipment	37,093	39,675
General operating	97,422	107,820
	298,477	304,880
Gain from business reorganization and other (note 4)	259	2,303
Earnings from operations	125,796	78,588
Distributions to community and members (note 12)	24,856	16,477
Earnings before income taxes	100,940	62,111
Provision for income taxes (note 14)	23,526	8,286
Net earnings	$ 77,414	$ 53,825

See accompanying notes to consolidated financial statements.

VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Comprehensive Income
Year ended December 31, 2010, with comparative figures for 2009

(Expressed in thousands of dollars)

	2010	2009
Net earnings	$ 77,414	$ 53,825
Other comprehensive income, net of tax:		
Net change in cash flow hedges:		
Net unrealized gains (losses) on derivatives designated as cash flow hedges, net of tax of $630 (2009: tax recovery of $3,007)	2,703	(10,880)
Transfer of net realized (losses) gains on cash flow hedges to earnings, net of tax recovery of $2,002 (2009: tax of $1,990)	(8,587)	6,724
	(5,884)	(4,156)
Net change in available for sale securities:		
Net unrealized losses on available for sale securities, net of tax recovery of $111 (2009: tax recovery of $776)	(477)	(1,986)
Transfer of net realized gains on available for sale securities to earnings, net of tax of $206 (2009: $292)	882	752
	405	(1,234)
Total other comprehensive loss	(5,479)	(5,390)
Comprehensive income	$ 71,935	$ 48,435

See accompanying notes to consolidated financial statements.

VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Changes in Members' Equity
December 31, 2010, with comparative figures for 2009

(Expressed in thousands of dollars)

	2010	2009
Contributed surplus :		
Balance, beginning and end of year	$ 29,275	$ 29,275
Retained earnings:		
Balance, beginning of year	656,399	602,765
Transition adjustment on the adoption of EIC-173	-	(191)
Net earnings	77,414	53,825
Balance, end of year	733,813	656,399
Accumulated other comprehensive income (note 22):		
Balance, beginning of year	11,947	20,918
Transition adjustment on the adoption of EIC-173	-	(3,581)
Other comprehensive losses	(5,479)	(5,390)
Balance, end of year	6,468	11,947
Members' equity, end of year	$ 769,556	$ 697,621

See accompanying notes to consolidated financial statements.

VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Cash Flows
Year ended December 31, 2010, with comparative figures for 2009

(Expressed in thousands of dollars)

	2010	2009
Cash provided by (used in):		
Operations:		
Net earnings	$ 77,414	$ 53,825
Other comprehensive loss	(5,479)	(5,390)
Provision for credit losses	27,682	18,457
Amortization of premises and equipment	11,479	12,579
Amortization of intangibles	858	719
Impairment of property under development, inventory and goodwill	-	30,289
(Recovery) impairment on available for sale securities	(499)	1,332
Realized and unrealized (gain) loss on government and corporate securities	(6,888)	5,318
Net change in derivative financial instruments	(2,219)	47,503
Changes in operating assets and liabilities:		
Future income tax assets	(3,304)	(1,304)
Other assets	552	(17,046)
Accounts payable and other accrued liabilities	34,132	22,061
Other	-	(3,772)
	133,728	164,571
Financing:		
Demand and term deposits	383,303	441,880
Shares	689	265
Loans payable	(419,489)	(540,243)
Accrued interest and dividends payable	(14,177)	(60,531)
	(49,674)	(158,629)
Investments:		
Interest bearing deposits with financial institutions	315,371	(1,161,245)
Government and corporate securities	463,995	170,532
Loans, net of repayments	(810,722)	922,975
Accrued interest	(712)	8,215
Premises and equipment	(17,763)	(5,798)
Intangibles	(9,703)	(2,273)
Other assets	39,432	45,811
	(20,102)	(21,783)
Increase (decrease) in cash and cash equivalents	63,952	(15,841)
Cash and cash equivalents, beginning of year	132,637	148,478
Cash and cash equivalents, end of year (note 20e)	$ 196,589	$ 132,637
Supplementary information:		
Interest paid	$ 201,420	$ 357,268
Income taxes paid	4,538	12,186

See accompanying notes to consolidated financial statements.

1. Governing legislation and operations:

Vancouver City Savings Credit Union ("Vancity") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. Vancity serves members principally in the Lower Mainland of British Columbia and Victoria. Citizens Bank of Canada ("the Bank"), the principal subsidiary of Vancity, 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. Vancity is an integrated financial institution that provides a wide range of financial products and services that comprise one business operating segment.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Through the application of these principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. The significant accounting policies used in these consolidated financial statements are as follows:

(a) Principles of consolidation:

The consolidated financial statements include the assets, liabilities and the results of operations and cash flows of Vancity and its subsidiaries. The wholly owned active subsidiaries are Citizens Bank of Canada, Citizens Trust Company, Inventure Solutions Inc., Vancity Capital Corporation, Vancity Enterprises Ltd., Vancity Life Insurance Services Ltd., SCU Insurance Services Ltd., Squamish Insurance Agencies Ltd., Vancity Investment Management Ltd. and Dockside Green Limited Partnership. During 2009, Vancity Insurance Services Ltd. was sold and Inhance Investment Management Inc. was dissolved (note 4). All intercompany transactions and balances have been eliminated.

Vancity consolidates variable interest entities ("VIE") when it is the primary beneficiary of the VIE. An entity is a VIE when, by design, one or both of the following conditions exist: (i) the total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others; (ii) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. The primary beneficiary is the enterprise that absorbs or receives the majority of the VIE's expected losses and/or expected residual returns. Dockside Green Energy Limited Partnership qualifies as a VIE and is fully consolidated in the results of Vancity.

2. Significant accounting policies (continued):

(b) Cash resources:

Cash and non-interest bearing deposits with financial institutions are comprised of cash, demand deposits with Central 1 Credit Union ("Central 1") and cheques and other items in transit. These are considered cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(c) Interest bearing deposits held with financial institutions:

Deposits held for liquidity purposes with Central 1 and other financial institutions are recorded at amortized cost using the effective interest method.

(d) Financial instruments:

(i) Recognition and measurement:

All financial instruments are classified as one of the following: held for trading ("HFT"), available for sale ("AFS"), held to maturity ("HTM"), loans and receivables ("L&R") or other financial liability ("OFL"), and are recognized at fair value on initial recognition.

HFT and AFS financial instruments are carried at fair value subsequent to initial recognition. Financial instruments classified as L&R, HTM or OFL are carried at amortized cost. Any financial asset or liability may be designated as AFS or HFT at initial recognition. When available from active markets, fair values are based on quoted market prices. If prices from active markets are not available, fair values are estimated using a variety of valuation techniques and models, maximizing the use of observable market inputs.

The amortized cost of a financial instrument is the amount at which the financial instrument is measured upon initial recognition, minus principal payments, plus or minus cumulative amortization of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Amortization is based on the effective interest method.

(ii) Classification of financial instruments:

HFT financial instruments are acquired or incurred principally for resale, generally within a short period of time. They are measured at fair value at each consolidated balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are reported in consolidated statement of operations as other income. Interest earned and interest incurred are included in interest income and expense, respectively. Vancity has classified cash and cash equivalents, certain corporate securities and derivatives as HFT.

HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than L&R, which an entity has the positive intention and ability to hold to maturity. These financial assets are accounted for at amortized cost. Vancity has not classified any financial assets as HTM.

2. Significant accounting policies (continued):

(d) Financial instruments (continued):

(ii) Classification of financial instruments (continued):

AFS financial assets are non-derivative financial assets that (a) do not meet the requirements to be classified as L&R, HTM, HFT, (b) are not designated as HFT, or (c) are designated as AFS. AFS assets are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income ("AOCI") until sale, at which time the cumulative gain or loss is transferred to the consolidated statement of operations. Write downs to reflect other than temporary impairment are included in other income. Income from these assets is included in interest income using the effective interest method.

L&R are recorded at amortized cost using the effective interest method. All loans and receivables are classified as L&R by Vancity.

OFL are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivatives.

Vancity reviews securities for possible impairment when cash flows are not received from counterparties at their expected dates. An investment is considered impaired if the unrealized losses represent deteriorations in value that are considered to be other than temporary.

In determining whether a loss is temporary, factors considered include the extent of the unrealized loss, the length of time that the security has been in an unrealized loss position, the financial condition of the issuer, and Vancity's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If the decline is considered to be other than temporary, a write down is recorded in the consolidated statement of operations.

Interest income and expense presented in the consolidated statement of operations include:

- interest on financial assets and liabilities at amortized cost on an effective interest basis;
- interest on securities on an effective interest basis; and
- the gain or loss relating to the effective portion of qualifying hedging derivatives designated as cash flow hedges released from AOCI as (i) the hedged item is recorded in interest income (expense), or (ii) the anticipated cash flows associated with the hedged item are no longer deemed probable to occur.

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs related to HFT financial instruments are expensed as incurred. For all other financial instruments, transaction costs are capitalized and amortized over the expected life of the instrument using the effective interest method. Trade date accounting is used for all assets.

2. Significant accounting policies (continued):

(e) Securities:

Vancity has designated government and corporate securities as AFS, except for certain assets disclosed in note 6.

(f) Loans:

Loans are initially measured at fair value. Subsequently, they are measured at amortized cost, net of an allowance for credit losses, using the effective interest method.

Interest income is recorded on an effective interest method except when a loan is considered to be impaired. Interest income on impaired loans is recognized on a cash basis only after recording any recovery of the specific provision for impairment or partial write-off, and provided there is no further doubt as to the collectability of the principal amount.

(i) Impaired loans:

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there no longer is reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, unless the loan is fully secured, and/or the collection of the debt is in progress, and collection efforts are reasonably expected to result in repayment of the loan or in restoring it to a current status within 180 days from the date a payment has become contractually in arrears; or the account is contractually in arrears less than 90 days, but there has been a deterioration in credit quality to the extent there is a reasonable doubt about the ultimate collectability of principal and interest; or the account is contractually 180 days in arrears. Visa accounts are considered impaired when they are 180 days in arrears. Loans considered uncollectable are written off. Impaired loans are carried at their estimated realizable amounts, determined by discounting the expected future cash flows. When the amounts of future cash flows cannot be estimated with reasonable reliability, impaired loans are carried at the fair value of the underlying security, net of estimated costs of realization.

(ii) Allowance for credit losses:

The general allowance for credit losses is maintained at a level considered adequate to absorb incurred credit related losses in the portfolio as well as losses that may be incurred but are not yet specifically identified. Specific provisions include all accumulated provisions for losses on identified impaired loans that are required to reduce the carrying value of those loans to their estimated realizable amount. The general allowance for credit losses includes provisions for incurred losses inherent in the portfolio that are not presently identifiable by management of Vancity on an account by account basis. The general allowance for credit losses is established by taking into consideration historical trends in the loss experience during economic cycles, the current portfolio profile, estimated losses for the current phase of the economic cycle and historical experience in the industry.

2. Significant accounting policies (continued):

(f) Loans (continued):

(ii) Allowance for credit losses (continued):

The balance in the allowance for credit losses account is deducted from the loan balance. The amount of the provision for credit losses that is charged to the consolidated statement of operations is the estimated net credit loss experience for the year. The provision for the year establishes the amount needed in the allowance for credit losses account that management considers adequate to absorb all credit related losses in its portfolio after charging loans written off during the year, net of recoveries, to the allowance for credit losses account.

