A construction worker wearing a tan jacket, black cap, and tool belt is shown in profile, working with wooden framing on a construction site. The background is slightly blurred, showing structural elements and bright light filtering through.

2011 Annual Report  
Complete consolidated  
financial statements  
of Vancity

**Vancity**  
Make Good Money.™

## Complete Consolidated Financial Statements: **Arlington Grove Housing Co-op**

Providing affordable community housing for people with varied levels of income is never easy in a city like Vancouver. But with the help of Vancity, one not-for-profit housing co-operative has been able to improve its property, lower energy costs for its members and reduce its impact on the environment.

Arlington Grove Housing Co-operative has installed new heating and domestic hot water systems, fencing, siding, and exterior doors with flexible, tailored financing of up to \$1.3 million from Vancity. The new heating and hot water system is saving members as much as 50 per cent on their gas bills.

“I never thought it would be so straightforward,” says Suzanne Black, Arlington Grove’s maintenance coordinator and Board of Directors member. “The one thing I can’t stress enough is how pleased we are with Vancity’s customer service. The result is that housing charges need not be increased and our members are going to be safer and they’re going to have lower utility bills. Everybody won in this arrangement.”

Consolidated Financial Statements of

**VANCOUVER CITY SAVINGS  
CREDIT UNION**

Year ended December 31, 2011



**KPMG LLP**  
**Chartered Accountants**  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada

Telephone (604) 691-3000  
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Internet [www.kpmg.ca](http://www.kpmg.ca)

## **INDEPENDENT AUDITORS' REPORT**

To the Members of Vancouver City Savings Credit Union

We have audited the accompanying consolidated financial statements of Vancouver City Savings Credit Union, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of operations, comprehensive income, changes in members' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditors' Responsibility**

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

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

We believe that the audit evidence we have obtained in our audits 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, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

*KPMG LLP*

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that extends to the right, serving as a signature line.

Chartered Accountants

March 1, 2012  
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 International Financial Reporting Standards.

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 six 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**



Rob Malli

**Chief Financial Officer**

March 1, 2012

# VANCOUVER CITY SAVINGS CREDIT UNION

## Consolidated Balance Sheet

(Expressed in thousands of dollars)

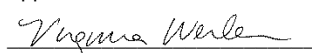
December 31, 2011, with comparative figures for December 31, 2010 and January 1, 2010

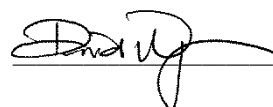
	Note	December 31, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>				
Cash and cash equivalents		\$ 116,025	\$ 208,689	\$ 144,737
Interest bearing deposits with financial institutions		2,083,277	1,804,231	2,119,602
Financial assets:	5			
Fair value through profit or loss		242,958	36,714	30,404
Available-for-sale		178,030	61,673	524,684
		420,988	98,387	555,088
Accrued interest receivable		14,374	8,832	11,175
Derivative instruments	6	19,258	23,506	20,043
Loans and advances to members:	7			
Residential mortgages		7,143,071	6,831,727	6,610,652
Commercial mortgages		1,760,774	1,454,661	1,272,422
Consumer loans		2,695,666	2,638,598	2,610,122
Business loans		1,709,245	1,642,950	1,527,471
Accrued interest receivable		23,935	24,756	24,141
Allowance for credit losses		(83,586)	(96,902)	(89,006)
		13,249,105	12,495,790	11,955,802
Premises and equipment	8(a)	94,226	95,861	80,739
Intangibles	8(b)	22,750	11,687	2,842
Inventory	9	15,091	23,916	30,562
Investment property	10	1,588	1,232	1,864
Current tax assets		7,762	-	-
Deferred tax assets	11(c)	42,161	31,751	31,076
Assets held for sale	12	-	5,076	5,076
Retirement benefit asset	13	-	1,039	1,318
Other assets	14	40,512	36,921	67,347
<b>Total assets</b>		<b>\$ 16,127,117</b>	<b>\$ 14,846,918</b>	<b>\$ 15,027,271</b>
<b>Liabilities and Members' Equity</b>				
Deposits from members:				
Demand deposits		\$ 4,451,342	\$ 4,197,454	\$ 3,981,827
Term deposits		8,709,949	8,313,020	8,145,344
Shares	15	106,402	101,794	101,105
Accrued interest and dividends payable		98,107	80,383	91,476
		13,365,800	12,692,651	12,319,752
Derivative instruments	6	38,139	12,144	10,900
Borrowings:				
Secured borrowings	16	181,698	376,198	623,757
Wholesale borrowings		1,458,855	731,356	1,150,845
Accrued interest payable		1,740	1,235	4,319
		1,642,293	1,108,789	1,778,921
Accounts payable and accrued liabilities		187,254	205,656	184,052
Provisions	17	5,501	5,839	4,358
Current tax liabilities		-	10,826	6,625
Retirement benefit obligation	13(a)	44,272	32,170	25,425
Other liabilities		8,884	9,575	6,248
<b>Total liabilities</b>		<b>15,292,143</b>	<b>14,077,650</b>	<b>14,336,281</b>
Members' equity:				
Capital and reserves attributable to members:				
Contributed surplus		29,275	29,275	29,275
Retained earnings		815,889	732,884	649,755
Accumulated other comprehensive income		(10,190)	7,109	11,960
<b>Total members' equity</b>		<b>834,974</b>	<b>769,268</b>	<b>690,990</b>
<b>Total liabilities and members' equity</b>		<b>\$ 16,127,117</b>	<b>\$ 14,846,918</b>	<b>\$ 15,027,271</b>

Commitments and contingencies (Note 28)

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

Approved on behalf of the Board:





# VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Operations  
(Expressed in thousands of dollars)

Year ended December 31, 2011, with comparative figures for 2010

	Note	2011	2010
Interest income		\$ 601,160	\$ 572,930
Interest expense		246,794	218,278
Net interest income	18	354,366	354,652
Loan impairment expense	7(b)	18,003	27,228
Fee and commission income		100,344	94,338
Fee and commission expense		29,924	23,547
Net fee and commission income	19	70,420	70,791
Hedge ineffectiveness on cash flow hedges		(2)	16
Real estate development income		2,681	2,866
Net gains on financial assets		319	6,888
Other income		1,595	3,064
		4,593	12,834
Total operating income		411,376	411,049
Operating expenses:			
Salary and employee benefits	20	166,792	163,800
Occupancy and equipment		39,735	36,953
General and administrative	21	73,765	71,676
		280,292	272,429
Gains from business reorganization and other		-	259
Net earnings from operations before distribution and tax		131,084	138,879
Distribution to community and members	22	28,404	24,856
Net earnings from operations before tax		102,680	114,023
Income tax expense	11(a)	11,994	27,810
Net earnings from operations		\$ 90,686	\$ 86,213

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

# VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Net earnings from operations	\$ 90,686	\$ 86,213
Other comprehensive income (losses) for the year, net of tax:		
Net gains on available-for-sale financial assets:		
Unrealized gains arising during the year, net of tax expense of \$474 (2010 – tax expense of \$169)	2,609	455
Amount transferred to the statement of operations, net of tax recovery of \$133 (2010 – tax recovery of \$4)	(734)	(11)
	1,875	444
Cash flow hedges:		
Effective portion of changes in fair value, net of tax recovery of \$2,555 (2010 – tax expense of \$900)	(14,065)	2,433
Amount transferred to the statement of operations, net of tax recovery of \$928 (2010 – tax recovery of \$2,860)	(5,109)	(7,728)
	(19,174)	(5,295)
Unrealized losses on pension assets and benefits, net of tax recovery of \$2,234 (2010 – tax recovery of \$1,141)	(7,681)	(3,084)
Other comprehensive losses for the year	(24,980)	(7,935)
Comprehensive income attributable to members	\$ 65,706	\$ 78,278

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

# VANCOUVER CITY SAVINGS CREDIT UNION

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

December 31, 2011, with comparative figures for 2010

	Contributed surplus	AOCI Hedging reserve	AOCI Fair value reserve	Retained earnings	Total members' equity
Balance at January 1, 2011	\$ 29,275	\$ 5,770	\$ 1,339	\$ 732,884	\$ 769,268
Net earnings from operations	-	-	-	90,686	90,686
Other comprehensive income (losses) for the year, net of tax:					
Net gains on available-for-sale financial assets:					
Net unrealized gains arising during the year	-	-	2,609	-	2,609
Net amount transferred to the statement of operations	-	-	(734)	-	(734)
	-	-	1,875	-	1,875
Cash flow hedges:					
Effective portion of changes in fair value	-	(14,065)	-	-	(14,065)
Net amount transferred to the statement of operations	-	(5,109)	-	-	(5,109)
	-	(19,174)	-	-	(19,174)
Net unrealized losses on pension assets and benefits				(7,681)	(7,681)
Other comprehensive losses for the year	-	(19,174)	1,875	(7,681)	(24,980)
Total comprehensive income attributable to members	-	(19,174)	1,875	83,005	65,706
Balance at December 31, 2011	\$ 29,275	\$ (13,404)	\$ 3,214	\$ 815,889	\$ 834,974

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

# VANCOUVER CITY SAVINGS CREDIT UNION

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

December 31, 2011, with comparative figures for 2010

	Contributed surplus	AOCI Hedging reserve	AOCI Fair value reserve	Retained earnings	Total members' equity
Balance at January 1, 2010	\$ 29,275	\$ 11,065	\$ 895	\$ 649,755	\$ 690,990
Net earnings from operations	-	-	-	86,213	86,213
Other comprehensive income (loss) for the year, net of tax:					
Net gains on available-for-sale financial assets:					
Net unrealized gains arising during the year	-	-	455	-	455
Net amount transferred to the statement of operations	-	-	(11)	-	(11)
	-	-	444	-	444
Cash flow hedges:					
Effective portion of changes in fair value	-	2,433	-	-	2,433
Net amount transferred to the statement of operations	-	(7,728)	-	-	(7,728)
	-	(5,295)	-	-	(5,295)
Net unrealized losses on pension assets and benefits	-	-	-	(3,084)	(3,084)
Other comprehensive losses for the year	-	(5,295)	444	(3,084)	(7,935)
Total comprehensive income attributable to members	-	(5,295)	444	83,129	78,278
Balance at December 31, 2010	\$ 29,275	\$ 5,770	\$ 1,339	\$ 732,884	\$ 769,268