(iii) Loan fees:

The accounting treatment for loan fees varies depending on the transaction. Fees that are considered to be adjustments to loan yield are recognized using the effective interest method. The effective interest method capitalizes fees and transaction costs on the consolidated balance sheet and amortizes them to interest income over the expected life of the related loan. Retail loan fees, except for application fees, are recognized using the effective interest method as interest income over the duration of the loan portfolio. Mortgage prepayment fees are recognized in other interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the expected remaining term of the original mortgage using the effective interest method. Loan origination, restructuring and renegotiation fees for commercial and business loans are recorded as interest income over the expected term of the loan using the effective interest method. Commitment fees are recorded to other income over the expected term of the loan, unless the loan commitment will not be used. Loan discharge, draw and administration fees are recorded directly to loan fee income when the loan transaction is complete. Loan syndication fees are included in other interest income when the syndication is completed. Loan fees that are recognized using the effective interest method are included with the loan balances on the consolidated balance sheet.

(iv) Loan securitizations and sales:

Vancity periodically sells loans to special purpose entities or other unrelated third parties. These transactions are accounted for as sales and the related loans are removed from the consolidated balance sheet when control over the loans is surrendered and consideration other than beneficial interests in the transferred loans is received in exchange.

The fair values of loans sold and retained interests are determined using pricing models based on key assumptions such as expected losses, prepayments and discount rates that are commensurate with the risks involved. Gains or losses on these transactions are recorded in other income. Gains and losses on transactions that have a retained interest are based on the carrying value of the loans transferred, allocated between the assets sold and the retained interests in proportion to their relative fair value at the date of transfer. Gains and losses on transactions that do not have a retained interest are based on the proceeds of the sale compared with the carrying value of the loans at the date of sale.

2. Significant accounting policies (continued):

(f) Loans (continued):

(iv) Loan securitizations and sales (continued):

Vancity may retain interests in the transferred loans, such as servicing rights and cash reserve accounts. Vancity classifies its retained interests in securitizations as AFS assets. These retained interests are recorded at their fair value at the time of the sale and are periodically revalued with changes in fair value flowing through other comprehensive income and changes in estimates flowing through net earnings. The carrying value of retained interests is reviewed annually for impairment and adjusted as required.

Depending on the sale or securitization vehicle, Vancity will record a servicing liability for securitizations for which the compensation received for servicing the transferred loans is below a market rate, and will record a servicing asset when revenue received for servicing the transferred loans is above a market rate. The servicing asset or liability is initially measured at fair value and is recorded in the consolidated balance sheet in other assets or other liabilities, respectively. Over the term of the transferred loans, the related servicing asset or liability will be amortized to securitization income. Servicing revenue at a market rate is recorded as the servicing is performed.

(g) Derivative instruments:

Derivative instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying interest rates, exchange rates or other financial indices to notional contract amounts.

Derivative instruments are carried at fair value and are reported as assets where they have a positive fair value or as liabilities where they have a negative fair value. The resulting gains or losses on derivative instruments not qualifying for hedge accounting are recognized in other interest income or expense as appropriate. Derivatives may also be embedded in other financial instruments. Derivatives embedded in other financial instruments are separated from the host contracts and accounted for as a derivative instrument when their economic characteristics and risks are not closely related to those of the host contract, it meets the definition of a derivative instrument and the host contract is not accounted for as HFT. Vancity applied this accounting treatment to all host contracts entered into after January 1, 2003. The index-linked component on an equity linked deposit is accounted for as an embedded derivative and is classified as a derivative instrument on the consolidated balance sheet.

2. Significant accounting policies (continued):

(g) Derivative instruments (continued):

A derivative instrument qualifies for hedge accounting if the hedging relationship is designated and formally documented at inception in accordance with the requirements of CICA handbook section 3865 *Hedges*. This documentation involves outlining the particular risk management objective and strategy for the hedging relationship, the specific risk being hedged, and how effectiveness is assessed and measured as well as the frequency of these tests. Hedging relationships, between the hedged and hedging items, are designated as cash flow hedges. This process includes linking the derivatives to specific pools of assets and liabilities on the consolidated balance sheet or to specific firm commitments or anticipated transactions that give rise to the specific risk being hedged. Effectiveness is assessed by determining whether derivatives used in hedging relationships are effective in offsetting changes in cash flows attributable to the risk being hedged. Effectiveness testing is performed both at inception and over the term of the hedging relationship on both a prospective and retrospective basis.

Vancity uses hedge accounting for cash flow hedges that convert floating rate assets and liabilities to fixed rate assets or liabilities. With a cash flow hedge, the effective portion of changes in fair value of the derivative is recognized in other comprehensive income (“OCI”), while the ineffective portion is recognized in the consolidated statement of operations. The amount recognized in OCI is reclassified and included on the consolidated statement of operations in the same period that (a) the hedged cash flows affect income, or (b) the forecasted cash flows associated with the hedged item are no longer probable. Ineffectiveness is measured and recorded in other interest income or expense in the consolidated statement of operations. When a cash flow hedge is discontinued and the hedged item is still in existence, amounts previously recognized in OCI are released to income as the hedged item impacts earnings. When a cash flow hedge is discontinued and the hedged item is no longer in existence, amounts previously recognized in OCI are immediately recognized in the consolidated statement of operations.

(h) Commissions:

Commissions paid in connection with deposit taking and lending activities are considered transaction costs. These commission expenses are adjustments to the yield of the loan or deposit and are recognized using the effective interest method as an interest expense for deposits and as a reduction to interest revenue for a loan over the expected term of the related portfolio. Commission costs are included with loan or deposit balances on the consolidated balance sheet.

2. Significant accounting policies (continued):

(i) Premises and equipment:

Land is carried at cost. Buildings, equipment and leasehold improvements are recorded at cost, less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the assets as indicated below:

Buildings	20-40 years
Leasehold improvements	10 years
Computer equipment and software	3-7 years
Furniture and equipment	3-5 years

(j) Intangibles:

(i) Computer software

Computer software are acquired externally and capitalized where the future economic benefit is expected to exceed a period of one year. Otherwise, software costs are expensed when incurred. The 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 operations. There are no impairment losses incurred for computer software.

(ii) ICBC licenses

ICBC licenses have been acquired by Squamish Insurance Agencies Ltd. to issue insurance coverage to members. The licenses are recorded at their fair value on acquisition and are subsequently carried at cost less permanent impairments.

(k) Other assets:

Investments in shares of Central 1 are classified as AFS, but are recorded at cost as there is no active market where fair values can be reliably measured. Investment in Visa Shares are classified as AFS and are recorded at fair value through OCI based on active market quotes. Vancity capitalizes acquisition and direct development costs for property under development relating to Dockside Green Limited Partnership. When the estimated net realizable value of property under development does not exceed book value, the property under development is recorded at net realizable value.

2. Significant accounting policies (continued):

(l) Employee future benefits:

Vancity accrues obligations under employee benefit plans. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, appropriate discount rates and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The accrued benefit asset or liability represents the cumulative difference between the expense and funding contributions and is included in other liabilities on the consolidated balance sheet.

(m) Distributions to members:

Distributions to members are recorded as an expense when declared in the consolidated statement of operations.

(n) Income taxes:

Vancity follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are computed based on differences between the carrying amount of assets or liabilities on the consolidated balance sheet and their corresponding tax values using the enacted or substantively enacted income tax rates that are expected to be applied when the asset is realized or when the liability is settled. Future income tax assets also result from the carry forward of unused tax losses and other deductions.

The valuation of future income tax assets is reviewed annually and adjusted, if necessary, to reflect the estimated realizable amount. Net future income tax assets or liabilities are reflected in other assets or other liabilities, as appropriate.

(o) Translation of foreign currencies:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the consolidated balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. Realized gains and losses are translated at the rates prevailing at the time of the transaction and are recorded in other income on the consolidated statement of operations. Unrealized gains and losses on foreign currency AFS assets are translated at the average exchange rates for the year and recorded in OCI.

(p) Comparative figures:

Certain comparative figures are reclassified, where appropriate, to conform with the current year's presentation.

3. Changes in accounting policies:

Future changes in accounting policies:

International Financial Reporting Standards (IFRS):

The CICA is transitioning from GAAP for publicly accountable entities to International Financial Reporting Standards ("IFRS"). The financials reporting requirements of GAAP differ in a number of areas from those prescribed by IFRS.

Vancity's financial statements will be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011 and will include comparative information for the prior year. Vancity's transition date to IFRS was January 1, 2010 and accordingly, Vancity will prepare its opening IFRS balance sheet as at that date and in compliance with IFRS 1 – *"First-time adoption of IFRS"* ("IFRS 1").

Upon transition to IFRS, the general principle is that consolidated financial statements must be prepared on a retrospective basis as if IFRS had always been applied. In addition to exempting entities from the requirement to restate comparatives for particular standards, IFRS 1 provides certain mandatory exceptions and grants certain optional exemptions from full retrospective application of IFRS. In preparing the consolidated financial statements in accordance with IFRS 1, Vancity will apply the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

(a) Optional exemptions from full retrospective application elected by Vancity:

Vancity has elected to apply the following optional exemptions from full retrospective application of relevant IFRS, as follows:

Employee benefits exemption

Under GAAP, Vancity's accounting policy is to defer recognition of actuarial gains (losses) using the corridor approach with any actuarial gains (losses) exceeding 10% of the accrued benefit obligation or fair value of the Plan Assets recognized through amortization.

IFRS 1 permits an entity to recognize all such actuarial gains (losses) immediately rather than recalculating the amounts which would have been recognized had IFRS been previously applied. Vancity elected to recognize all cumulative unrecognized actuarial gains (losses) on employee benefit plans in the consolidated statement of changes in members' equity at the transition date.

Leases

Vancity has elected to apply the transitional provisions in IFRIC 4 – "*Determining whether an Arrangement contains a Lease*" as at the transition date rather than making an assessment of whether there is a lease at the time of initial recognition of the contract under GAAP. There are no anticipated changes to the classification of agreements as leases as a result of the adoption of IFRS.

3. Changes in accounting policies (continued):

(a) Optional exemptions from full retrospective application elected by Vancity (continued):

Business combinations exemption

Vancity has applied the business combination election in IFRS 1. Accordingly, it has carried forward the original accounting treatment for past mergers with other credit unions that took place prior to Vancity's IFRS transition date of January 1, 2010 and has not adjusted those transactions to comply with IFRS requirements for business combinations.

Fair value measurement of financial assets and liabilities on initial recognition

Vancity has applied this exemption offered by IAS 39 – "*Financial Instruments: Recognition and Measurement*" ("IAS 39") on the initial recognition of financial instruments measured at fair value through the profit and loss. Vancity has no financial instruments where the most recent transaction price was not representative of fair value; therefore, there is no significant impact anticipated on Vancity's consolidated balance sheet or consolidated statement of operations as a result of this election.

Borrowing Costs

Vancity has applied IAS 23 - "*Borrowing Costs*" on the capitalization of borrowing costs to qualifying assets. As Vancity had no significant capital projects at January 1, 2010, there is no immediate impact of this optional election in relation to the capitalization of borrowing costs.

(b) Mandatory exceptions from full retrospective application followed by Vancity:

Vancity has applied the following mandatory exceptions from full retrospective application, as follows:

De-recognition of financial assets and liabilities exception

Financial assets and liabilities derecognized before the date of transition to IFRS are not required to be re-recognized under IFRS, however an entity may choose an earlier date. The application of the exception from full restatement of comparatives for IAS 39 means that Vancity will only recognize any financial assets and financial liabilities derecognized since January 1, 2004 (the date chosen by Vancity) that do not meet the IAS 39 de-recognition criteria and that have not otherwise matured or expired on January 1, 2010. Management did not apply the IAS 39 de-recognition criteria to an earlier date than January 1, 2004, as there are no financial assets or financial liabilities that would need to qualify for de-recognition before this date.

3. Changes in accounting policies (continued):

(b) Mandatory exceptions from full retrospective application followed by Vancity (continued):

Hedge accounting exception

Hedge accounting may only be applied to pre-existing hedging relationships which meet the criteria under IAS 39 and may not be designated as a hedge retrospectively. Vancity has determined that its existing hedging relationships qualify for hedge accounting under IFRS and anticipates that the recorded adjustments will be insignificant in the measurement of hedge ineffectiveness related to the measurement of credit risk to comply with IFRS requirements.

Estimates exception

IFRS 1 requires estimates made under IFRS at January 1, 2010 to be consistent with estimates made for the same date under GAAP, unless there is evidence that those estimates were in error. Vancity's estimates under IFRS as at January 1, 2010 are consistent with estimates under GAAP for the same date. Therefore, this exception has no impact on Vancity's IFRS financial statements.

Vancity is currently in the process of quantifying the IFRS adjustments on its January 1, 2010 opening balance sheet.

4. Business reorganization:

During 2009, Vancity entered into a number of transactions to improve overall operating efficiencies by reducing the complexity of the organization and to generate long-term financial benefits.

On April 27, 2009, Vancity purchased for cash $174.9 million of mortgages previously sold to Smart Trust. Of this amount, $59.9 million were subsequently sold to the Toronto Dominion Bank ("TD"), as part of the transaction with TD discussed further below.

On July 21, 2009, Vancity entered into an agreement to sell 100% of the shares in Vancity Insurance Services Ltd. (VISL) to The Co-operators Group Ltd., with an effective date of September 1, 2009. The Co-operators Group Ltd. acquired Vancity's home, auto, travel and business insurance. At the date of sale, VISL had net assets of $8.4 million. At December 31, 2010 $nil (2009: $3.2 million) has been accrued relating to the costs to exit facility lease agreements and severance for impacted employees. During the year ended December 31, 2010, Vancity received an additional $0.3 million as a final settlement of the purchase transaction.

On July 28, 2009, Vancity formed a new wholly owned subsidiary Vancity Life Insurance Services Ltd. (VLISL) to continue to offer life, creditor and title insurance to its customers. VLISL bought the life insurance business from VISL for $1.5 million.

(Tabular amounts expressed in thousands of dollars)

4. Business reorganization (continued):

On August 5, 2009, Citizen's Bank announced it was moving to a new business model focused on *Visa* card services and foreign exchange services for non-retail members. As part of this reorganization, the bank sold $969.4 million of its residential mortgages, personal loans and secured real estate lines of credit to the Toronto Dominion Bank.

On December 4, 2009, Inhance Investment Management Inc. (Inhance) sold its mutual fund business which had $65.3 million of assets under administration, to IA Clarington (IAC). Inhance also sold its sub-advisory business to Vancity Investment Management Ltd. (VCIM). Under the terms of the sale agreement Vancity, through VCIM, will provide socially responsible investing advisory services and fund management services to IAC. On December 31, 2009, Inhance was dissolved.

On December 21, 2009, Vancity purchased the remaining 25% interest in Dockside Green Limited Partnership (DGLP). As a result of this purchase, Vancity now owns 100% of DGLP.

During the year ended December 31, 2009, Vancity had recorded impairment charges of $30.3 million, consisting of $4.0 million related to finished inventory, $23.3 million for property under development and $3 million for impairment of goodwill.

As a result of the above transactions, Vancity recorded the following amounts in the consolidated statement of earnings:

		2010		2009
Purchase of Smart Trust mortgages	$	-	$	2,421
Sale of VISL, mutual funds business and loans		259		30,171
Write-down of property under development, inventory, goodwill and other		-		(30,289)
Gain from business reorganization and other	$	259	$	2,303

5. Nature and extent of risks arising from financial instruments:

(a) Risk management framework:

Vancity's principle business activities result in a consolidated balance sheet that consists primarily of financial instruments. In addition, Vancity uses derivative financial instruments for asset/liability management purposes. The principle financial risks that arise from transacting financial instruments include credit, liquidity & funding, operational and market risk.

5. Nature and extent of risks arising from financial instruments (continued):

(a) Risk management framework (continued):

The Board of Directors ("the Board") has overall responsibility for the establishment and oversight of Vancity's risk management framework. The Board has established committees to oversee and manage Vancity's exposure to five primary areas of risk: credit, market, liquidity, corporate and operational. The Market and Credit Risk, Audit and Operational Risk, Governance and Conduct Review, Human Resources Policy and CEO Compensation, Community Investment, and Nominations and Elections committees are responsible for developing, approving and monitoring Vancity's risk management policies and strategies in their specified areas. All committees have non-executive Board members and report quarterly to the Board on their activities.

Vancity's risk management policies are established to set appropriate risk limits and controls. Management's responsibility is to identify and analyze the risks faced by Vancity and to monitor risks and adherence to limits. Risk management policies and systems are reviewed annually to reflect changes in market conditions, products and services offered, and changes in portfolio performance and trends.

The Market and Credit Risk Committee's role is to provide effective oversight of Vancity's risk management activities related to market risk, credit risk, liquidity risk, structural risk (or systemic risk) and capital management. This includes providing for the appropriate policies to be set with respect to the risks to be taken, the level of risks, and the monitoring of compliance to those policies. The Market and Credit Risk Committee is supported by a senior officer in an ex-officio capacity (the officer has no voting privileges on the committee).

The Audit and Operational Risk Committee's principal role is to apply due diligence in ensuring that an effective risk management and control framework has been implemented by management. This framework provides reasonable assurance that the financial, operational, regulatory, and sustainability objectives of Vancity are achieved and that the governance responsibility and accountabilities of the Board and management are met. It is responsible for the oversight of the design and implementation of internal controls to support the risk management framework, including ensuring that IT governance is sufficient to enable effective Board oversight, the integrity of financial and non-financial reporting, and compliance with regulatory matters. The Committee serves as the Board's liaison with Management on the above matters and works closely with the internal and external auditors in carrying out its duties.

The Governance and Conduct Review Committee has two primary purposes: (i) to ensure that the Board of Directors provides for effective governance of Vancity and that the governance practices evolve with the needs of the Credit Union and the expectations of stakeholders (example: members or employees). The Committee is responsible for creating a framework to hold the Board accountable to its stakeholders. The Committee supervises the governance system of the Credit Union to ensure that duties by the governance body are met and regulatory requirements are fulfilled. (ii) to oversee the protection of the reputation of Vancity through the established codes of conduct, and policies for fiduciary and regulatory risk, related party transactions, and conflict of interest.

5. Nature and extent of risks arising from financial instruments (continued):

(a) Risk management framework (continued):

The Human Resources Policy and CEO Compensation Committee's primary role is to ensure that Vancity provides an appropriate environment for the employees of Vancity and that sound Human Resources policies are set and implemented. Additionally, the Committee leads the evaluation and compensation process for the CEO. The Committee also assumes the governance responsibility for the pension plans provided for Vancity employees.

The Community Investment Committee is responsible for governance oversight of the Vancity Group community investment strategy. This includes providing strategic directions and input into the implementation of the community investment strategy as well as monitoring progress and outcomes.

The purpose of the Nominations and Election Committee is to apply principles of good governance and ensure the Board is strong and succession is assured by: (i) notifying members of an election and enabling qualified persons to be identified and nominated for election to the Board, and (ii) ensuring the conduct of the election meets our standards of governance and the expectations of the members. The Board may appoint members to this committee.

(b) Credit risk management:

(i) 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, and arises primarily from Vancity's loans, investments, securities and derivative instruments with positive market values. The primary credit risk stemming from loans is the possibility that members will be unable or unwilling to repay some or all of the principal amount and interest they have borrowed. For investments, securities and derivative instruments, the credit risk Vancity is exposed to is the risk of default by the counterparty. This is discussed further in note 19.

(ii) Management of credit risk:

The Board has delegated responsibility for the governance of credit risk to the Market and Credit Risk Committee to specifically manage credit risk. The Market and Credit Risk Committee separates credit responsibilities by credit risk management criteria and lines of business: commercial mortgages, business lending, and retail lending. This committee, in conjunction with the Management Credit Committee, is responsible for managing credit risk through the following:

- Formulating and recommending credit policies in consultation with business units. These policies provide guidance over collateral requirements, credit assessment, risk ratings assessments for commercial mortgages and business lending, as well as a framework for reporting, and ensuring appropriate legal documentation is completed. The policies ensure that the lending processes are compliant with regulatory and statutory requirements. These policies are reviewed at minimum annually.

5. Nature and extent of risks arising from financial instruments (continued):

(b) Credit risk management (continued):

(ii) Management of credit risk (continued):

- Establishing authorization limits for the approval and renewal of credit facilities. Authorization limits are assigned to business unit Credit Officers for commercial mortgages and business lending. Retail lending is dependent on the credit scoring process that is supported by centralized credit officers. Large credit facilities require the approval by the Market Risk and Credit Committee or the Board as directed by policy.

- Reviewing and assessing credit risk. The credit departments assess all credit exposures in excess of designated limits prior to approving the facilities. Renewals and reviews of facilities are subject to a similar process for commercial mortgages and business lending.

- Establishing limits on the exposure to counterparties, concentration in certain geographic areas and industries (for loan advances), as well as limits by issuer, credit rating band, market liquidity and country (for securities).

- Developing and maintaining Vancity's risk rating process for business and commercial loans in order to categorize risk according to the degree of financial loss faced and to focus management on these risks. The risk rating system is used in determining where impairment provisions may be required. The current risk rating framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving officer/committee as appropriate. Risk grades are subject to regular review by the Vancity commercial mortgage and business risk management committee.

- Reviewing compliance of business units with agreed exposure limits; including those for selected industries, country risk and product types. Regular reports are provided to the credit departments and the Market and Credit Risk Committee on the credit quality of loan portfolios and appropriate corrective action is taken.

- Each credit department is required to implement credit policies and procedures, with credit approval authorities delegated from the SVP, Risk Management and Operations. Each business unit has a department head who reports on all credit related matters to local management for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

- Regular audits of business units and the credit department processes are undertaken by Internal Audit.

5. Nature and extent of risks arising from financial instruments (continued):

(b) Credit risk management (continued):

(ii) Management of credit risk (continued):

Over-the-counter derivative instruments and securities entered into by Vancity are subject to credit risk arising from the possibility that counterparties may default on their obligations to Vancity. Derivative credit risk is typically represented by the positive fair value of the derivative instrument and is usually a small fraction of the notional amount. Credit risk on securities is the risk that the principal investment will not be repaid. Vancity controls derivative and securities credit risk by dealing with counterparties that are believed to be creditworthy (i.e. based on external credit ratings) and managed using the same due diligence and/or review process that is applied to all other credit risk instruments. Where possible, Vancity further reduces exposure to credit losses on derivative instruments by entering into master netting agreements and collateral agreements with counterparties.