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

# VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Cash flow from operating activities:		
Net earnings from operations before distribution and tax	\$ 131,084	\$ 138,879
Adjustments for non-cash items:		
Loan impairment expense	18,003	27,228
Other comprehensive loss	(24,980)	(7,935)
Depreciation of premises and equipment	12,336	11,339
Amortization of intangibles	1,702	859
Depreciation of investment property	19	-
Net gains on financial assets at fair value through profit or loss and available-for-sale	(319)	(6,888)
Realized and unrealized gains on available-for-sale financial assets	(2,216)	(609)
Net gains on disposition of assets held for sale	(207)	-
Income tax expenses	(11,994)	(27,810)
	123,428	135,063
Change in derivative instruments	30,243	(2,219)
Change in current tax assets and liabilities	(18,588)	4,201
Change in deferred tax assets	(10,410)	(675)
Change in other assets	(3,591)	30,426
Change in accounts payable and accrued liabilities	(18,402)	21,604
Change in provisions, including pensions	12,803	8,505
Change in other liabilities	(691)	3,327
Net cash generated from operating activities	114,792	200,232
Cash flow from investing activities:		
(Purchase of) proceeds from disposition of interest bearing deposits with financial institutions	(279,046)	315,371
(Purchase of) proceeds from disposition of financial assets at fair value through profit or loss and available-for-sale	(320,066)	464,198
Change in accrued interest receivable	(5,542)	2,343
Change in loans and advances to members	(771,318)	(567,216)
Purchase of premises and equipment	(21,503)	(26,466)
Disposal of premises and equipment	10,802	5
Purchase of intangibles	(12,765)	(9,704)
(Purchase of) proceeds from disposition of investment property	(375)	632
Change in inventory	8,825	6,646
Proceeds from disposition of assets held for sale	5,283	-
Net cash (used) generated in investing activities	(1,385,705)	185,809
Cash flow from financing activities:		
Change in deposits from members	650,817	383,303
Change in shares	4,608	689
Change in accrued interest and dividends payable	17,724	(11,093)
Secured borrowings repayment	(194,500)	(247,559)
Change in wholesale borrowings	727,499	(419,489)
Change in accrued interest payable on borrowings	505	(3,084)
Distributions to community and members	(28,404)	(24,856)
Net cash generated (used) from financing activities	1,178,249	(322,089)
Cash and cash equivalents at the beginning of the year	208,689	144,737
Net cash (decrease) increase in cash and cash equivalents	(92,664)	63,952
Cash and cash equivalents at the end of the year	\$ 116,025	\$ 208,689
Supplementary information:		
Income taxes paid	\$ 29,681	\$ 23,184
Interest paid	230,292	232,721
Interest received	596,440	574,658

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

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2011

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## 1. General information:

Vancouver City Savings Credit Union ("VCS") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia ("FIA"). VCS serves members principally in the Lower Mainland of British Columbia and Victoria. Citizens Bank of Canada ("the Bank"), the principal subsidiary of VCS, is federally incorporated and its operations are regulated by the Office of the Superintendent of Financial Institutions ("OSFI"). The Bank serves customers across Canada with its main operations in British Columbia and Ontario. VCS is an integrated financial institution that provides a wide range of financial products and services.

The consolidated financial statements as at and for the year ended December 31, 2011 comprise VCS and its subsidiaries (hereinafter together referred to as "Vancity"). Vancity is domiciled in Canada and its registered office is 183 Terminal Avenue, Vancouver, British Columbia.

## 2. Basis of presentation:

### (a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies applied in the preparation of the consolidated financial statements are set out in Note 3 below. The consolidated financial statements comply with the requirements of IFRS, as detailed in Note 2(e). These requirements have been applied consistently for the years ended December 31, 2011 and 2010. Additionally, the Bank must also adhere to accounting requirements of OSFI, which conform in all material respects to IFRS.

### (b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets, financial assets and financial liabilities accounted for at fair value through profit or loss and all derivative financial instruments, which are measured at fair value.

### (c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is Vancity's functional currency. The figures shown in the consolidated financial statements are expressed in thousands of dollars, unless otherwise stated.

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2011

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## 2. Basis of presentation (continued):

### (d) Use of estimates and judgments:

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

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

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

### (e) Basis of transition to IFRS:

Vancity's consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP") up to and including December 31, 2010, and restated using IFRS for these consolidated financial statements. The financial reporting requirements of CGAAP differ in a number of areas from those prescribed by IFRS. Vancity's consolidated financial statements for the year ended December 31, 2011 are the first annual consolidated financial statements prepared in compliance with IFRS. Vancity's transition date to IFRS was January 1, 2010 and accordingly, Vancity prepared its opening IFRS consolidated balance sheet as at that date and has complied with IFRS 1 – *"First-time Adoption of International Financial Reporting Standards"* ("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 these consolidated financial statements in accordance with IFRS 1, Vancity has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

In preparing Vancity's consolidated financial statements for the year ended December 31, 2011, management has amended certain accounting policies previously applied in the CGAAP consolidated financial statements to comply with specific IFRS requirements. A reconciliation of the impact of the transition from CGAAP to IFRS, on Vancity's consolidated statements of changes in members' equity and operations, with accompanying narrative explanations, has been provided in Note 31.

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2011

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### 3. Summary of significant accounting policies:

(a) Consolidation:

The consolidated financial statements include the assets, liabilities and the results of operations and cash flows of VCS 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. ("VCE"), Vancity Life Insurance Services Ltd., SCU Insurance Services Ltd., Squamish Insurance Agencies Ltd., Vancity Investment Management Ltd. and Dockside Green Limited Partnership ("DGLP").

A special purpose entity ("SPE") is created to accomplish a narrow and well-defined objective. A SPE is consolidated if, based on an evaluation of the substance of its relationship with Vancity and the SPE's risks and rewards, Vancity concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, Vancity controls and consequently consolidates an SPE:

- (i) The activities of the SPE are being conducted on behalf of Vancity according to its specific business needs so that Vancity obtains benefits from the SPE's operation.
- (ii) Vancity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE.
- (iii) Vancity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- (iv) Vancity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Based on Vancity's assessment, Dockside Green Energy Limited Liability Partnership ("DGELLP") qualifies as a SPE and is fully consolidated in the results of Vancity. Under CGAAP, Vancity consolidated DGELLP as a variable interest entity.

Intra-entity balances, and income and expenses arising from intra-entity transactions, are eliminated in preparing the consolidated financial statements. Intra-entity losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2011

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### 3. Summary of significant accounting policies (continued):

(b) Foreign currency translation:

Transactions in foreign currencies are translated to the functional currency of Vancity at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on translation are recognized in the consolidated statement of operations, except for differences arising on the translation of available for sale equity instruments, or qualifying cash flow hedges, which are recognized in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Cash and cash equivalents:

Cash and cash equivalents comprise balances with less than three months maturity from the original date of issuance, including cash in hand, cheques and other items in transit with original maturities of three months or less.

(d) Inventory:

Inventory at DGLP and VCE includes land and capitalized cost on properties under development. All inventory is considered current in nature; however, the operational cycle of property development is such that a portion of the inventory will not be realized within 12 months.

Inventory is stated at the lower of cost and estimated net realizable value. Cost comprises direct materials, direct and subcontract labour and overhead that has been incurred in bringing inventories to their present location and condition. Net realizable value represents the estimated income less all estimated costs of completion.

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2011

---

### 3. Summary of significant accounting policies (continued):

(e) Financial assets and liabilities; categorization, measurement and recognition:

(i) Financial assets:

Management determines the categorization of its financial assets at initial recognition. Vancity initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets, including assets designated at fair value through profit or loss ("FVTPL"), are recognized initially on the trade date at which Vancity becomes a party to the contractual provisions of the instrument. Vancity's financial assets are categorized as one of the following: financial assets at FVTPL, loans and receivables, and financial assets available-for-sale ("AFS").

#### Financial assets at FVTPL

This category comprises financial assets classified as FVTPL and financial assets designated by Vancity at FVTPL upon initial recognition.

A financial asset is required to be classified as FVTPL if it is acquired principally for the purpose of selling it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative instruments are also categorized as FVTPL unless they are designated and are effective as hedging instruments in a hedge accounting relationship. Gains and losses on assets classified as FVTPL are recorded in net earnings.

During the year ended December 31, 2011, Vancity designated \$207 million of financial assets at FVTPL upon initial recognition. At December 31, 2010, Vancity did not have any financial assets designated as FVTPL.

#### Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that Vancity intends to sell immediately or in the short term, which are classified as FVTPL, and those that Vancity upon initial recognition designates as FVTPL; (ii) those that Vancity upon initial recognition designates as AFS; or (iii) those for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration.

Loans and receivables are recorded at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

Vancity's loans and receivables principally consist of loans and advances to members and other receivables.

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2011

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### 3. Summary of significant accounting policies (continued):

(e) Financial assets and liabilities; categorization, measurement and recognition (continued):

(i) Financial assets (continued):

#### Financial assets available-for-sale:

AFS assets are those non-derivative financial assets that are:

- (i) designated as AFS;
- (ii) are not classified or designated as FVTPL; or
- (iii) do not qualify as loans and receivables.

AFS assets are recorded at fair value. Unrealized gains and losses arising from changes in the fair value of AFS financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired, except for foreign currency translation differences on monetary AFS assets which are recognized immediately in the consolidated statement of operations. As a result of the derecognition or impairment of an AFS investment, the cumulative gain or loss previously recognized in the consolidated statement of comprehensive income is recognized in the consolidated statement of operations.

Interest income on monetary AFS assets is calculated using the effective interest method and is recognized in the consolidated statement of operations. Dividends on AFS equity instruments are recognized in the consolidated statement of operations when Vancity's right to receive payment is established.

Vancity's AFS assets consist of certain holdings of asset backed commercial paper ("ABCP"), treasury bills, long term bonds, banker's acceptances, bonds and equity investments.

(ii) Financial liabilities:

Management determines the categorization of its financial liabilities at initial recognition. Vancity initially recognizes financial liabilities (including liabilities designated at FVTPL) on the trade date at which Vancity becomes a party to the contractual provisions of the instrument. Financial liabilities are categorized as either FVTPL or financial liabilities at amortized cost. Financial liabilities are derecognized when extinguished.

#### Financial liabilities at FVTPL:

Financial liabilities are designated or classified by Vancity as FVTPL upon initial recognition.

A financial liability is required to be classified as FVTPL if it is incurred principally for the purpose of repurchasing it in the near term or if it is part of a portfolio of identified financial liabilities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as FVTPL unless they are designated and are effective hedging instruments in a hedge accounting relationship. Gains and losses on financial liabilities designated or classified as FVTPL are recorded in net earnings.

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### 3. Summary of significant accounting policies (continued):

(e) Financial assets and liabilities; categorization, measurement and recognition (continued):

(ii) Financial liabilities (continued):

#### Financial liabilities at FVTPL (continued):

At December 31, 2011 and 2010, Vancity did not have any financial liabilities designated as FVTPL.