(c) Liquidity risk management:

Liquidity risk is the risk that Vancity may be unable to generate or obtain sufficient funding in a timely and cost effective manner to meet commitments associated with its financial instruments and operations.

(i) Management of liquidity risk:

Vancity's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Vancity's reputation as described further below and in note 5(c)(ii).

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 Audit and Operational 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.

The daily management of Vancity's liquidity is the responsibility of the treasury department under the direction of the VP Treasury and Foreign Exchange. The finance department monitors treasury's adherence with liquidity policies and on a monthly basis reports all findings to ALCO. Treasury manages liquidity by monitoring expected daily cash inflows and outflows versus actual, projecting long term cash requirements on a weekly and monthly basis, and by sourcing alternative options for funding. Vancity's primary sources of funding are wholesale and retail deposits, securitization and wholesale borrowings.

(Tabular amounts expressed in thousands of dollars)

5. Nature and extent of risks arising from financial instruments (continued):

(c) Liquidity risk management (continued):

(i) Management of liquidity risk (continued):

Contingency plans exist for liquidity to satisfy funding requirements in the case of a general market disruption or adverse economic conditions. Proper execution of the contingency plan is the responsibility of the treasury department. The liquidity policy outlines the appropriate steps to follow and stakeholders to notify. The contingency plan is scenario tested annually, and the results are presented to the Board.

(ii) Exposure to liquidity risk:

The key measure used by Vancity for managing liquidity risk is the ratio of liquid assets to deposits.

In accordance with 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 this purpose, liquid assets may comprise the total market value of cash, Canadian or provincial treasury bills, debt securities with a government guarantee and a minimum Dominion Bond Rating Service ("DBRS") investment rating of A, government guaranteed mortgage backed securities, bankers' acceptance 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. Asset-backed commercial paper ("ABCP") is not categorized as liquid assets, given their illiquidity during the market disruption.

Vancity

Vancity's ratio of liquid assets to deposits at the reporting date and during the reporting period were as follows:

	2010	2009
At December 31	16.10%	22.62%
Average for the period	15.23%	14.97%
Maximum for the period	16.64%	22.62%
Minimum for the period	13.75%	12.85%

(Tabular amounts expressed in thousands of dollars)

5. Nature and extent of risks arising from financial instruments (continued):

(c) Liquidity risk management (continued):

(ii) Exposure to liquidity risk (continued):

		2010		2009
Cash and deposits with Central 1	$	1,965,224	$	2,182,015
Securities[1]		48,636		514,937
Accrued interest		7,710		7,137
Total liquid assets	$	2,012,570	$	2,704,089
Total liquid assets as a percentage of deposits		16.10%		22.62%

(1) Securities include Mortgage Backed Securities (MBS) pools which are Vancity loans that have been securitized under MBS but not yet sold externally. They are classified as a liquid asset due to Vancity's ability to readily convert them to cash if required.

The Bank

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

		2010		2009
At December 31		27.81%		42.29%
Average for the period		27.82%		29.72%
Maximum for the period		41.97%		64.77%
Minimum for the period		20.53%		10.70%
Cash	$	28,894	$	15,358
Interest bearing deposits with financial institutions		-		10,000
Government and corporate securities		19,198		150,897
Accrued interest		60		147
Liquid assets		48,152		176,402
Securities pledged as collateral		(5,957)		(5,974)
Total liquid assets		42,195		170,428
Total assets	$	151,754	$	403,037
Liquid assets as a percentage of total assets		27.81%		42.29%

(Tabular amounts expressed in thousands of dollars)

5. Nature and extent of risks arising from financial instruments (continued):

(c) Liquidity risk management (continued):

(ii) Exposure to liquidity risk (continued):

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

December 31, 2010	Less than 1 year	1 - 3 years	4 to 5 years	Over 5 years	Total
Retail deposits	$ 6,700,286	$ 3,069,205	$ 797,046	$ 210	$ 10,566,747
Wholesale deposits	2,223,211	56,570	466	-	2,280,247
Borrowings	733,040	-	-	-	733,040
Other financial liabilities	224,073	-	-	-	224,073
Derivatives	10,107	2,334	(324)	27	12,144
	$ 9,890,717	$ 3,128,109	$ 797,188	$ 237	$ 13,816,251

December 31, 2009	Less than 1 year	1 - 3 years	4 to 5 years	Over 5 years	Total
Retail deposits	$ 8,752,767	$ 1,430,563	$ 198,098	$ 434	$ 10,381,862
Wholesale deposits	1,914,606	88,782	410	-	2,003,798
Borrowings	1,155,610	-	-	-	1,155,610
Other financial liabilities	196,939	-	-	-	196,939
Derivatives	9,737	18,460	7,674	-	35,871
	$ 12,029,659	$ 1,537,805	$ 206,182	$ 434	$ 13,774,080

(d) Market risk management:

In the normal course of its operations, Vancity engages in transactions that give rise to market risk. Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads will affect Vancity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) Management of market risks:

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

Vancity has various policy and procedures 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 Audit and Operational Risk Committee. The Committee's role is to provide effective oversight, on behalf of the Board, of Vancity's financial reporting processes, risk management activities, systems of internal controls and compliance of regulatory matters. In addition, Vancity has developed and maintains a practice of performing independent valuations of positions, mark to market methodologies, and asset liability modeling.

5. Nature and extent of risks arising from financial instruments (continued):

(d) Market risk management (continued):

(ii) Interest rate risk management:

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 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 reprice in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as Vancity manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of Vancity to enhance profitability.

(iii) Interest rate risk policies and processes:

Vancity meets its objectives for interest rate risk management by structuring the consolidated balance sheet to take advantage of the yield curve and mismatch opportunities while limiting risk exposure to approved levels to ensure that net interest income and net market values are not significantly impacted when there is an adverse change in interest rates.

The treasury department, under the direction of ALCO, is responsible for managing interest rate risk. ALCO monitors Vancity's compliance with policy through monthly meetings by reviewing the interest rate risk profile of Vancity and by reviewing and approving limits and strategies recommended by the treasury department.

(iv) Interest rate risk measurement techniques:

Vancity uses a number of techniques to manage interest rate risk. In order to manage the repricing of assets and liabilities, Vancity will try to alter the product mix through the marketing of particular products, pricing initiatives, and the use of derivative instruments. Decisions on determining the appropriate mix of assets, liabilities and derivatives, including interest rate swaps and forward rate agreements, are based on economic conditions, member behavior, capital levels, liquidity levels and policies that limit exposure by instrument and counterparty.

Note 17 discloses details on derivatives used for asset liability management.

Vancity also uses several comprehensive measurement and analytical techniques to manage and control interest rate risk. Interest rate risk is measured primarily by simulation models that employ both current interest revenue and interest expense, and use market values to incorporate an economic perspective. Static gap and duration analysis are also used as supplementary measurement, control and management tools.

(Tabular amounts expressed in thousands of dollars)

5. Nature and extent of risks arising from financial instruments (continued):

(d) Market risk management (continued):

(v) Simulation models:

Simulation models enable Vancity to analyze interest rate risk in a dynamic environment. The models incorporate assumptions about pricing strategies, growth, volume and mix of new business, changes in the level, slope and curvature of the yield curve, interest rates and other related factors. The assumptions used in the model are monitored and updated at least quarterly to reflect changing market conditions.

Simulation models can also be run to measure the impact on net interest income and market values of potential asset and liability management strategies in different economic environments to analyze risk and return tradeoffs.

Simulation models are also used to measure the potential impact of interest rate movements on market value of net assets and financial margin. Based on Vancity's interest rate positions as at December 31, 2010, the following table shows the potential before tax impact on Vancity's financial margin over the next 12 months of an immediate and sustained 25 basis points increase and decrease in interest rates across all currencies.

	2010		2009	
Interest rate sensitivity	Market value impact	Financial margin impact	Market value impact	Financial margin impact
Before tax impact of:				
25 bps decrease in rates	$ 11,891	$ (1,217)	$ 12,743	$ (1,129)
25 bps increase in rates	(11,711)	1,120	(12,624)	1,072

The market value risk technique gauges the impact on the market value of both financial assets and financial liabilities as well as off balance sheet instruments from a movement in interest rates. Market value risk is the present value of potential changes in net consolidated earnings over all future periods. It is an economic measure of a leading indicator of the potential impact on future earnings of an adverse movement in interest rates.

(vi) Interest rate risk analysis:

Gap analysis is a technique used by Vancity for 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 the dates that the assets and liabilities are expected to mature or reprice. 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. Note 16 discloses Vancity's gap position at December 31.

5. Nature and extent of risks arising from financial instruments (continued):

(d) Market risk management (continued):

(vi) Interest rate risk analysis (continued):

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.

(vii) Foreign currency risk management:

Foreign currency risk is the risk that a movement in foreign exchange rates will have an adverse effect on the financial condition of Vancity. Foreign currency risk arises in the ordinary course of business as Vancity meets the member demands for foreign currency banking and trading 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 rate movements in either the spot or forward market. This exposure has the potential of having a negative effect on the consolidated earnings of Vancity. Vancity is exposed to this risk unless the foreign currency position is economically hedged, either naturally or synthetically. The impact of foreign currency risk will result from the volatility of exchange rate changes, the mix of foreign currency assets and liabilities, and the exposure to each currency market.

As at December 31, 2010, Vancity had $784,000 (2009 - $704,000) of net assets exposed to foreign currency risk. The impact on net assets from the Canadian dollar strengthening (weakening) by 5% in relation to all foreign currencies, with all other factors remaining constant, would be a decrease (increase) of approximately $39,000 (2009 - $30,505). In practice, actual results may differ from this sensitivity analysis.

(viii) Foreign currency risk policies and procedures:

Foreign currency risk is managed daily by the foreign exchange department under the direction of the VP, Treasury and Foreign Exchange. The foreign exchange department develops and implements management policies and processes with the approval of ALCO. The finance department monitors compliance with foreign exchange policy on a monthly basis.

Foreign currency forwards and futures are used to limit exposures to positions held by Vancity. Gains and losses on foreign exchange are measured monthly. Limits on global trades by currency in the spot and forward markets, and limits by traders are established through ALCO approved policies and monitored on a daily basis. Note 17 discloses details on foreign currency forwards and futures used to manage foreign exchange risk.

(Tabular amounts expressed in thousands of dollars)

6. Securities:

(a) An analysis of the fair value of securities by remaining term to maturity is as follows:

December 31, 2010	Effective yield	Within 1 year	1 to 5 Years	Over 5 years	Total fair value
Securities held as HFT assets:					
Asset backed commercial paper	0.00%	$ -	$ -	$ 33,527	$ 33,527
Bank-sponsored commercial paper	0.00%	-	-	2,441	2,441
Other Securities	2.00%	746	-	-	746
Total securities held as HFT assets		746	-	35,968	36,714
Securities held as AFS assets:					
Securities issued or guaranteed by:					
Canadian federal government	0.85%	17,245	-	-	17,245
Asset backed commercial paper	0.00%	-	-	2,100	2,100
Other securities	1.75%	2,991	-	-	2,991
Total securities held as AFS assets		20,236	-	2,100	22,336
Total securities		$ 20,982	$ -	$ 38,068	$ 59,050

December 31, 2009	Effective yield	Within 1 year	1 to 5 Years	Over 5 years	Total fair value
Securities held as HFT assets:					
Asset backed commercial paper	0.00%	$ -	$ -	$ 28,167	$ 28,167
Bank-sponsored commercial paper	0.00%	-	-	2,237	2,237
Total securities held as HFT assets		-	-	30,404	30,404
Securities held as AFS assets:					
Securities issued or guaranteed by:					
Canadian federal government	0.27%	129,012	-	-	129,012
Canadian provinces and municipalities		-	-	-	-
Mortgage-backed securities		-	-	-	-
Bank-sponsored commercial paper		-	-	-	-
Asset backed commercial paper	0.00%	-	-	3,125	3,125
Other securities	0.37%	330,700	22,417	-	353,117
Total securities held as AFS assets		459,712	22,417	3,125	485,254
Total securities		$ 459,712	$ 22,417	$ 33,529	$ 515,658

6. Securities (continued):

(b) Impairment of securities:

Investment in Asset Backed Commercial Paper:

Asset backed commercial paper ("ABCP") is a short term investment typically issued with a term to maturity of between 30 to 90 days. It differs from other types of commercial paper in that it is issued by trusts, either structured by banks (bank-sponsored ABCP) or by independent brokers (third-party-sponsored or non-bank-sponsored ABCP).

In January 2009, third-party-sponsored ABCP in Canada was restructured under the Montreal Accord. Pursuant to the terms of the restructuring plan, holders of third-party-sponsored ABCP exchanged their short term notes for longer term notes in order to more closely match the maturities of the underlying assets. Immediately prior to the restructuring of ABCP, Vancity held a portfolio of ABCP investments issued by several trusts with an overall face value of $76.4 million.

One of the key outcomes of the restructuring was that three new legal structures in the form of replacement notes were created (called Master Asset Vehicle Notes - MAV I, MAV II and MAV III). These ABCP trusts, supported in whole or in part by synthetic assets, were either pooled in MAV I or MAV II. MAV I was formed for investors who elected to self-fund the required margin-funding facility (MFF). MAV II was formed for investors who elected to obtain the required MFF from a third party for a fee. The MAV III series of ABCP are secured exclusively by either traditional or ineligible assets in the form of tracking notes.

On January 21, 2009, in exchange for its third party sponsored ABCP notes, Vancity received $76.4 million of MAV II and MAV III notes (the "MAV notes"). The MAV II notes, which are classified as HFT, had a face value of $55.5 million and the MAV III notes, which are classified as AFS, had a face value of $20.9 million.

As there continues to be a limited market for these notes, Vancity has developed a discounted cash flow valuation model to determine its best estimate of the fair value of these investments. In carrying out this assessment, management relied on best available information regarding market conditions, proxy benchmarks, historical trends and other factors that a market participant would consider for such investments. Where there is no observable market data, management has used estimates that it believed to be reasonable.

Based on improved market conditions in 2010, Vancity recognized a $7.9 million increase (2009:$4.9 million decrease) in the fair value of the MAV notes. During the year ended December 31, 2010, a $6.6 million fair value increase (inclusive of a reversal of prior impairment of $1.2 million (2009:$nil)) was taken into other income (2009: impairment charge of $4.9 million) and a $1.3 million recovery was taken into other comprehensive income (2009: $nil).

During the year, Vancity received principal repayments of $3.5 million (2009: $12.2 million) and interest payments of $0.1 million (2009:$4.1 million) in respect of the MAV notes.

(Tabular amounts expressed in thousands of dollars)

6. Securities (continued):

(b) Impairment of securities:

Vancity also has an investment in Superior Trust, Bank of America Merrill Lynch's bank-sponsored ABCP ("Superior Trust"). Superior Trust was restructured in December 2009 and classified as HFT and revalued using the same methodology above. At December 31, 2010, the valuation of the Superior Trust notes was based on the Merrill Lynch Superior Trust Series G December 2010 Investor Report. Vancity recognized a $0.25 million increase (2009: $nil) in the fair value of the Superior Trust notes which is included in other income. During the year ended December 31, 2010. Vancity received interest payments of $45,000 (2009:$13,000) in respect of the Superior Trust notes.

Vancity's investment in non-bank-sponsored ABCP restructured under the Montreal Accord and bank-sponsored ABCP is comprised of the following:

December 31, 2010	Face Value	Interest payments received	Fair value
MAV II Notes	$ 55,037	$ 68	$ 33,527
MAV III Notes	5,669	65	2,100
Superior Trust	3,002	45	2,441
	$ 63,708	$ 178	$ 38,068

December 31, 2009	Face Value	Interest payments received	Fair value
MAV II Notes	$ 55,066	$ 2,851	$ 28,167
MAV III Notes	9,105	1,254	3,125
Superior Trust	3,002	13	2,237
	$ 67,173	$ 4,118	$ 33,529

(Tabular amounts expressed in thousands of dollars)

7. Loans:

(a) Loan maturities and rate sensitivities:

	Maturity term				Rate sensitivity		
December 31, 2010	Under 1 year	1 to 5 Years	> 5 Years	**Total**	Floating	Fixed rate	**Total**
Residential mortgages	$ 1,737,439	$ 4,478,629	$ 240,667	**$ 6,456,735**	$ 2,287,904	$ 4,168,831	**$ 6,456,735**
Commercial loans	296,728	686,941	469,587	**1,453,256**	133,295	1,319,961	**1,453,256**
Consumer loans	2,564,545	73,436	617	**2,638,598**	2,471,185	167,413	**2,638,598**
Business loans	664,140	927,423	51,387	**1,642,950**	170,647	1,472,303	**1,642,950**
Accrued interest	10,122	11,752	1,450	**23,324**	9,686	13,638	**23,324**
Total loans	5,272,974	6,178,181	763,708	**12,214,863**	5,072,717	7,142,146	**12,214,863**
Allowance for credit losses	40,566	47,529	5,875	**93,970**	39,025	54,945	**93,970**
Total loans, net of allowance for credit losses	$ 5,232,408	$ 6,130,652	$ 757,833	**$ 12,120,893**	$ 5,033,692	$ 7,087,201	**$ 12,120,893**

	Maturity term				Rate sensitivity		
December 31, 2009	Under 1 year	1 to 5 Years	> 5 Years	**Total**	Floating	Fixed rate	**Total**
Residential mortgages	$ 3,452,541	$ 2,507,040	$ 30,553	**$ 5,990,134**	$ 2,159,641	$ 3,830,493	**$ 5,990,134**
Commercial loans	391,122	568,606	312,694	**1,272,422**	266,735	1,005,687	**1,272,422**
Consumer loans	2,604,857	5,202	63	**2,610,122**	2,358,145	251,977	**2,610,122**
Business loans	626,397	850,387	50,687	**1,527,471**	326,274	1,201,197	**1,527,471**
Accrued interest	13,064	6,974	717	**20,755**	9,337	11,418	**20,755**
Total loans	7,087,981	3,938,209	394,714	**11,420,904**	5,120,132	6,300,772	**11,420,904**
Allowance for credit losses	53,890	28,771	2,959	**85,620**	38,518	47,102	**85,620**
Total loans, net of allowance for credit losses	$ 7,034,091	$ 3,909,438	$ 391,755	**$ 11,335,284**	$ 5,081,614	$ 6,253,670	**$ 11,335,284**

(Tabular amounts expressed in thousands of dollars)

7. Loans (continued):

(b) Allowance for credit losses:

	Residential	Commercial	Consumer	Business	2010 Total	2009 Total
Balance, beginning of year	$ 4,266	$ 30,666	$ 22,112	$ 28,576	$ 85,620	$ 87,338
Provision for credit losses:						
Loan sales	-	-	-	-	-	(2,534)
Normal credit factors	5,176	2,558	16,821	3,127	27,682	18,457
	9,442	33,224	38,933	31,703	113,302	15,923
Loans written-off	(875)	(19)	(17,611)	(2,635)	(21,140)	(19,504)
Recoveries of loans written-off	71	-	1,657	80	1,808	1,863
Balance, end of year	$ 8,638	$ 33,205	$ 22,979	$ 29,148	$ 93,970	$ 85,620
Loans with specific allowances:						
Loan balance	$ 10,962	$ 32,468	$ 3,458	$ 22,148	$ 69,036	$ 44,047
Related allowance	(2,723)	(16,885)	(3,458)	(5,292)	(28,358)	(23,606)
Carrying amount	$ 8,239	$ 15,583	$ -	$ 16,856	$ 40,678	$ 20,441
Loans with general allowances:						
Loan balance	$ 6,445,773	$ 1,420,788	$ 2,635,140	$ 1,620,802	$ 12,122,503	$ 11,356,102
Accrued interest	12,402	2,734	5,070	3,118	23,324	20,755
Related allowance	(5,915)	(16,319)	(19,522)	(23,856)	(65,612)	(62,014)
Carrying amount	$ 6,452,260	$ 1,407,203	$ 2,620,688	$ 1,600,064	$ 12,080,215	$ 11,314,843

(c) Loans past due but not impaired:

Loans that are past due but not classified as impaired are loans where our customers have failed to make payments when contractually due, but for which management expects that the full amount of principal and interest payments will be collected.

December 31, 2010	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 21,687	$ 8,405	$ 15,692	$ 45,784
Commercial mortgages	3,215	200	6,529	9,944
Consumer loans	5,657	4,424	10,268	20,349
Business loans	3,024	92	857	3,973
	$ 33,583	$ 13,121	$ 33,346	$ 80,050

(Tabular amounts expressed in thousands of dollars)

7. Loans (continued):

(c) Loans past due but not impaired (continued):

December 31, 2009	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 28,056	$ 12,683	$ 20,795	$ 61,534
Commercial mortgages	14,206	1,770	17,918	33,894
Consumer loans	8,516	2,946	9,351	20,813
Business loans	569	24	18	611
	$ 51,347	$ 17,423	$ 48,082	$ 116,852

8. Loan securitizations and sales:

Vancity periodically raises liquidity through securitization and sale of residential and/or commercial mortgages. The total outstanding residential mortgages sold and removed from the balance sheet at December 31, 2010 was $375 million (2009: $621 million). Vancity retains the responsibility for servicing the assets securitized and sold. Any gain or loss that results from the sale of assets is recorded in other securitization income in the period the sale occurs.

9. Premises, equipment and intangibles:

(a) Premises and equipment:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 12,297	$ -	$ 12,297	$ 12,266
Buildings	56,710	22,619	34,091	35,490
Leasehold improvements	32,230	12,206	20,024	15,569
Computer equipment	22,554	10,636	11,918	11,433
Furniture and fixtures	14,796	6,919	7,877	5,165
	$ 138,587	$ 52,380	$ 86,207	$ 79,923

(b) Intangibles:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
ICBC Licenses	$ 400	$ -	$ 400	$ 400
Software	12,978	1,691	11,287	2,442
	$ 13,378	$ 1,691	$ 11,687	$ 2,842

(Tabular amounts expressed in thousands of dollars)

10. Other assets:

	2010	2009
Central 1 shares	$ 33,079	$ 32,270
Accounts receivable, prepayments and other	92,219	133,012
Future income tax assets (note 14)	31,386	28,082
	$ 156,684	$ 193,364

The investment in the shares of Central 1 is required under operating agreements. Central 1 provides a centralized financial facility, a payment clearing house and a trade association for the Credit Unions of British Columbia and Ontario.