#### Financial liabilities at amortized cost:

Financial liabilities that are not classified as FVTPL fall into this category and are measured at amortized cost. Financial liabilities consist of accounts payable, deposits and member shares. These are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

(iii) Fair value of financial instruments:

The best evidence of fair value at initial recognition are prices quoted in an active market. Fair values of financial instruments quoted in active markets are determined by reference to closing bid prices at the reporting date. If there is no active market for a financial instrument, Vancity establishes fair value using an appropriate valuation technique. These techniques principally include the use of recent arm's length transactions for investments in unquoted securities, discounted cash flow analysis for derivatives and certain ABCP investments, third-party option pricing models for index-linked option contracts and other valuation techniques commonly used by market participants.

Fair values reflect the credit risk of the instruments and include relevant adjustments to take account of the credit risk of Vancity and the counterparty. Fair value estimates obtained from models are adjusted for other factors, such as liquidity risk or model uncertainties; to the extent that Vancity believes a third-party market participant would take them into account in pricing a transaction. Fair values determined by applying valuation techniques utilize independent observable market inputs to the maximum extent possible.

(iv) Impairment of financial assets (see also Note 31(d)(3)):

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

# VANCOUVER CITY SAVINGS CREDIT UNION

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### 3. Summary of significant accounting policies (continued):

(e) Financial assets and liabilities; categorization, measurement and recognition (continued):

(iv) Impairment of financial assets (see also Note 31(d)(3)) (continued):

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

#### Financial assets classified as loans and receivables:

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

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

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

# VANCOUVER CITY SAVINGS CREDIT UNION

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### 3. Summary of significant accounting policies (continued):

(e) Financial assets and liabilities; categorization, measurement and recognition (continued):

(iv) Impairment of financial assets (see also Note 31(d)(3)) (continued):

#### Financial assets classified as loans and receivables (continued):

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

Loans that were past due and either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

#### Assets classified as available-for-sale:

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

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

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### 3. Summary of significant accounting policies (continued):

(f) Foreclosed property:

In certain circumstances, Vancity may take possession of property held as collateral as a result of foreclosure on loans that are in default. Foreclosed properties are classified as assets held for sale and are measured at the lower of the carrying amount and the fair value less costs to sell.

Vancity does not, as a rule, occupy repossessed properties for its business use. These assets are normally sold in a manner that maximizes the benefit to Vancity, the member and the member's other creditors and may involve the use of realtors and auctioneers.

(g) Derivative instruments and hedge accounting:

Derivative instruments are financial contracts whose value changes in response to a change in a specified interest rate, exchange rate or other variable, provided in the case of a non-financial variable, the variable is not specific to a party to the contract. Derivative contracts usually have no initial net investment or a net investment which would be smaller than a non-derivative contract and are settled at a future date.

Derivatives are initially recognized at fair value on the date which a derivative contract is entered into. They are subsequently re-measured at their fair value and reported as assets where they have a positive fair value or as liabilities where they have a negative fair value.

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

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

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

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

# VANCOUVER CITY SAVINGS CREDIT UNION

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### 3. Summary of significant accounting policies (continued):

(h) Cash flow hedges:

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

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

(i) Derecognition of financial instruments:

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

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

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

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### 3. Summary of significant accounting policies (continued):

(j) Offsetting financial instruments:

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

(k) Interest income and expenses:

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

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

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

- (i) Interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis;
- (ii) Interest on available for sale investment securities calculated on an effective interest basis;
- (iii) The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income / expense;
- (iv) Fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk; and
- (v) Gains or losses on economic hedges.

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### 3. Summary of significant accounting policies (continued):

(l) Fee and commission income:

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. 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 over the expected term of the loan, unless the loan commitment will not be used. Loan discharge and administration fees are recorded directly to fee and commission income when the loan transaction is complete. Loan syndication fees are included in fee and commission income when the syndication is completed and Vancity has retained no part of the package for itself or if part has been retained it bears the same effective interest as other participants.

Loan fees that are recognized using the effective interest method are included with loan balances in the consolidated balance sheet.

(m) Premises and equipment:

(i) Recognition and measurement:

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

(ii) Subsequent costs:

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

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

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### 3. Summary of significant accounting policies (continued):

(m) Premises and equipment (continued):

(iii) Depreciation:

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

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

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The residual values and useful lives of premises and equipment are reviewed, and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in occupancy and equipment expense in the consolidated statement of operations.

(n) Intangibles:

(i) Computer software:

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

(ii) ICBC licences:

ICBC licences were acquired by Squamish Insurance Agencies Ltd. to issue insurance coverage to members. The licences allow the brokers to sell insurance as well as optional coverage indefinitely; hence the licences have an indefinite life. They are stated at cost less impairment if any. A review for impairment is conducted on an annual basis by comparing the cost with the market value.

# VANCOUVER CITY SAVINGS CREDIT UNION

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### 3. Summary of significant accounting policies (continued):

(o) Investment property:

Investment properties are properties held to earn rentals and/or for capital appreciation, rather than for sale or use in the business. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method to allocate the costs to the residual values over the estimated useful lives, which ranges from 20 to 40 years.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gains or losses arising from the retirement or disposal of the property are determined as the difference between the net disposal proceeds and the carrying amount of the assets. Gains or losses are recognized in the consolidated statement of operations in the period of the retirement or disposal.

(p) Assets held for sale:

Assets are classified as held for sale when their carrying amounts will be recovered principally through sale within 12 months. They are measured at the lower of the carrying amount and the fair value less costs to sell. Assets held for sale are not depreciated.

(q) Leased assets:

Leases for which Vancity assumes or relinquishes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Operating leases are not recognized in Vancity's consolidated balance sheet when Vancity is the lessee. Investment property held under an operating lease, whereby Vancity is the lessor, is recognized in Vancity's consolidated balance sheet at cost less accumulated depreciation.

(r) Income taxes:

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

(i) Current tax:

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

# VANCOUVER CITY SAVINGS CREDIT UNION

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### 3. Summary of significant accounting policies (continued):

(r) Income tax (continued):

(ii) Deferred tax:

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

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

(s) Employee benefits:

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

(i) Defined benefit pension plans:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognized in Vancity's consolidated balance sheet in respect of its defined benefit pension plans is the present value of the defined benefit obligation at the date of the consolidated balance sheet less the fair value of plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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### 3. Summary of significant accounting policies (continued):

(s) Employee benefits (continued):

(i) Defined benefit pension plans (continued):

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in other comprehensive income and are not recognized to the consolidated statement of operations. Past service costs are recognized immediately in the consolidated statement of operations, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

(ii) Post-employment health care benefits:

Vancity operates a number of post-employment health care benefit plans. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension plans.

(iii) Defined contribution pension plans:

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

(iv) Participation in multi-employer pension plans (the "Plan"):

Vancity provides defined retirement benefits to certain employees through a multi-employer plan administered by Central 1 Credit Union ("Central 1"). Each member credit union is exposed to the actuarial risks of the other employers with the result that, in Vancity's opinion, there is no reasonable way to allocate any defined benefit obligations. The Plan has informed Vancity that they are unable to provide defined benefit information on a discrete employer basis as the investment records are not tracked by individual employer and each employer is exposed to the actuarial risks of the Plan as a whole. Accordingly, Vancity's participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis. Vancity has provided additional disclosure on the overall funding status of the multi-employer plan and future contribution levels in Note 13.

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### 3. Summary of significant accounting policies (continued):

(t) Related parties:

A related party is a person or an entity that is related to Vancity.

(i) A person or a close member of that person's family is related to Vancity if that person:

- (1) Has control or joint control over Vancity, with the power to govern Vancity's financial and operating policies;
- (2) Has significant influence over Vancity, participating in financial or operating policy decisions, but not control over these policies; or
- (3) Is a member of the key management personnel of Vancity. Key management personnel, consistent with the definition under IAS 24 – "*Related Parties*", are persons having authority and responsibility for planning, directing and controlling the activities of Vancity, directly or indirectly, including any director (whether executive or otherwise) of Vancity.

(ii) An entity is related to Vancity if any of the following conditions applies:

- (1) The entity and Vancity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (3) Both entities are joint ventures of the same third party;
- (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (5) The entity is a post-employment benefit plan for the benefit of employees of either Vancity or an entity related to Vancity;
- (6) The entity is controlled or jointly controlled by a person identified in (i) above; or
- (7) A person identified in (i)(1) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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### 3. Summary of significant accounting policies (continued):

(u) Provisions:

A provision is recognized if, as a result of a past event, Vancity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by Vancity from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, Vancity recognizes any impairment loss on the assets associated with the contract.

(v) Distribution to members:

Patronage rebates and dividends are recorded as a distribution to community and members when declared in the consolidated statement of operations.

(w) Comparatives:

Except when IFRS permits or requires otherwise, all amounts are reported or disclosed with comparative information.

(x) Standards and interpretations issued but not yet effective:

At December 31, 2011, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these consolidated financial statements. The following is expected to have a significant effect on Vancity's consolidated financial statements:

IFRS 9: Financial instruments

IFRS 9 *Financial Instruments*, published on November 12, 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

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### 3. Summary of significant accounting policies (continued):

- (x) Standards and interpretations issued but not yet effective (continued):

*IFRS 9: Financial instruments (continued):*

The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

The standard is effective for annual periods beginning on or after January 1, 2015. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's project to replace IAS 39. As a result, it is impracticable to quantify the impact of IFRS 9 as at the date of publication of these consolidated financial statements.

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 4. Use of estimates and judgments:

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Vancity's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

### (a) Impairment losses on loans and advances:

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

### (b) Fair value of financial instruments:

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using specific valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or by using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. To the extent practical, models use only market observable data; however, areas such as credit risk (both Vancity's credit risk and counterparty risk) and correlations require management to make estimates.

Vancity has certain investments in ABCP which have been classified as FVTPL due to the fact that the ABCP includes embedded derivatives for which the fair value is not readily determinable if separated. Vancity has developed a discounted cash flow model to determine the fair value of this ABCP. 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. Continuing uncertainties regarding the value of assets that underlie the ABCP and the nature of the current third-party non-bank sponsored ABCP restructuring process could give rise to a further change in the value of the ABCP.

Up until the end of 2010, due to the limited market for certain investments in ABCP, Vancity used a discounted cash flow valuation model in order to determine the best fair value estimate. Based on improved market conditions and observed improved liquidity of these ABCP investments, Vancity transitioned to a valuation model based on market quotes in 2011.

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 4. Use of estimates and judgments (continued):

### (c) Securitizations and derecognition of transferred financial instruments:

Vancity transfers residential and commercial mortgages to third party SPEs either directly or through an initial transfer to intermediary financial institutions that are eligible, authorized transferors approved by the SPE. The SPE then issues securities to third party investors.

Depending on the contractual arrangements, Vancity may not derecognize the securitized residential mortgages and may instead recognize a secured borrowing, recognize only a portion of the assets up to Vancity's remaining involvement in those assets, or may derecognize the assets and recognize, as separate assets or liabilities any rights and obligations constituted or retained in the transfer. In assessing the derecognition criteria, management is often required to make judgments as to the extent to which cash flows are transferred and any continuing exposure to risks and rewards of the transferred receivables. Vancity has disclosed the accounting treatment for securitizations entered into during the year ended December 31, 2011 in Note 16.

### (d) Retirement benefits:

The present value of retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

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

### (e) Income taxes:

Vancity computes an effective tax rate which includes an evaluation of the small business rate eligible to credit unions under the Income Tax Act. This small business rate applies until retained earnings reach five percent of amounts owing to members, including deposits and shares. An estimate of deposit, share and income growth based on the modeling of the Vancity business plan inclusive of economic indicators provides the basis in determining the small business rate.

This rate forms the effective tax rate used in computing the income tax provision. However, the actual amounts of income tax expense do not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements. To the extent that estimates differ from the final tax returns, net earnings would be affected in the subsequent year.

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 5. Financial assets:

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

December 31, 2011	Effective yield	Within 1 year	1 to 5 years	Over 5 years	Total fair value
Financial assets at fair value through profit or loss:					
MAV II notes	0.00%	\$ -	\$ -	\$ 34,699	\$ 34,699
Superior Trust notes	0.00%	-	-	2,390	2,390
Other securities	2.77%	-	205,869	-	205,869
Total financial assets at fair value through profit or loss		\$ -	\$ 205,869	\$ 37,089	\$ 242,958
Financial assets available-for-sale:					
Securities issue or guaranteed by Canadian federal government	0.98%	27,303	1,555	-	28,858
MAV III notes	0.00%	-	-	2,152	2,152
Central 1 shares	4.32%	-	-	54,686	54,686
Long term bonds	1.54%	49,697	24,937	-	74,634
Other securities	0.73%	8,541	-	9,159	17,700
Total financial assets available-for-sale		\$ 85,541	\$ 26,492	\$ 65,997	\$ 178,030
December 31, 2010					
Financial assets fair value through profit or loss:					
MAV II notes	0.00%	\$ -	\$ -	\$ 33,527	\$ 33,527
Superior Trust notes	0.00%	-	-	2,441	2,441
Other securities	2.00%	746	-	-	746
Total financial assets fair value through profit or loss		\$ 746	\$ -	\$ 35,968	\$ 36,714
Financial assets available-for-sale:					
Securities issue or guaranteed by Canadian federal government	0.85%	17,245	-	-	17,245
MAV III notes	0.00%	-	-	2,100	2,100
Central 1 shares	5.72%	-	-	33,369	33,369
Other securities	0.59%	8,959	-	-	8,959
Total financial assets available-for-sale		\$ 26,204	\$ -	\$ 35,469	\$ 61,673

(b) Impairment of securities:

### Investment in 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).

# VANCOUVER CITY SAVINGS CREDIT UNION

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Year ended December 31, 2011

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## 5. Financial assets:

### (b) Impairment of securities (continued):

#### Investment in asset backed commercial paper (continued):

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 FVTPL, 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.

Previously, Vancity had 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. In 2011, due to improved liquidity of these notes, Vancity transitioned to a market quoted valuation approach.

Based on improved market conditions in 2011, Vancity recognized a \$3.1 million increase in the fair value of the MAV notes. During the year ended December 31, 2011, a \$1.6 million fair value increase was taken into net gains on financial assets on the consolidated statement of operations, and a \$1.5 million recovery was taken into other comprehensive income.

During the year ended December 31, 2011, Vancity received principal repayments of \$1.6 million and interest payments of \$0.46 million in respect of the MAV notes.

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 FVTPL. At December 31, 2011, the valuation of the Superior Trust notes was based on the Merrill Lynch Superior Trust Series G December 2011 Investor Report. During the year ended December 31, 2011, Vancity recognized a \$1,000 decrease in the fair value of the Superior Trust notes (which is included in net gains on financial assets) and also received interest payments of \$50,000 in respect of the Superior Trust notes.

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## 5. Financial assets (continued):

(b) Impairment of securities (continued):

Investment in asset backed commercial paper (continued):

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

December 31, 2011	Face Value	Interest payments received in 2011	Fair value
MAV II notes	\$ 54,612	\$ 382	\$ 34,699
MAV III notes	4,099	82	2,152
Superior Trust	3,002	50	2,390
	<u>\$ 61,713</u>	<u>\$ 514</u>	<u>\$ 39,241</u>

December 31, 2010	Face Value	Interest payments received in 2010	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
	<u>\$ 63,708</u>	<u>\$ 178</u>	<u>\$ 38,068</u>

## 6. Derivative instruments:

	Notional amounts				Current Replacement cost		Fair values	
	Maturities of Derivatives		Total 2011	Total 2010	2011	2010	2011	2010
	Within 1 year	1 to 5 years						
<b>Derivatives used to manage interest rate risk</b>								
Receive fixed interest current swaps	\$ 950,000	\$ 300,000	\$ 1,250,000	\$ 1,250,000	\$ 8,995	\$ 12,355	\$ 8,995	\$ 12,322
Receive fixed interest forward starting swaps	-	400,000	400,000	950,000	8,336	8,766	8,336	8,766
Pay fixed interest current swaps	-	990,000	990,000	1,090,000	-	140	(37,348)	(11,919)
Pay fixed interest forward starting swaps	-	100,000	100,000	-	-	-	(926)	-
	950,000	1,790,000	2,740,000	3,290,000	17,331	21,261	(20,943)	9,169
<b>Other derivatives</b>								
Foreign currency forward sell contracts	91,150	-	91,150	69,622	662	717	522	680
Foreign currency forward buy contracts	33,448	-	33,448	67,448	163	93	(171)	(588)
Foreign currency future sell contracts	1,348	-	1,348	2,045	11	1	4	(48)
Foreign currency future buy contracts	1,270	-	1,270	1,968	-	27	(4)	21
Index-linked call options purchased	6,253	22,091	28,344	26,457	1,711	2,128	1,711	2,128
	133,469	22,091	155,560	167,540	2,547	2,966	2,062	2,193
Total derivative contracts	\$ 1,083,469	\$ 1,812,091	\$ 2,895,560	\$ 3,457,540	\$ 19,878	\$ 24,227	\$ (18,881)	\$ 11,362
Less impact of master agreements					18,396	9,116		
Net credit risk on derivatives					\$ 1,482	\$ 15,111		

# VANCOUVER CITY SAVINGS CREDIT UNION

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Year ended December 31, 2011

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## 6. Derivative instruments (continued):

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.

The following is a summary of the nature of derivative instruments utilized:

- (1) 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.

Vancity hedges a portion of the interest rate risk that arises on variable interest cash flows on prime rate mortgages through interest rate derivatives. Interest income and expense reported in the consolidated statement of operations includes the reclassification of the effective portion of interest rate derivatives designated as hedging items in cash flow hedges from members' equity in order to match the timing of the hedged interest cash flows recognition in the consolidated statement of operations. Any ineffectiveness in the hedging relationship is recorded directly in the consolidated statement of operations.

- (2) 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.
- (3) 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.
- (4) 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. Vancity utilizes index linked option contracts in order to economically hedge the equity index linked returns for member deposits. The option contract is FVTPL with changes in fair value recorded in the consolidated statement of operations.

The credit risk amount of derivative instruments, 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, totaled \$19.9 million as at December 31, 2011 (2010 - \$24.2 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.

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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## 6. Derivative instruments (continued):

From time to time, 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, 2011 \$18.0 million (2010 - \$5.0 million) was recorded in net interest income as unrealized changes in fair value of these derivatives. In addition, net interest income contains \$0.3 million in realized gain (2010 - \$6.3 million in realized losses) on derivatives.

## 7. Loans and advances to members:

### (a) Loan maturities and rate sensitivities:

December 31, 2011	Maturity term			Total	Rate sensitivity		Total
	Under 1 year	1 to 5 Years	> 5 Years		Floating	Fixed rate	
Residential mortgages	\$ 2,102,129	\$ 4,767,988	\$ 272,954	\$ 7,143,071	\$ 2,881,278	\$ 4,261,793	\$ 7,143,071
Commercial loans	238,237	889,080	633,457	1,760,774	78,530	1,682,244	1,760,774
Consumer loans	2,626,731	68,391	544	2,695,666	2,542,100	153,566	2,695,666
Business loans	681,020	977,955	50,270	1,709,245	189,132	1,520,113	1,709,245
Accrued interest	10,183	12,035	1,717	23,935	10,223	13,712	23,935
Total loans	5,658,300	6,715,449	958,942	13,332,691	5,701,263	7,631,428	13,332,691
Allowance for credit losses	(35,473)	(42,101)	(6,012)	(83,586)	(35,743)	(47,843)	(83,586)
Total loans, net of allowance for credit losses	\$ 5,622,827	\$ 6,673,348	\$ 952,930	\$ 13,249,105	\$ 5,665,520	\$ 7,583,585	\$ 13,249,105

December 31, 2010	Maturity term			Total	Rate sensitivity		Total
	Under 1 year	1 to 5 Years	> 5 Years		Floating	Fixed rate	
Residential mortgages	\$ 1,910,710	\$ 4,680,350	\$ 240,667	\$ 6,831,727	\$ 2,309,684	\$ 4,522,043	\$ 6,831,727
Commercial loans	298,133	686,941	469,587	1,454,661	133,295	1,321,366	1,454,661
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	10,823	12,449	1,484	24,756	10,281	14,475	24,756
Total loans	5,448,351	6,380,599	763,742	12,592,692	5,095,092	7,497,600	12,592,692
Allowance for credit losses	(41,926)	(49,099)	(5,877)	(96,902)	(39,207)	(57,695)	(96,902)
Total loans, net of allowance for credit losses	\$ 5,406,425	\$ 6,331,500	\$ 757,865	\$ 12,495,790	\$ 5,055,885	\$ 7,439,905	\$ 12,495,790

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Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 7. Loans and advances to members (continued):

### (b) Reconciliation of allowance for credit losses:

	Residential	Commercial	Consumer	Business	2011 Total	2010 Total
Balance, beginning of year	\$ 9,223	\$ 35,143	\$ 22,978	\$ 29,558	\$ 96,902	\$ 89,006
Allowance for credit losses:						
Normal credit factors	5,833	16,724	6,666	(11,220)	18,003	27,228
	15,056	51,867	29,644	18,338	114,905	116,234
Loans written-off	(5,002)	(17,772)	(9,599)	(1,762)	(34,135)	(21,140)
Recoveries of loans written-off	626	68	1,518	604	2,816	1,808
Balance, end of year	\$ 10,680	\$ 34,163	\$ 21,563	\$ 17,180	\$ 83,586	\$ 96,902
Loans with individual allowances:						
Loan balance	\$ 7,303	\$ -	\$ 6,847	\$ 8,708	\$ 22,858	\$ 70,442
Accrued interest	260	-	89	541	890	1,432
Related allowance	(1,929)	-	(6,936)	(5,268)	(14,133)	(31,197)
Carrying amount	\$ 5,634	\$ -	\$ -	\$ 3,981	\$ 9,615	\$ 40,677
Loans with collective allowances:						
Loan balance	\$7,135,768	\$1,760,773	\$2,688,819	\$1,700,538	\$13,285,898	\$12,497,494
Accrued interest	8,369	9,251	4,073	1,352	23,045	23,324
Related allowance	(8,751)	(34,163)	(14,627)	(11,912)	(69,453)	(65,705)
Carrying amount	\$7,135,386	\$1,735,861	\$2,678,265	\$1,689,978	\$13,239,490	\$12,455,113

### (c) Loans and advances individually impaired:

	2011	2010
Impaired loans with individual allowances:		
Residential mortgages	\$ 7,563	\$ 11,433
Commercial loans	-	34,407
Consumer loans	6,936	3,475
Business loans	9,249	22,559
Individual provision	(14,133)	(31,197)
	\$ 9,615	\$ 40,677

The fair value of the collateral held by Vancity as security for the above loans was \$12.2 million (2010 - \$65.8 million). Vancity has estimated the fair value of collateral based on an updated assessment of the security appraisal undertaken at the original funding assessment and management's knowledge of local real estate market conditions, where appropriate.