Included in accounts receivable, prepayments and other is an AFS investment of $3.0 million (US $3.0 million) (2009: $3.2 million (US $3.0 million)) in a US based Venture Capital Limited Liability Company ("LLC"). Vancity owns 38.7% of the issued and outstanding units of LLC. LLC is managed and controlled by a member of the Vancity executive leadership team.

11. Shares:

	2010	2009
Membership shares	$ 59,593	$ 58,234
Investment shares	38,764	38,860
Savings shares	3,437	4,011
	$ 101,794	$ 101,105

Members are required to purchase $5 of membership shares and are from time to time allowed to purchase investment shares. The retraction or redemption of these shares may be subject to certain restrictions. Current outstanding investment shares earn dividends at a quarterly adjusted rate set at least 1% above the three to 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.

(Tabular amounts expressed in thousands of dollars)

12. Distributions to community and members:

	2010	2009
Donations to community	$ 12,530	$ 8,318
Member distribution - dividend	3,807	2,434
Member distribution - patronage	7,157	4,443
Total shared success	23,494	15,195
Investment share dividends	1,362	1,282
Total distributions to community and members	$ 24,856	$ 16,477

13. Regulatory capital:

Capital levels for credit unions in British Columbia are regulated pursuant to guidelines issued by the Financial Institutions Commission of British Columbia (“FICOM”), based on standards issued by the Bank for International Settlements. Minimum capital standards are based on a total capital to risk weighted assets (“RWA”) ratio of 8%, along with a requirement that at least 35% of its capital base consist of retained earnings.

Regulatory capital is allocated to two tiers: Primary (“Tier 1”) and Secondary (“Tier 2”). Tier 1 comprises the more permanent components of capital and consists primarily of share capital and retained earnings adjusted for future income taxes. Tier 2 capital consists of 50% of a credit union's portion of retained earnings in CUDIC, Central 1, and Stabilization Central Credit Union. Total regulatory capital is defined as the total of Tier 1 and Tier 2 capital less deductions as prescribed by FICOM.

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

(Tabular amounts expressed in thousands of dollars)

13. Regulatory capital (continued):

Vancity monitors capital levels on a regular basis via appropriate management and Board committees. Capital plans are updated on a yearly basis as part of Vancity's normal budgeting cycle and are forecasted over a three year period to ensure an appropriate level of capital is maintained to sustain operations. As at December 31, 2010 and December 31, 2009, Vancity's capital ratio was greater than the minimum requirement.

	2010	2009
Capital:		
Tier 1 Capital:		
Equity shares	$ 109,218	$ 107,690
Vancity's retained earnings	733,813	656,399
Future income tax credits (debits)	(18,397)	(13,539)
Other	29,275	29,275
Total Tier 1 Capital	853,909	779,825
Tier 2 Capital		
50% of Vancity's proportion of retained earnings in CUDIC, Central 1 and Stabilization Central Credit Union	91,915	86,433
Total Tier 2 Capital	91,915	86,433
Total capital	945,824	866,258
Deductions from capital	(31,429)	(35,419)
Total capital less deductions (capital base)	$ 914,395	$ 830,839

14. Income taxes:

	2010	2009
Components of the provision of income taxes:		
Current income tax expense	$ 26,830	$ 9,590
Future income tax (recovery) expense	(3,304)	(1,304)
	$ 23,526	$ 8,286

The effective tax rate of the provision for income taxes is different than the combined federal and provincial statutory income tax rates for the following reasons:

	2010	2009
Combined federal and provincial statutory income tax rate	28.5%	30.0%
Credit union rate reduction	(6.0)	(8.6)
Reduced tax rate on sale of subsidiary	0.0	(4.5)
Tax carryforward benefit from wind up of subsidiary	0.0	(4.0)
Non-deductible and other items	0.8	0.4
	23.3%	13.3%

(Tabular amounts expressed in thousands of dollars)

14. Income taxes (continued):

The tax effects of temporary differences which give rise to the net future income tax assets reported in other assets are as follows:

	2010	2009
Future income tax assets:		
Allowance for impairment of loans	$ 14,023	$ 9,015
Deferred revenue	3,202	2,024
Accrued employee future benefits	4,826	4,111
Other accrued expenses	2,364	3,368
Premises and equipment	-	2,758
Tax loss carry forward	10,458	10,296
Other	388	-
	35,261	31,572
Future income tax liabilities:		
Premises and equipment	(1,998)	-
Deferred expenses	(1,594)	(1,270)
Deferred revenue	(283)	(2,220)
	(3,875)	(3,490)
Net future income tax assets	$ 31,386	$ 28,082

15. Pension and other retirement benefits:

Vancity provides pension benefits to employees through defined contribution, defined benefit, 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 benefit plans 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 November 30, 2010 (prior period was measured at November 30, 2009). The effective date of the last actuarial valuation report for funding purposes was on December 31, 2008 and the effective date of the next required actuarial valuation report will be on December 31, 2011.

(Tabular amounts expressed in thousands of dollars)

15. Pension and other retirement benefits (continued):

	Pension plans		Other benefit plans	
	2010	2009	2010	2009
Accrued retirement plan obligations:				
Opening balance, actuarial benefit liabilities	$ 19,225	$ 14,539	$ 19,475	$ 13,749
Benefits paid	(648)	(704)	(416)	(560)
Current service cost	967	799	1,634	1,264
Contributions paid by employees	44	57	-	-
Interest cost on accrued benefit obligation	1,164	1,059	1,205	1,023
Actuarial losses	1,641	3,475	2,930	3,999
Actuarial benefit liabilities at measurement date	$ 22,393	$ 19,225	$ 24,828	$ 19,475
Fair value of retirement benefit plan assets:				
Opening balance, fair value of plan assets	$ 14,613	$ 11,994	$ -	$ -
Employer contributions	728	1,840	416	560
Employee contributions	44	57	-	-
Benefits paid	(648)	(704)	(416)	(560)
Actual return on plan assets	1,366	1,426	-	-
Fair value of plan assets at measurement date	$ 16,103	$ 14,613	$ -	$ -

	Pension plans		Other benefit plans	
	2010	2009	2010	2009
Funded status-plan deficits	$ (6,290)	$ (4,612)	$ (24,828)	$ (19,475)
Contributions for December	143	159	-	-
Unamortized net actuarial gain	4,224	3,156	3,901	903
Unamortized past service cost	152	202	-	-
Accrued benefit liabilities at December 31(1)	$ (1,771)	$ (1,095)	$ (20,927)	$ (18,572)
Total retirement benefit plan expense:				
Defined benefit plans	$ 1,257	$ 958	$ 2,812	$ 2,026
Multi-employer defined benefit plans	2,172	2,187	-	-
Defined contribution plans	4,836	5,581	-	-
Retirement benefit plan expenses	$ 8,265	$ 8,726	$ 2,812	$ 2,026

(1) The net accrued benefit liabilities (assets) are recorded in accounts payable and other accrued liabilities on the balance sheet.

(Tabular amounts expressed in thousands of dollars)

15. Pension and other retirement benefits (continued):

Vancity uses a variety of assumptions in the measurement of the accrued benefit obligations, benefit costs and health care costs. These assumptions include: discount rates for future cash flows, rates for compensation increases, expected long term rates of return on plan assets and health care costs trend rates.

The weighted-average of significant actuarial assumptions used to determine benefit expenses and accrued benefit obligations are as follows:

	Pension plans		Other benefit plans	
	2010	2009	2010	2009
Estimated average service period of active employees (in years)	7	8	13	13
Discount rate at end of year [1]	5.5%	6.0%	5.5%	6.0%
Expected long-term rate of return on plan assets	7.0%	7.0%	-	-
Rate of compensation increase	3.0%	3.0%	-	-
Assumed overall health care cost trend	-	-	[2] 8.0%	[3] 10.0%

(1) The discount rate is based on the market interest rates as of November 30 on high quality corporate bonds with cash flows that match the timing and amount of expected benefit payments.
(2) Trending to 4.5% in 15 years and remaining thereafter.
(3) Trending to 5.0% in 10 years and remaining thereafter.

Sensitivity of assumptions:

Key weighted-average economic assumptions used in measuring the pension benefit liability, the other benefit plans liability and related expenses are outlined in the following table. The sensitivities in each key variable have been calculated independently of changes in other key variables.

	Pension plans			
	Accrued benefit obligation 2010	Benefit expense 2010	Accrued benefit obligation 2009	Benefit expense 2009
Discount rate	5.5%	6.0%	6.0%	6.0%
Impact of: 1% increase	$ (2,901)	$ (153)	$ (2,456)	$ (132)
1% decrease	3,633	187	3,063	161
Rate of compensation increase	3.0%	3.0%	3.0%	3.0%
Impact of: 0.25% increase	$ 2	$ 2	$ 3	$ 3
0.25% decrease	(1)	(1)	(2)	(1)
Expected rate of return on assets	-	7.0%	-	7.0%
Impact of: 1% increase	-	$ (147)	-	$ (126)
1% decrease	-	147	-	126

(Tabular amounts expressed in thousands of dollars)

15. Pension and other retirement benefits (continued):

	Other benefit plans			
	Accrued benefit obligation 2010	Benefit expense 2010	Accrued benefit obligation 2009	Benefit expense 2009
Discount rate	5.5%	6.0%	6.0%	6.0%
Impact of: 1% increase	$ (3,215)	$ (233)	$ (2,593)	$ (191)
1% decrease	3,869	269	3,146	219
Assumed overall health care cost trend rate	(2) 8.0%	(1) 10.0%	10.0%	10.0%
Impact of: 1% increase	$ 2,361	$ 322	$ 2,142	$ 244
1% decrease	(2,312)	(302)	(2,090)	(263)

(1) Trending to 5.0% in 10 years and remaining thereafter.
(2) Trending to 4.5% in 15 years and remaining thereafter.

Plan assets as of the measurement date were invested as follows:

	2010	2009
Equity securities	72%	50%
Debt securities	27%	42%
Other	1%	8%
	100%	100%

16. Interest rate sensitivity:

Interest rate risk is a measure of how sensitive Vancity's financial position is to movements in interest rates. To manage interest rate risk, Vancity uses swaps and other derivative instruments. 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 behaviour and the application of Vancity's asset and liability management policies.