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 7. Loans and advances to members (continued):

### (c) Loans and advances individually impaired (continued):

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

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

### (d) Loans past due but not impaired:

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

Loans that are past due but not impaired as at December 31, 2011 are as follows:

	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 12,925	\$ 11,150	\$ 15,895	\$ 39,970
Commercial mortgages	440	-	615	1,055
Consumer loans	7,632	3,562	3,691	14,885
Business loans	498	79	522	1,099
	\$ 21,495	\$ 14,791	\$ 20,723	\$ 57,009

Loans that were past due but not impaired as at December 31, 2010 are as follows:

	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 23,642	\$ 8,405	\$ 18,917	\$ 50,964
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
	\$ 35,538	\$ 13,121	\$ 36,571	\$ 85,230

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## 7. Loans and advances to members (continued):

### (e) Foreclosed collateral:

During the years ended December 31, 2011 and 2010, Vancity did not acquire any new assets in respect of delinquent loans. Any previously foreclosed properties were sold as soon as it was practicable and when in management's opinion it was the most advantageous time to mitigate the risk of additional losses.

## 8. Premises, equipment and intangibles:

### (a) Premises and equipment:

The movement of premises and equipment during the years ended December 31, 2011 and 2010 is as follows:

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
<b>Cost:</b>						
Balance at January 1, 2011	\$ 12,297	\$ 63,876	\$ 32,230	\$ 22,553	\$ 14,814	\$ 145,770
Acquisitions	142	2,684	8,334	4,588	5,755	21,503
Disposals	(786)	(10,508)	(245)	(2,649)	(209)	(14,397)
<b>Balance at December 31, 2011</b>	<b>\$ 11,653</b>	<b>\$ 56,052</b>	<b>\$ 40,319</b>	<b>\$ 24,492</b>	<b>\$ 20,360</b>	<b>\$ 152,876</b>
<b>Accumulated depreciation and impairment losses:</b>						
Balance at January 1, 2011	\$ -	\$ 20,131	\$ 12,206	\$ 10,635	\$ 6,937	\$ 49,909
Disposals	-	(492)	(245)	(2,649)	(209)	(3,595)
Depreciation	-	2,251	2,984	4,782	2,319	12,336
<b>Balance at December 31, 2011</b>	<b>\$ -</b>	<b>\$ 21,890</b>	<b>\$ 14,945</b>	<b>\$ 12,768</b>	<b>\$ 9,047</b>	<b>\$ 58,650</b>
<b>Carrying amounts:</b>						
Balance at January 1, 2011	\$ 12,297	\$ 43,745	\$ 20,024	\$ 11,918	\$ 7,877	\$ 95,861
<b>Balance at December 31, 2011</b>	<b>11,653</b>	<b>34,162</b>	<b>25,374</b>	<b>11,724</b>	<b>11,313</b>	<b>94,226</b>

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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## 8. Premises, equipment and intangibles (continued):

### (a) Premises and equipment (continued):

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
<b>Cost:</b>						
Balance at January 1, 2010	\$ 12,266	\$ 54,280	\$ 28,821	\$ 21,945	\$ 12,898	\$ 130,210
Acquisitions	31	9,624	7,137	4,853	4,821	26,466
Disposals	-	(28)	(3,728)	(4,245)	(2,905)	(10,906)
<b>Balance at December 31, 2010</b>	<b>\$ 12,297</b>	<b>\$ 63,876</b>	<b>\$ 32,230</b>	<b>\$ 22,553</b>	<b>\$ 14,814</b>	<b>\$ 145,770</b>
<b>Accumulated depreciation and impairment losses:</b>						
Balance at January 1, 2010	\$ -	\$ 17,973	\$ 13,253	\$ 10,512	\$ 7,733	\$ 49,471
Disposals	-	(28)	(3,728)	(4,240)	(2,905)	(10,901)
Depreciation	-	2,186	2,681	4,363	2,109	11,339
<b>Balance at December 31, 2010</b>	<b>\$ -</b>	<b>\$ 20,131</b>	<b>\$ 12,206</b>	<b>\$ 10,635</b>	<b>\$ 6,937</b>	<b>\$ 49,909</b>
<b>Carrying amounts:</b>						
Balance at January 1, 2010	\$ 12,266	\$ 36,307	\$ 15,568	\$ 11,433	\$ 5,165	\$ 80,739
<b>Balance at December 31, 2010</b>	<b>12,297</b>	<b>43,745</b>	<b>20,024</b>	<b>11,918</b>	<b>7,877</b>	<b>95,861</b>

### (b) Intangibles:

The movement of intangibles during the years ended December 31, 2011 and 2010 is as follows:

	Software	ICBC Licenses	Total
<b>Cost:</b>			
Balance at January 1, 2011	\$ 12,978	\$ 400	\$ 13,378
Acquisitions	12,765	-	12,765
Disposals	(130)	-	(130)
<b>Balance at December 31, 2011</b>	<b>\$ 25,613</b>	<b>\$ 400</b>	<b>\$ 26,013</b>
<b>Accumulated depreciation:</b>			
Balance at January 1, 2011	\$ 1,691	\$ -	\$ 1,691
Disposals	(130)	-	(130)
Amortization	1,702	-	1,702
<b>Balance at December 31, 2011</b>	<b>\$ 3,263</b>	<b>\$ -</b>	<b>\$ 3,263</b>
<b>Carrying amounts:</b>			
Balance at January 1, 2011	\$ 11,287	\$ 400	\$ 11,687
<b>Balance at December 31, 2011</b>	<b>22,350</b>	<b>400</b>	<b>22,750</b>

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## 8. Premises, equipment and intangibles (continued):

### (b) Intangibles (continued):

	Software	ICBC Licenses	Total
Cost:			
Balance at January 1, 2010	\$ 4,540	\$ 400	\$ 4,940
Acquisitions	9,704	-	9,704
Disposals	(1,266)	-	(1,266)
<b>Balance at December 31, 2010</b>	<b>\$ 12,978</b>	<b>\$ 400</b>	<b>\$ 13,378</b>
Accumulated depreciation:			
Balance at January 1, 2010	\$ 2,098	\$ -	\$ 2,098
Disposals	(1,266)	-	(1,266)
Amortization	859	-	859
<b>Balance at December 31, 2010</b>	<b>\$ 1,691</b>	<b>\$ -</b>	<b>\$ 1,691</b>
Carrying amounts:			
Balance at January 1, 2010	\$ 2,442	\$ 400	\$ 2,842
Balance at December 31, 2010	11,287	400	11,687

## 9. Inventory:

	2011	2010
Land held for development	\$ 13,676	\$ 13,676
Construction work in progress	-	5,675
Completed property	1,415	4,565
	<b>\$ 15,091</b>	<b>\$ 23,916</b>

Property sales of \$22.6 million (2010 - \$10.8 million) took place during the year and resulted in profit of \$3.8 million (2010 - \$1.9 million). Cost of sales of these properties was \$18.8 million (2010 - \$8.9 million).

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## 10. Investment property:

The fair value of investment property is based on a valuation supported by a registered independent appraiser having an appropriate recognized professional qualification and recent experience in the location and category of the property being valued. The fair value as at December 31, 2011 was \$2.3 million (2010 - \$1.6 million).

The investment property generated \$71,000 of rental income in 2011 (2010 - \$30,000). Direct operating expenses, including repairs and maintenance, that generated the rental income were \$115,000 (2010 - \$87,000).

Depreciation expense related to investment property totaled \$19,000 (2010 - \$nil).

## 11. Income taxes:

(a) Income tax expense:

	2011	2010
Current tax expense:		
Current year	\$ 17,538	\$ 24,435
Adjustment for current tax of prior periods	313	3,184
	17,851	27,619
Deferred tax expense:		
Origination and reversal of temporary differences	(5,106)	590
Reduction in tax rate	(776)	(399)
Recognition of previously unrecognized tax losses	25	-
	(5,857)	191
<b>Total income tax expense</b>	<b>\$ 11,994</b>	<b>\$ 27,810</b>

(b) Reconciliation of effective tax rate:

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 11.7% (2010 – 24.3%), which is calculated as follows:

	2011	2010
Combined federal and provincial statutory tax rate	26.5%	28.4%
Credit union preferred rate reduction	(11.6)	(5.3)
Non-deductible and other items	(3.2)	1.2
	11.7%	24.3%

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## 11. Income taxes (continued):

### (c) Deferred tax assets and liabilities:

	Balance at January 1, 2011	Recognized in profit or loss	Recognized in in OCI	Balance at December 31, 2011
<b>Deferred tax assets:</b>				
Pensions and other post-retirement benefits	\$ 6,788	\$ 1,380	\$ -	\$ 8,168
Allowance for impairment of loans	14,096	1,556	-	15,652
Deferred revenue	3,444	(2,513)	4,553	5,484
Other provisions	827	2,805	-	3,632
Deferred expenses	(16)	3,084	-	3,068
Tax loss carried forward	8,543	(544)	-	7,999
	\$ 33,682	\$ 5,768	\$ 4,553	\$ 44,003
<b>Deferred tax liabilities:</b>				
Premises and equipment	(1,931)	89	-	(1,842)
	\$ (1,931)	\$ 89	\$ -	\$ (1,842)
<b>Total</b>	\$ 31,751	\$ 5,857	\$ 4,553	\$ 42,161

	Balance at January 1, 2010	Recognized in profit or loss	Recognized in in OCI	Balance at December 31, 2010
<b>Deferred tax assets:</b>				
Pensions and other post-retirement benefits	\$ 5,146	\$ 1,642	\$ -	\$ 6,788
Allowance for impairment of loans	9,015	5,081	-	14,096
Deferred revenue	2,900	(322)	866	3,444
Other provisions	890	(63)	-	827
Deferred expenses	720	(736)	-	(16)
Tax loss carried forward	12,778	(4,235)	-	8,543
	\$ 31,449	\$ 1,367	\$ 866	\$ 33,682
<b>Deferred tax liabilities:</b>				
Premises and equipment	(373)	(1,558)	-	(1,931)
	\$ (373)	\$ (1,558)	\$ -	\$ (1,931)
<b>Total</b>	\$ 31,076	\$ (191)	\$ 866	\$ 31,751

### (d) Unrecognized deferred tax liabilities:

At December 31, 2011, deferred tax liabilities for temporary differences of \$20.6 million (2010 - \$12.9 million) related to investments in subsidiaries that were not recognized because Vancity controls these assets.