(Tabular amounts expressed in thousands of dollars)

16. Interest rate sensitivity (continued):

The assumptions for the year ended December 31, 2010 and 2009 were as follows:

Assets

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

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

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

Liabilities

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

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

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

Yields

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

December 31, 2010	Yield	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets:									
Cash & Cash Equivalents	0.00%	$ -	-	-	-	-	-	196,589	196,589
Interest Bearing Deposits Government and Corporate Securities	1.33%	496,366	600,565	471,350	295,000	-	-	-	1,863,281
Accrued interest	1.33%	9,318	-	-	-	-	-	-	9,318
Loans	3.37%	5,756,502	1,209,556	1,365,959	1,195,283	1,203,184	1,390,409	-	12,120,893
Others	0.00%	33,079	-	-	-	-	-	245,005	278,084
		$ 6,295,265	1,810,121	1,837,309	1,490,283	1,203,184	1,390,409	441,594	14,468,165
Liabilities and Equity:									
Deposits	1.35%	$ 4,131,869	4,526,446	1,653,612	1,463,996	392,996	404,945	118,786	12,692,650
Debentures and loans payable	1.67%	679,357	52,000	-	-	-	-	1,235	732,592
Other	0.00%	-	-	-	-	-	-	1,042,923	1,042,923
		$ 4,811,226	4,578,446	1,653,612	1,463,996	392,996	404,945	1,162,944	14,468,165
Balance sheet mismatch		$ 1,484,039	(2,768,325)	183,697	26,287	810,188	985,464	(721,350)	-
Notional amounts of derivatives		(210,000)	200,000	500,000	450,000	(740,000)	(200,000)	-	-
Net mismatch		$ 1,274,039	(2,568,325)	683,697	476,287	70,188	785,464	(721,350)	-

(Tabular amounts expressed in thousands of dollars)

16. Interest rate sensitivity (continued):

December 31, 2009	Yield	Within 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets:									
Cash		$ -	$ -	$ -	$ -	$ -	$ -	$ 132,637	$ 132,637
Interest bearing deposits	0.92%	997,202	631,302	229,748	241,350	20,000	-	-	2,119,602
Government and Corporate Securities	0.96%	445,429	47,292	617	20,681	-	-	1,639	515,658
Accrued interest	0.96%	11,175	-	-	-	-	-	-	11,175
Loans	4.09%	5,838,463	1,357,459	1,235,103	1,180,906	642,196	1,166,777	(85,620)	11,335,284
Other		33,121	-	-	-	-	-	263,051	296,172
		$ 7,325,390	$ 2,036,053	$ 1,465,468	$ 1,442,937	$ 662,196	$ 1,166,777	$ 311,707	$ 14,410,528
Liabilities and Equity:									
Deposits	1.40%	$ 4,916,428	$ 3,947,897	$ 1,387,979	$ 1,243,015	$ 456,845	$ 357,965	$ 9,623	$ 12,319,752
Debentures and loans payable	0.84%	1,155,164	-	-	-	-	-	-	1,155,164
Other		-	-	-	-	-	-	935,612	935,612
		$ 6,071,592	$ 3,947,897	$ 1,387,979	$ 1,243,015	$ 456,845	$ 357,965	$ 945,235	$ 14,410,528
Balance sheet mismatch		$ 1,253,798	$ (1,911,844)	$ 77,489	$ 199,922	$ 205,351	$ 808,812	$ (633,528)	-
Notional amounts of derivatives		250,000	(1,050,000)	-	900,000	100,000	(200,000)	-	-
Net mismatch		$ 1,503,798	$ (2,961,844)	$ 77,489	$ 1,099,922	$ 305,351	$ 608,812	$ (633,528)	-

17. Derivative instruments:

	Notional amounts				Current Replacement cost		Fair values	
	Maturities of Derivatives		Total	Total				
	Within 1 year	1 to 5 years	2010	2009	2010	2009	2010	2009
Derivatives used to manage interest rate risk								
Receive fixed interest current swaps	$ 650,000	$ 600,000	$ 1,250,000	$ 250,000	$ 12,355	$ 2,806	$ 12,322	$ 2,806
Receive fixed interest forward starting swaps	-	950,000	950,000	1,950,000	8,766	13,413	8,766	8,997
Pay fixed interest current swaps	-	1,090,000	1,090,000	700,000	140	2,062	(11,919)	(3,780)
	650,000	2,640,000	3,290,000	2,900,000	21,261	18,281	9,169	8,023
Other derivatives								
Foreign currency future/forward sell contracts	71,667	-	71,667	26,353	718	417	632	361
Foreign currency future/forward buy contracts	69,416	-	69,416	17,597	120	7	(567)	(275)
Index-linked call options purchased	3,096	23,361	26,457	13,845	2,128	1,033	2,128	1,033
	144,179	23,361	167,540	57,795	2,966	1,457	2,193	1,119
Total derivative contracts	$ 794,179	$ 2,663,361	$ 3,457,540	$ 2,957,795	$ 24,227	$ 19,738	$ 11,362	$ 9,143
Less impact of master agreements					9,116	7,510		
Net credit risk on derivatives					$ 15,111	$ 12,228		

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.

17. Derivative instruments (continued):

Fair values based on quoted market prices are not available for a significant portion of Vancity's derivative instruments. Consequently, fair values are derived using present value and other valuation techniques and may not be indicative of the net realizable values.

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period, based on agreed upon fixed and floating rates. Notional amounts are not exchanged.

Foreign currency futures are contractual obligations to buy or sell a foreign currency on a future date at a specified price established on an organized exchange. Similar to interest rate futures, they are subject to daily fluctuations for any change in market value.

Forward foreign currency contracts are agreements negotiated between two counterparties, to buy or sell a specific amount of foreign currency at a certain rate, on or before a certain date.

Forward rate deposit agreements are contracts to deposit an amount with a counterparty at a future date for a specific term and rate.

Index-linked call options are equity contracts to pay or receive cash flows based on the increase or decrease in the underlying index or security.

The credit risk amount of derivatives, which represents the current replacement cost of all outstanding over the counter derivative contracts in a gain position without factoring in the impact of master netting agreements, totalled $24.2 million as at December 31, 2010 (2009 - $19.7 million). Vancity manages this credit risk by dealing with creditworthy counterparties and setting specific limits for investments with those counterparties, which are reviewed on a monthly basis.

Interest income and expense include the release from AOCI of gains or losses relating to the effective portion of qualifying hedging derivatives designated as cash flow hedges either (i) as the hedged item is recorded in interest income (expense) or (ii) the forecasted cash flow of the hedged item are no longer probable. The amount released is reported as a reclassification from AOCI to net earnings.

Vancity enters into derivative transactions to economically hedge certain business strategies that do not otherwise qualify for hedge accounting, or where hedge accounting is not considered economically feasible to implement. During the year ended December 31, 2010, $5.0 million was recorded in other interest income as unrealized losses in fair value of these derivatives (2009: $28.9 million in unrealized gains). In addition, other interest expense included $6.3 million (2009: $16.1 million) in realized losses on derivatives.

18. Fair value of financial instruments:

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, values are not necessarily comparable among financial institutions. Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. Where there is no quoted market value, fair value is determined using a variety of valuation techniques and assumptions. Vancity has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of Vancity's financial instruments. The carrying value is a reasonable approximation of fair value for Vancity's cash resources, demand deposits, certain other assets and certain other liabilities, due to their short term nature.

(a) Loans:

In determining the fair value of loans, Vancity incorporates the following assumptions:

For fixed rate and floating rate performing loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms, adjusting for estimated prepayments expected.

The total value of loans determined using the above assumption is reduced by the allowance for credit losses to determine the fair value of Vancity's loan portfolio.

(b) Securities:

The fair value of AFS securities is determined by using quoted market values from Vancity's counterparties when available. For securities where market quotes are not available, Vancity uses estimation techniques to determine fair value. These estimation techniques include discounted cash flows, internal models that utilize observable market data or comparisons with other securities that are substantially the same. Where there is no observable market data, management uses estimates that it believes to be reasonable.

(c) Derivative instruments:

The fair value of forward derivative instruments is determined by using quoted market benchmark rates from an independent source. Vancity uses a valuation method that includes discounted cash flows on the remaining contractual life of a derivative instrument, using observable market data. The fair value of futures contracts are determined using quoted market values from an independent source.

(Tabular amounts expressed in thousands of dollars)

18. Fair value of financial instruments (continued):

(d) Deposits:

In determining the fair value of deposits, Vancity incorporates the following assumptions:

For fixed rate, fixed maturity deposits, Vancity discounts the remaining contractual cash flows, adjusted for expected redemptions, at market interest rates offered for deposits with similar terms and risks.

For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits reprice to market frequently. On that basis, fair value is assumed to equal carrying value.

The table below sets out the fair values of financial instruments, including derivatives, using the valuation methods and assumptions referred to above. The table does not include assets and liabilities that are not considered financial instruments.

	2010					
	HFT	AFS	Amortized Cost	Total carrying value	Total fair value	Variance
Assets						
Cash and cash equivalents	$ 196,589	-	-	196,589	196,589	-
Interest-bearing deposits		-	1,804,231	1,804,231	1,808,296	4,065
Securities	36,714	22,336	-	59,050	59,050	-
Accrued interest			9,318	9,318	9,318	-
Loans:						
Residential mortgages	-	-	6,456,735	6,456,735	6,534,687	77,952
Commercial mortgages	-	-	1,453,256	1,453,256	1,500,364	47,108
Consumer loans	-	-	2,638,598	2,638,598	2,663,211	24,613
Business loans	-	-	1,642,950	1,642,950	1,667,363	24,413
Accrued interest	-	-	23,324	23,324	23,324	-
Allowance for credit losses	-	-	(93,970)	(93,970)	(93,970)	-
Total loans net of allowance for credit losses	-	-	12,120,893	12,120,893	12,294,979	174,086
Derivative instruments	23,506	-	-	23,506	23,506	-
Other financial assets	-	42,360	69,142	111,502	111,502	-
Liabilities						
Deposits	-	-	12,692,651	12,692,651	12,610,060	82,591
Wholesale borrowings	-	-	732,591	732,591	732,530	61
Derivative instruments	12,144	-	-	12,144	12,144	-
Other financial liabilities	-	-	224,684	224,684	224,684	-
Total fair value adjustment						260,804

(Tabular amounts expressed in thousands of dollars)

18. Fair value of financial instruments (continued):

	2009					
	HFT	AFS	Amortized Cost	Total carrying value	Total fair value	Variance
Assets						
Cash and cash equivalents	$ 132,637	$ -	$ -	$ 132,637	$ 132,637	$ -
Interest-bearing deposits	-	-	2,119,602	2,125,329	2,119,602	5,727
Securities	30,404	485,254	-	515,658	515,658	-
Accrued interest	-	-	11,175	11,175	11,175	-
Loans:						
Residential mortgages	-	-	5,990,134	5,990,134	6,027,850	37,716
Commercial mortgages	-	-	1,272,422	1,272,422	1,287,419	14,997
Consumer loans	-	-	2,610,122	2,610,122	2,633,596	23,474
Business loans	-	-	1,527,471	1,527,471	1,516,896	(10,575)
Accrued interest	-	-	20,755	20,755	20,755	-
Allowance for credit losses	-	-	(85,620)	(85,620)	(85,620)	-
Total loans net of allowance for credit losses			11,335,284	11,335,284	11,400,896	65,612
Derivative instruments	20,043	-	-	20,043	20,043	-
Other financial assets	-	52,840	66,005	118,845	118,845	-
Liabilities						
Deposits	-	-	12,319,752	12,319,752	12,235,270	84,482
Wholesale borrowings	-	-	1,155,164	1,155,164	1,155,114	50
Derivative instruments	10,900	-	-	10,900	10,900	-
Other financial liabilities	-	-	196,939	196,939	196,939	-
Total fair value adjustment						$ 155,871

The fair value measurements are analyzed according to a fair value hierarchy of three levels as follows:

Level 1: Unadjusted fair value quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices in Level 1 that are observable for the asset or liability either directly or indirectly;

Level 3: Inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

No transfers have been made into or out of Level 1 and Level 2 during 2010 or 2009.