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## 12. Assets held for sale:

There were no assets held for sale as at December 31, 2011.

At December 31, 2010, Vancity, as a result of a 2009 foreclosure, had \$5.1 million in commercial property held for sale. On January 31, 2011, the property was sold for \$5.3 million, resulted in a gain on sale of \$207,000, which was recorded as other income in the consolidated statement of operations.

## 13. Pension and other retirement benefits:

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

Vancity funds the defined benefit plans and multi-employer defined benefit plans based on actuarially prescribed amounts. The unfunded supplemental retirement and non-pension 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, 2011 (prior period was measured at November 30, 2010). The effective date of the last actuarial valuation report for funding purposes was December 31, 2011 and the effective date of the next required actuarial valuation report will be December 31, 2014.

(a) Retirement benefit asset (liability):

	Pension plans		Other benefit plans	
	2011	2010	2011	2010
Defined benefit obligation - funded	\$ (19,183)	\$ (15,449)	\$ -	\$ -
Defined benefit obligation - unfunded	(9,183)	(7,075)	(32,822)	(25,095)
Fair value of plan assets	16,916	16,488	-	-
<b>Net retirement benefit obligation</b>	<b>\$ (11,450)</b>	<b>\$ (6,036)</b>	<b>\$ (32,822)</b>	<b>\$ (25,095)</b>
Retirement benefit asset	\$ -	\$ 1,039	\$ -	\$ -
Retirement benefit obligation	\$ (11,450)	\$ (7,075)	\$ (32,822)	\$ (25,095)
Experience adjustments arising on plan assets	\$ (1,012)	\$ (356)	\$ -	\$ -
Experience adjustments arising on plan liabilities	\$ 101	\$ 103	\$ 799	\$ 94

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## 13. Pension and other retirement benefits (continued):

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

	Pension plans		Other benefit plans	
	2011	2010	2011	2010
Defined benefit obligation at January 1	\$ (22,524)	\$ (19,369)	\$ (25,095)	\$ (19,705)
Current service cost (net of employee contributions)	(1,196)	(967)	(1,913)	(1,634)
Interest cost	(1,256)	(1,173)	(1,419)	(1,219)
Employee contributions	(52)	(45)	-	-
Actuarial (losses) gains	(3,989)	(1,627)	(4,914)	(2,954)
Benefit payments	651	657	519	417
Defined benefit obligation at December 31	\$ (28,366)	\$ (22,524)	\$ (32,822)	\$ (25,095)

(c) Fair value of plan assets:

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

	Pension plans		Other benefit plans	
	2011	2010	2011	2010
Fair value at January 1	\$ 16,488	\$ 14,973	\$ -	\$ -
Expected return on plan assets	1,164	1,052	-	-
Actuarial (losses) gains	(1,012)	356	-	-
Employer contributions	686	589	-	-
Employee contributions	52	45	-	-
Benefit payments	(462)	(527)	-	-
Fair value of plan assets at December 31	\$ 16,916	\$ 16,488	\$ -	\$ -

(ii) Plan assets comprise the following:

	Pension plans		Other benefit plans	
	2011	2010	2011	2010
Equity instruments	\$ 11,655	\$ 11,987	\$ -	\$ -
Debt instruments	4,929	4,117	-	-
Other assets	332	384	-	-
Market value of plan assets	\$ 16,916	\$ 16,488	\$ -	\$ -

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the date of the consolidated balance sheet. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets. The actual return on plan assets for the year ended December 31, 2011 was \$0.2 million (2010 - \$1.4 million).

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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## 13. Pension and other retirement benefits (continued):

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

	Pension plans		Other benefit plans	
	2011	2010	2011	2010
Current service cost	\$ (1,196)	\$ (967)	\$ (1,913)	\$ (1,634)
Interest cost	(1,256)	(1,173)	(1,419)	(1,219)
Expected return on plan assets	1,164	1,052	-	-
Past service cost	-	-	-	-
<b>Total included in employee benefits expense</b>	<b>\$ (1,288)</b>	<b>\$ (1,088)</b>	<b>\$ (3,332)</b>	<b>\$ (2,853)</b>

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

	Pension plans		Other benefit plans	
	2011	2010	2011	2010
Cumulative actuarial losses at January 1	\$ (1,271)	\$ -	\$ (2,954)	\$ -
Actuarial losses in the year	(5,001)	(1,271)	(4,914)	(2,954)
<b>Cumulative actuarial losses at December 31</b>	<b>\$ (6,272)</b>	<b>\$ (1,271)</b>	<b>\$ (7,868)</b>	<b>\$ (2,954)</b>

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

	Pension plans		Other benefit plans	
	2011	2010	2011	2010
Estimated service period of active employees (years)	8	7	9	13
Discount rate	4.50%	5.50%	4.50%	5.50%
Inflation rate	2.25%	2.25%	2.25%	2.25%
Expected long-term rate of return on plan assets	6.50%	7.00%	n/a	n/a
Future salary increases	3.00%	3.00%	n/a	n/a
Future pension increases	2.25%	2.25%	n/a	n/a
Health care cost trend	n/a	n/a	8.00% <sup>(1)</sup>	8.00% <sup>(2)</sup>

(1) Trending to 8.0% for the first 7 years, 6.0% the next 7 years and 4.5% thereafter.

(2) Trending to 8.0% for the first 8 years, 6.0% the next 7 years and 4.5% thereafter.

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## 13. Pension and other retirement benefits (continued):

- (f) The principal actuarial assumptions used were as follows (continued):

The expected long-term rate of return on assets is determined based on weighted average estimated returns for each asset class using current and projected market assumptions.

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. Mortality assumptions are based on the 1994 Uninsured Pensioner Mortality Table with projection for future mortality improvements based on an individual member's attained age. The projection factors are in accordance with the published table Scale AA where annual improvements range from 0.4% to 2.0% for males and 0.3% to 1.8% for females.

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

Retiring at the date of the consolidated balance sheet:

Male	20 years
Female	22 years

Retiring 20 years after the date of the consolidated balance sheet:

Male	21 years
Female	23 years

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

	Pension plans			
	Retirement benefit obligations		Benefit expense	
	2011	2010	2011	2010
Discount rate	4.5%	5.5%	5.5%	6.0%
Impact of: 1% increase	\$ (3,888)	\$ (2,908)	\$ (181)	\$ (154)
1% decrease	4,916	3,641	218	186
Salary growth rate	3.0%	3.0%	3.0%	3.0%
Impact of: 1% increase	\$ 3	\$ 2	\$ 1	\$ 2
1% decrease	(2)	(1)	(1)	(1)
Expected rate of return on plan assets	n/a	n/a	7.0%	7.0%
Impact of: 1% increase	n/a	n/a	\$ (166)	(150)
1% decrease	n/a	n/a	166	150

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## 13. Pension and other retirement benefits (continued):

(f) The principal actuarial assumptions used were as follows (continued):

	Other benefit plans			
	Retirement benefit obligations		Benefit expense	
	2011	2010	2011	2010
Discount rate	4.5%	5.5%	5.5%	6.0%
Impact of: 1% increase	\$ (4,295)	\$ (3,235)	\$ (245)	\$ (231)
1% decrease	4,976	3,892	278	267
Assumed overall health care trend rate	8.0% <sup>(1)</sup>	8.0%	8.0% <sup>(2)</sup>	10.0%
Impact of: 1% increase	\$ 2,974	\$ 2,388	\$ 333	\$ 323
1% decrease	(2,846)	(2,338)	(317)	(304)

(1) Trending to 4.5% over 14 years.

(2) Trending to 4.5% over 15 years.

(g) Participation in multi-employer plan:

Vancity participates in a plan for certain eligible employees which is administered by Central 1.

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

- (i) The entity does not have sufficient information to enable the employer to use defined benefit accounting.
- (ii) The Plan exposes the participating employers to actuarial risks associated with the current and former employees of other entities with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual entities participating in the Plan.

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

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## 13. Pension and other retirement benefits (continued):

### (g) Participation in multi-employer plan (continued):

An actuarial valuation of the overall Plan was carried out as at December 31, 2009. It was determined that the overall Plan had an actuarial going concern deficit of \$33 million and solvency deficit of \$26 million using the projected unit credit method. As a result of the valuation, the contribution rates were determined to be 8.9% per annum for employer contributions based on the pensionable earnings of the respective participating employees and depending on age from 2.5% to 9.0% per annum for employee contributions for the period from January 1, 2011 to December 31, 2011.

### (h) Future contributions:

The expected contributions for the year ending December 31, 2012 are as follows:

	2012
Company contributions	\$ 1,423
Employee contributions	56
	\$ 1,479

## 14. Other assets:

	2011	2010
Accounts receivable	\$ 33,611	\$ 29,298
Prepaid and deferred expenses	6,523	7,150
Security deposits	378	473
	\$ 40,512	\$ 36,921

## 15. Shares:

	2011	2010
Membership shares	\$ 64,732	\$ 59,593
Investment shares	38,501	38,764
Savings shares	3,169	3,437
	\$ 106,402	\$ 101,794

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.

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## 15. Shares (continued):

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.

## 16. Securitizations and other loan transfers:

Vancity periodically enters into asset transfer agreements with Central 1 and other third parties which may include securitization of residential mortgages into SPE's which issue bonds to third party investors at specified interest rates.

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

Vancity had no securitization transactions during the years ended December 31, 2011 and 2010 that were accounted for as secured borrowings. Vancity has \$182 million (2010 - \$376 million) of residential mortgages categorized as loans held as security for the historic secured borrowings. As a result of the transactions, Vancity receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings. The exposure to variability of future interest income and expense has been incorporated into Vancity's interest rate sensitivity calculations in Note 26.

## 17. Provisions:

	2011	2010
Insurance on savings shares	\$ 1,156	\$ 1,187
Legal	3,915	4,031
Onerous contracts	331	153
Warranties	99	468
	<hr/>	<hr/>
	\$ 5,501	\$ 5,839

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 17. Provisions (continued):

(a) Insurance on savings shares:

The provision covers insurance payable on death of members who hold savings shares as described in Note 15.

(b) Legal:

In the ordinary course of business, Vancity has legal proceedings brought against it and provisions have been included in accordance with policies outlined in Note 3(u). See also Note 28(g) on contingencies.

(c) Onerous contracts:

As outlined in Note 31(d)(5), provision for an onerous contract was recorded, equivalent to the present value of the unavoidable cost of fulfilling the contract.

(d) Warranties:

Vancity provides for a warranty reserve based on management's best estimate for future obligations to repair deficiencies, should they occur, on property sold by DGLP.

## 18. Net interest income:

	2011	2010
Interest income:		
Cash and cash equivalents	\$ 198	\$ 197
Interest bearing deposits with financial institutions	36,604	21,640
Financial assets:		
Fair value through profit or loss	322	83
Available-for-sale	2,559	2,304
Loans and advances to members	555,299	537,945
Other assets	6,178	10,761
	601,160	572,930
Interest expense:		
Deposits from members	193,449	160,811
Secured borrowings	16,439	26,641
Wholesale borrowings	13,831	5,672
Other liabilities	23,075	25,154
	246,794	218,278
Net interest income	\$ 354,366	\$ 354,652

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## 19. Net fee and commission income:

	2011	2010
Fee and commission income:		
Account service fees	\$ 21,967	\$ 22,620
Credit card fees	35,812	30,215
Foreign exchange	10,962	11,496
Insurance broker commissions and fees	2,962	2,872
Loan fees	2,214	2,596
Loan insurance fees	6,930	7,770
Trust and investment fees	19,497	16,769
	100,344	94,338
Fee and commission expense:		
Credit card fees	22,923	18,032
Other fees paid	7,001	5,515
	29,924	23,547
Net fee and commission income	\$ 70,420	\$ 70,791

## 20. Salary and employee benefits:

	2011	2010
Salaries	\$ 136,184	\$ 135,761
Benefits	18,475	17,038
Pension costs:		
Defined benefit plans	1,288	1,088
Defined contribution plans	7,513	7,060
Post-employment benefits	3,332	2,853
	\$ 166,792	\$ 163,800

## 21. General and administrative expenses:

	2011	2010
Central 1 dues	\$ 9,336	\$ 8,392
Data processing	6,411	5,694
Insurance	2,249	2,586
Marketing and advertising	12,135	8,078
Member service and lending	10,104	9,467
Professional and consulting	15,543	18,151
Travel, meeting and entertainment	1,922	1,563
Telecommunication, stationery and postage	9,935	9,817
Miscellaneous	6,130	7,928
	\$ 73,765	\$ 71,676

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## 22. Distribution to community and members:

	2011	2010
Donations to community	\$ 14,508	\$ 12,530
Membership distribution - dividends	2,736	3,807
Membership distribution - patronage	9,958	7,157
Total shared success	27,202	23,494
Investment share dividends	1,202	1,362
Total distributions to community and members	\$ 28,404	\$ 24,856

Patronage rebates paid to members are calculated based on deposit interest paid by Vancity, loan interest received by Vancity, and member funds under administration with Credential Asset Management ("CAM"). The bonus on deposit interest amounted to \$2.0 million (2010 - \$1.6 million). Rebates relating to loan interest received amounted to \$ 5.9 million (2010 - \$4.7 million). Bonus on member funds under administration with CAM amounted to \$ 2.0 million (2010 - \$ 0.9 million).

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## 23. 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 principal financial risks that arise from transacting financial instruments include credit, liquidity and funding, operational and market risk.

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, 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 (MCR) Committee's role is to provide effective oversight of Vancity's risk management activities related to market risk, credit risk, liquidity risk, and structural risk (or systemic risk). 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 MCR 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 (AOR) 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, capital management and compliance with regulatory matters. The AOR 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.

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## **23. Risk management framework (continued):**

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, and
- (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.

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 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.

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## 23. Risk management framework (continued):

### Financial Instruments

Financial instruments comprise the majority of Vancity's assets and liabilities. Vancity accepts deposits from members at both fixed and floating rates for various periods and seeks to earn an interest rate margin by investing these funds in high quality financial instruments - principally mortgages. The primary types of financial risk which arise from this activity are credit risk, liquidity risk and market risk.

The following table summarizes the significant financial instrument activity undertaken by Vancity, the key risks associated with such activities and methods used in managing those risks:

Activity	Risk	Method
<b>Lending</b>		
Fixed rate mortgage	Credit risk	Diversification of credit risk, collateral values and maintenance of loan underwriting standards
Non real estate secured loans	Sensitivity of fair value to changes in interest rate	
Variable rate mortgages		Asset-liability marching and periodic use of derivatives
<b>Deposits</b>		
Fixed rate deposit products and funding activities involving fixed rate instruments	Sensitivity of fair value to changes in interest rates	Asset-liability matching and periodic use of derivatives
Variable rate deposit products and funding	Sensitivity of future interest cash flows to change in interest rates	Asset-liability matching and periodic use of derivatives
Equity linked deposit products	Sensitivity to changes in Canadian equity indices	Use of derivatives
<b>Other</b>		
Foreign currencies	Sensitivity to changes in foreign currency	Asset-liability matching and investment limits Periodic use of derivatives
Derivatives	Credit risk Market risk	Regular revaluations of instruments Independent review of derivative transactions Limits on counterparties
Investment securities	Credit risk Market risk	Regular revaluation of instruments Independent monitoring of investment holdings Limits on investment securities Limits on counterparties

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## 23. Risk management framework (continued):

### (a) Credit risk:

#### (i) Credit risk management:

Credit risk is the risk of financial loss to Vancity if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from Vancity's commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancements such as credit derivatives, financial guarantees, letters of credit and acceptances (see Note 28).

Vancity is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties. Credit risk is the single largest risk for Vancity's business; Management therefore carefully manages and controls its exposure to credit risk, with regular reporting to the MCR (see also Note 23(a)(iv)).

#### (ii) Credit risk measurement - loans and advances (including loan commitments and guarantees):

The estimation of credit exposure is complex and requires the use of financial models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. Vancity has developed financial models to support the quantification of the credit risk, which are used for all key credit portfolios and form the basis for measuring default risk. In measuring credit risk of loan and advances at a counterparty level, Vancity considers the following: (i) concentration of credit risk or deterioration of credit standing from the regular review depending on the risk profile (at the minimum monitoring) of the commercial loan and (ii) exposures to adverse movements in the collateral value flagged in Vancity's modeling system. Any early indicators of credit deterioration for residential mortgages and other mortgages and loans are taken into consideration and the models are reviewed regularly to monitor their robustness relative to actual incidence of credit deterioration or impairment loss and amended as necessary to optimize their effectiveness and contrasted with the actual losses incurred to date by lines of business.

#### (iii) Credit risk adjustments to fair value measurements and disclosures - other financial assets at fair value and derivative financial instruments where an entity level (counterparty) credit adjustment has not been reflected:

Credit risk valuation adjustments ("CVA") are applied to over-the-counter derivatives and other debt based financial instruments, in which the initial valuation discounts expected cash flows using a risk free interest rate curve. As not all counterparties have the same credit risk as that implied by the risk free curve, a CVA is necessary in order to incorporate Vancity's view of both counterparty credit risk and Vancity's own credit risk in the valuation of derivatives with a positive and negative fair value respectively.

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## 23. Risk management framework (continued):

### (a) Credit risk (continued):

(iii) Credit risk adjustments to fair value measurements and disclosures - other financial assets at fair value and derivative financial instruments where an entity level (counterparty) credit adjustment has not been reflected (continued):

Vancity's CVA calculation incorporates collateral and any master netting arrangements that Vancity considers to be enforceable as inputs into the CVA calculation. Vancity's entity level credit risk is measured using an appropriate market proxy. The CVA is calculated based upon the current market risk exposure to a counterparty or entity level credit risk for financial assets and liabilities measured or disclosed at fair value and are calculated as an adjustment to the fair values of the respective financial instruments as at the consolidated balance sheet reporting date.

(iv) Risk limit control and mitigation policies:

As a result of the geographical nature of Vancity's activities, Vancity has a concentration of credit risk as its principal lending activities are carried out within the Lower Mainland of British Columbia. Vancity's loan portfolio has a geographic concentration of 99.25% (2010 - 99.05%) in British Columbia. Loans outside of British Columbia are composed of 0.20% (2010 - 0.31%) in Ontario, 0.15% (2010 - 0.16%) in Alberta, and 0.40% (2010 - 0.48%) in others. To reduce the impact of the geographic credit risk, Vancity has insured approximately 27.5% (2010 - 24%) of its residential mortgages.

Vancity manages, limits and controls concentrations of credit risk, where identified, to individual counterparties and industries. The Board, through the MCR, places limits on the amount of credit risk accepted in relation to one member and/or sector. Overall risks are subject to periodic review where considered necessary. Limits on Vancity's overall risk tolerance are reviewed by the Board and MCR on an annual basis.

The Board has delegated responsibility for the governance of credit risk to the MCR to specifically oversee credit risk. The MCR separates credit responsibilities by credit risk management criteria and by lines of business: commercial mortgages, business lending, and retail (residential and consumer) lending. The MCR, in conjunction with the Management Credit Committees, 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 a minimum, annually.

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 23. Risk management framework (continued):

### (a) Credit risk (continued):

#### (iv) Risk limit control and mitigation policies (continued):

- Establishing authorization limits for the approval and renewal of credit facilities. Authorization limits are assigned to business and retail unit credit officers for commercial mortgages, business lending and retail. Retail lending is dependent on the credit scoring process that is supported by centralized credit officers. Large credit facilities require approval by the MCR 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.
- Vancity has collateral for many of its loans, which may include mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable and charges over financial instruments such as debt securities and equities. Longer term finance and lending to corporate entities or residential mortgages are generally secured forms of lending. Revolving credit facilities are generally non real estate secured. Establishing limits on the exposure to counterparties for derivatives and securities, 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).
- Over-the-counter derivative instruments and financial assets 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 financial assets is the risk that the principal investment will not be repaid. Vancity controls derivative and financial assets credit risk by dealing with counterparties that are assessed 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.
- Developing and maintaining Vancity's risk rating process 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 aligned with regulatory bodies and reviewed as necessary by the Vancity commercial mortgage and business risk management committee.