(Tabular amounts expressed in thousands of dollars)

18. Fair value of financial instruments (continued):

The following tables illustrate the classification of Vancity's financial instruments within the fair value hierarchy:

	Valuation technique		
December 31, 2010	Level 1	Level 2	Level 3
Financial assets			
Derivative financial instruments			
Interest rate swaps	-	21,286	-
Index linked options	-	2,128	-
Forward foreign exchange contracts	-	92	-
Financial instruments - available-for-sale			
Treasury bills	-	17,245	-
Short term investments	-	1,995	-
Long term bonds	-	-	-
Investment in Visa	2,654	-	-
Investment in Triodos	-	-	996
Investment in Ficanex	-	240	-
Asset backed commercial paper	-	-	2,100
Retained Interests in securitizations	-	-	3,022
Financial instruments -held for trading			
Asset backed commercial paper	-	-	35,968
Bank-sponsored commercial paper	-	-	-
Investment in Calvert	-	-	746
Total financial assets at fair value	2,654	42,986	42,832
Financial liabilities			
Interest rate swaps	-	12,144	-
Total financial liabilities at fair value	-	12,144	-

(Tabular amounts expressed in thousands of dollars)

18. Fair value of financial instruments (continued):

Financial assets at fair value December 31, 2009	Level 1	Level 2	Level 3
Financial assets			
Derivative financial instruments			
Interest rate swaps	-	18,924	-
Index linked options	-	1,033	-
Forward foreign exchange contracts	-	86	-
Financial instruments - available-for-sale			
Treasury bills	-	129,012	-
Short term investments	-	326,987	-
Long term bonds	-	21,298	-
Investment in Visa	3,464	-	-
Investment in Calvert	-	-	2,594
Investment in Triodos	-	-	2,238
Investment in Ficanex	-	223	-
Asset backed commercial paper	-	-	3,125
Retained Interests in securitizations	-	-	13,410
Financial instruments -held for trading			
Asset backed commercial paper	-	-	28,167
Bank-sponsored commercial paper	-	-	2,237
Total financial assets at fair value	3,464	497,563	51,771
Financial liabilities			
Interest rate swaps	-	10,900	-
Total financial liabilities at fair value	-	10,900	-

The following table reconciles Vancity's Level 3 fair value measurements:

Fair value measurements using Level 3 inputs	2010	2009
Balance at beginning of year	$ 51,771	$ 86,517
Gain (loss) included in net income[1]	1,967	(9,246)
Loss included in OCI	(4,192)	(251)
Write-off of retained interest in repurchase of loans	-	(5,596)
Settlements	(6,714)	(19,653)
Balance at end of year	$ 42,832	51,771

[1] Gain (loss) included in net income is included as part of securitization income and impairment of securities in the consolidated statement of operations.

(Tabular amounts expressed in thousands of dollars)

19. Credit risk:

(a) 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 balance sheet, the exposure to credit risk is their stated carrying amount. For loan commitments, the maximum exposure is the full amount of the undrawn facilities.

	2010	2009
On balance sheet exposures:		
Cash and securities	$ 2,069,188	$ 2,779,072
Loans	12,120,893	11,335,284
Other	60,901	99,458
Off balance sheet exposures:		
Undrawn Lines of Credit	2,736,845	2,604,176
Commitments to Extend Credit	244,768	177,963
Undrawn credit on credit cards issued	828,372	810,522
Documentary Letters of Credit	29,568	31,792
Maximum exposure	$ 18,090,535	$ 17,838,267

(Tabular amounts expressed in thousands of dollars)

19. Credit risk (continued):

(b) Collateral and other credit enhancements:

Cash, securities and other assets have a low credit risk exposure as the majority of these assets are high quality investments with low risk counterparties. For the retail loan portfolio (includes residential mortgages and consumer loans), Vancity's underwriting methodologies and risk modeling is customer based rather than product based. Vancity reviews the customers capacity to repay the loan rather than relying exclusively on collateral, although it is an important mitigant of credit risk. Decisions on consumer loans are based on an overall assessment of credit risk utilizing a scoring model that takes into account factors such as Beacon scores and debt levels relative to income. The table below provides a distribution of Vancity's retail loans by Beacon score; however it does not take into consideration other factors that may mitigate exposure to credit risk:

Risk category	Beacon score range	2010	2009
High	less than 620	$ 427,150	$ 992,117
Medium	620 - 720	2,574,903	2,463,904
Low	more than 720	6,093,280	5,144,235
Total		$ 9,095,333	$ 8,600,256

The non-retail portfolio (includes commercial mortgages and business loans) 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, and the availability of collateral or other credit enhancements. These risk ratings can be grouped as follows:

Risk rating	Risk rating descriptions
11 - 21	Minimal to normal risk: Account is identified to be low or normal risk, requires minimal monitoring and has a low risk of default
22 - 32	Acceptable or qualified risk: Account has acceptable levels of risk with a potential for a heavier reliance on asset security. Staff activities maintain a certain level of oversight based on industry business practices
41 - 52	Account requires management involvement or is substandard: Account is identified to be of higher risk driven by a material adverse change, deterioration of the financial situation of the customer, or major security deficiencies

(Tabular amounts expressed in thousands of dollars)

19. Credit risk (continued):

(b) Collateral and other credit enhancements (continued):

The credit quality of Vancity's non-retail loans, expressed in terms of the internal risk ratings discussed above is shown in the table below:

Internal risk ratings	2010	2009
11 - 21	$ 553,913	$ 500,928
22 - 32	2,463,296	2,182,891
41 - 52	78,997	116,074
	$ 3,096,206	$ 2,799,893

Collateral for the loan portfolio is dependent on the type of loan as follows:

- Residential loans: Mortgages secured by residential real estate,
- Consumer loans: Loans secured by other personal assets pledged; and
- Commercial and business loans: Mortgages, charges over commercial or business properties or charges over other assets such as land, equipment, inventory and receivables.

Fair values of collateral held as security are not disclosed as it is not practical to do so. For loans that are neither past due nor impaired, information relative to collateral or the credit risk of the customer is regularly updated or reviewed. At December 31, 2010, Vancity held $5.1 million (2009: $5.1 million) in commercial property held for resale.

(c) Concentration of credit risk:

Concentrations of credit risk exist if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of Vancity's performance to developments affecting a particular segment of borrowers or geographic region.

Geographic credit risk exists for Vancity due to its primary service area being in the Lower Mainland of British Columbia and surrounding areas. As well, Vancity's principal subsidiary, Citizens Bank of Canada, operates primarily in British Columbia and Ontario. Vancity's loan portfolio has a geographic concentration of 99.07% (2009: 98.36%) in British Columbia. Loans outside of British Columbia are composed of 0.28% (2009: 1.31%) in Ontario, 0.16% (2009: 0.33%) in Alberta, and 0.49% (2009: 0%) in others.

To reduce the impact of the geographic credit risk, Vancity has insured approximately 21% (2009: 22%) of its residential mortgages.

(Tabular amounts expressed in thousands of dollars)

20. Commitments and contingencies:

(a) Credit commitments:

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

	2010	2009
Undrawn lines of credit	$ 2,736,845	$ 2,604,176
Commitments to extend credit	244,768	177,963
Undrawn credit on credit cards issued	828,372	810,522
Documentary letters of credit	29,568	31,792
	$ 3,839,553	$ 3,624,453

(b) Deposit commitments:

Under governing legislation, Vancity maintains, for liquidity purposes, deposits with Central 1. Liquidity deposits totaled $1.8 billion at December 31, 2010 (2009 $2.1 billion). Vancity did not have any deposit commitments with Central 1 to lock in future rates (2009:$nil).

(c) Pledged assets:

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.

(Tabular amounts expressed in thousands of dollars)

20. Commitments and contingencies (continued):

(c) Pledged assets (continued):

The following tables summarize Vancity's pledged assets, to whom they are pledged and in relation to what activity.

	2010	2009
Cash	$ 5,100	$ 5,100
Securities	5,957	5,974
Mortgages	165,000	165,000
General charge	1,654,000	1,654,000
Total assets pledged	$ 1,830,057	$ 1,830,074
Assets pledged to, or charged against by:		
Central 1 Credit Union	$ 1,202,991	$ 1,202,994
Other financial institutions	627,066	627,080
	$ 1,830,057	$ 1,830,074
Assets pledged in relation to:		
Clearing facilities	$ 6,000	$ 6,000
Standby credit facilities	1,577,000	1,577,000
Derivative contracts	5,100	5,100

(d) Guarantees:

As part of its regular operations, Vancity issues performance guarantees for its development projects. At December 31, 2010, Vancity has an outstanding performance guarantee with the City of Victoria in the amount of $6.0 million (2009: $7.2 million). In addition, Vancity has a commitment to the City of Victoria to subsidize affordable housing in a development project. At December 31, 2010, the value of this commitment is estimated at $3.3 million (2009: $3.3 million).

(e) Restricted cash:

In connection with its development projects, Vancity is holding restricted cash in the amount of $910,000 (2009: $1,000) related to construction holdbacks and $nil (2009 - $186,000) related to deposits on housing sales not yet conveyed.

Included in cash and non interest bearing deposits with financial institutions are restricted funds from third parties totaling $8.9 million (2009: $6.2 million). These amounts are being held in respect of specific lending programs and if unused, are repayable at the termination of the lending program.

(f) Contingencies:

In the ordinary course of business, Vancity has legal proceedings brought against it and provisions have been included in liabilities where appropriate. Based on current knowledge, Vancity expects that the final determination of these claims will not have a material adverse effect on its consolidated financial position or operating results.

(Tabular amounts expressed in thousands of dollars)

20. Commitments and contingencies (continued):

(g) Lease commitments:

Vancity has leases on certain branch premises for terms extending to 2018. The future minimum lease payments for each of the next five fiscal years and thereafter are as follows:

2011	$ 10,801
2012	10,301
2013	8,801
2014	4,818
2015 and thereafter	9,488
	$ 44,209

(h) Legacy fund commitment:

Vancity has committed to making a $5.0 million contribution to the Greater Victoria Savings Credit Union Legacy Fund and has paid a cumulative total of $3.4 million (2009:$1.1 million). The remaining balance will be paid in eight annual installments of $194,000 commencing 2011.

21. Other information:

Loans are advanced to employees at interest rates that range from market rates for Vancity's best members to half posted rates on five year terms. In addition, Vancity advances interest free personal loans to employees to purchase computers.

Employee loans are recorded at their fair value on the consolidated balance sheet with the difference between market values and carrying values being recognized as salary expense on the consolidated statement of operations.

As at December 31, 2010, the outstanding loans to employees amounted to:

	Fair value		Book value	
	2010	2009	2010	2009
Residential mortgages	$ 282,503	$ 277,009	$ 286,194	$ 282,297
Personal loans	10,368	11,458	10,368	11,458
	$ 292,871	$ 288,467	$ 296,562	$ 293,755

(Tabular amounts expressed in thousands of dollars)

22. Accumulated other comprehensive income (AOCI):

AOCI is comprised of the following:

December 31, 2010	Opening balance	Net change	Ending balance
Gains (losses) on derivative instruments designated as cash flow hedges	$ 11,065	$ (5,884)	$ 5,181
Unrealized gains (losses) on available for sale securities	882	405	1,287
AOCI	$ 11,947	$ (5,479)	$ 6,468

December 31, 2009	Opening balance	Adoption of EIC 173 (note 3)	Net change	Ending balance
Gains (losses) on derivative instruments designated as cash flow hedges	$ 18,802	$ (3,581)	$ (4,156)	$ 11,065
Unrealized gains (losses) on available for sale securities	2,116	-	(1,234)	882
AOCI	$ 20,918	$ (3,581)	$ (5,390)	$ 11,947