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## 23. Risk management framework (continued):

### (a) Credit risk (continued):

#### (iv) Risk limit control and mitigation policies (continued):

- Reviewing compliance of business units with agreed exposure limits; including those for selected industries and product types. Regular reports are provided to the credit departments and the MCR on the credit quality of local 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 and SVP, Community Investment. 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.
- Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans or letters of credit. With respect to credit risk on commitments to extend credit, Vancity is potentially exposed to loss in an equal amount to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are conditional on the member satisfying specific financial covenants or are otherwise conditional in nature, for example, of limited duration.

#### (v) 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.

	2011	2010
On-balance sheet exposures:		
Cash and cash equivalents	\$ 116,025	\$ 208,689
Interest bearing deposits with financial institutions	2,083,277	1,804,231
Financial assets: fair value through profit or loss	242,958	36,714
Financial assets: available-for-sale	178,030	61,673
Derivatives	19,258	23,506
Loans and advances to members	13,249,105	12,495,790
Off-balance sheet exposures:		
Undrawn lines of credit	2,957,736	2,736,845
Commitments to extend credit	186,879	240,768
Undrawn credit on credit cards	866,300	828,372
Documentary letters of credit	30,416	29,568
	<b>\$ 19,929,984</b>	<b>\$ 18,466,156</b>

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## 23. Risk management framework (continued):

(a) Credit risk (continued):

(v) Credit risk exposure (continued):

For on-balance sheet items, the amounts reported are based on the net carrying amounts on the consolidated balance sheet.

Cash, cash equivalents and interest bearing deposits with financial institutions 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 (residential and consumer loans), Vancity's underwriting methodologies and risk modeling is member-based rather than product-based. Vancity reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important mitigant of establishing 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 others factors that may mitigate exposure to credit risk:

Risk category	Beacon score range	2011	2010
High	less than 620	\$ 476,022	\$ 455,002
Medium	620 – 720	2,687,031	2,682,251
Low	more than 720	6,675,684	6,333,072
		\$ 9,838,737	\$ 9,470,325

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## 23. Risk management framework (continued):

(a) Credit risk (continued):

(v) Credit risk exposure (continued):

The non-retail portfolio (business and commercial 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, staff oversight, 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 staff oversight, 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.

The credit quality of Vancity's business and commercial portfolio, expressed in terms of the internal risk ratings discussed above is shown in the table below:

Internal risk ratings	2011	2010
11 - 21	\$ 683,492	\$ 553,913
22 - 32	2,769,830	2,463,295
41 - 52	16,697	80,403
	\$ 3,470,019	\$ 3,097,611

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## 23. Risk management framework (continued):

### (b) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/or market events.

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

### (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.

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 MCR 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 Vice President, Treasury and Foreign Exchange. The finance department monitors treasury's adherence with liquidity policies and on a monthly basis reports 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 developing channels to diversify funding risk. Vancity's primary sources of funding are wholesale and retail deposits, securitization and wholesale borrowings.

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 contingency plan outlines the appropriate steps to follow and stakeholders to notify. It is scenario tested annually, and the results are presented to the Board.

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## 23. Risk management framework (continued):

### (b) Liquidity risk (continued):

#### (ii) Exposure to liquidity risk:

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

For 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 DBRS Limited ("DBRS") investment rating of A, government guaranteed mortgage backed securities, banker's acceptances and bearer deposit notes from Schedule I and II banks with a DBRS rating of R-1 low or higher, and corporate commercial paper with a DBRS rating of R-1 low or higher.

#### Vancity

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

	2011	2010
At December 31	18.22%	16.10%
Average for the period	18.78%	15.23%
Maximum for the period	20.88%	16.64%
Minimum for the period	16.82%	13.75%

	2011	2010
Cash and deposits with Central 1	\$ 2,146,297	\$ 1,965,224
Deposit with deposit taking institutions	5,302	-
Mortgage Backed Securities pools <sup>1</sup>	-	46,893
Financial assets: fair value through profit or loss	205,868	746
Financial assets: available-for-sale	75,081	997
Accrued interest	14,268	7,710
<b>Total liquid assets</b>	<b>\$ 2,446,816</b>	<b>\$ 2,021,570</b>
<b>Total liquid assets as a percentage of deposits and debt liabilities</b>	<b>18.22%</b>	<b>16.10%</b>

<sup>(1)</sup> Mortgage backed securities (MBS) pools include 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.

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## 23. Risk management framework (continued):

(b) Liquidity risk (continued):

(ii) Exposure to liquidity risk (continued):

### The Bank

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

	2011	2010
At December 31	43.04%	31.47%
Average for the period	35.25%	35.01%
Maximum for the period	43.04%	46.83%
Minimum for the period	28.96%	7.57%
Cash	\$ 21,382	\$ 46,214
Interest bearing deposits with financial institutions	1,000	-
Government and corporate securities	36,685	19,240
Accrued interest	106	60
Liquid assets	59,173	65,514
Securities pledged as collateral	(10,950)	(11,057)
Total liquid assets	48,223	54,457
Total assets	\$ 112,031	\$ 173,033
Liquid assets as a percentage of total assets	43.04%	31.47%

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

December 31, 2011	Less than 1 year	1 - 3 years	4 to 5 years	Over 5 years	Total
Retail deposits	\$ 7,284,468	\$ 2,934,718	\$ 721,580	\$ 1,700	\$10,942,466
Wholesale deposits	2,319,901	129,077	17,498	-	2,466,476
Wholesale borrowings	1,317,463	156,385	-	-	1,473,848
Secured borrowings	140,125	46,770	-	-	186,895
Other financial liabilities	193,886	-	-	-	193,886
Derivatives	12,870	23,269	2,000	-	38,139
	\$ 11,268,713	\$ 3,290,219	\$ 741,078	\$ 1,700	\$15,301,710

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Notes to the Consolidated Financial Statements  
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## 23. Risk management framework (continued):

### (b) Liquidity risk (continued):

#### (ii) Exposure to liquidity risk (continued):

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

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
Wholesale borrowings	733,040	-	-	-	733,040
Secured borrowings	375,724	493	-	-	376,217
Other financial liabilities	214,629	-	-	-	214,629
Derivatives	10,107	2,334	(324)	27	12,144
	\$ 10,256,997	\$ 3,128,602	\$ 797,188	\$ 237	\$ 14,183,024

### (c) Market risk:

In the normal course of its operations, Vancity engages in transactions that give rise to market risk. Market risk is the risk that 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, through the MCR, 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 approved by the MCR 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 MCR. The MCR's role is to provide effective oversight, on behalf of the Board, of Vancity's risk management activities. In addition, Vancity has developed and maintains a practice of performing independent valuations of positions, mark to market methodologies, and asset liability modeling.

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 23. Risk management framework (continued):

(c) Market risk (continued):

(i) Management of market risks (continued):

(1) Interest rate risk:

Interest rate risk, inclusive of credit spread risk, is the risk of loss to Vancity due to the following: changes in the level, slope and curvature of the 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.

### 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.

### 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 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 derivative instruments, 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 6 discloses details on derivatives used for asset liability management.

Vancity also uses several comprehensive analytical techniques to measure 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 analyses are also used as supplementary measurement, control and management tools.

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## 23. Risk management framework (continued):

(c) Market risk (continued):

(i) Management of market risks (continued):

(1) Interest rate risk (continued):

### 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 the market value of net assets and financial margin. Based on Vancity's interest rate positions as at December 31, 2011, the following table shows the potential before tax impact on Vancity's market value of net assets and next 12 months' financial margin of an immediate and sustained 25 basis points ("bps") increase and decrease in interest rates across all currencies.

	2011		2010	
Interest rate sensitivity	Market value impact	Financial margin impact	Market value impact	Financial margin impact
Before tax impact of:				
25 bps decrease in rates	\$ 15,366	\$ (1,158)	\$ 11,766	\$ (1,240)
25 bps increase in rates	(15,316)	820	(11,587)	1,143

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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 change in financial margin 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.

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 23. Risk management framework (continued):

(c) Market risk (continued):

(i) Management of market risks (continued):

(1) Interest rate risk (continued):

### 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 either repricing dates or maturity dates of the assets and liabilities. An interest rate gap is a positive or negative net cash flow for one of the periods. Gap analysis does not take into consideration the credit risk of assets and liabilities. Note 26 discloses Vancity's gap position at December 31, 2011.

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.

(2) Foreign currency risk:

Foreign currency risk is the risk that 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 activities.

Vancity is exposed to foreign currency risk each time it buys and sells foreign currency products to a member or to another financial institution. Vancity holds a foreign currency position that is exposed to the risk of exchange rates movements in either the spot or forward market. This exposure has the potential of having a negative effect on consolidated earnings. 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 be influenced by the volatility of exchange rate changes, the mix of foreign currency assets and liabilities, and the exposure to each currency market.

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 23. Risk management framework (continued):

(c) Market risk (continued):

(i) Management of market risks (continued):

(2) Foreign currency risk (continued):

Foreign currency risk policies and procedures:

Foreign currency risk is managed daily by the foreign exchange department under the direction of the Vice President, Treasury and Foreign Exchange. The finance department develops policies for approval by ALCO and the Board. The finance department also monitors and reports compliance to the foreign exchange policy on a monthly basis. The foreign exchange department implements approved policies.

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 6 discloses details on foreign currency forwards and futures used to manage foreign exchange risk.

## 24. Assets pledged as collateral:

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

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

	2011	2010
Cash	\$ 5,000	\$ 5,100
Securities	5,950	5,957
Mortgages	346,372	539,993
General charge	1,654,000	1,654,000
	<hr/>	<hr/>
	\$ 2,011,322	\$ 2,205,050
Assets pledged to, or charged against by:		
Central 1 Credit Union	\$ 1,349,746	\$ 1,497,933
Other financial institutions	661,576	707,117
	<hr/>	<hr/>
	\$ 2,011,322	\$ 2,205,050

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 24. Assets pledged as collateral (continued):

	2011	2010
Assets pledged in relation to:		
Clearing facilities	\$ 6,000	\$ 6,000
Secured borrowings	181,698	376,198
Standby credit facilities	1,097,000	1,097,000
Derivative contracts	5,000	5,100
	<hr/>	<hr/>
	\$ 1,289,698	\$ 1,484,298

## 25. Regulatory and capital management:

Capital is managed in accordance with policies established by the Board and appropriate management committees. An integral part of Vancity's strategy is to maintain a strong capital base. Vancity has a capital plan to provide a long-term forecast of capital requirements. All of the elements of capital are monitored throughout the year. Capital plans are updated on an annual 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. Vancity makes annual dividend payments on eligible shares, within the context of its overall capital management plan.

FIA requires Vancity to maintain, at all times, a capital base and pooled liquid assets which are adequate in relation to its business. Capital levels for credit unions in British Columbia are regulated pursuant to guidelines issued by the Financial Institutions Commission of British Columbia ("FICOM"), based on standards issued by the Bank of 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 deferred 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, as well as equity shares that do not meet the criteria for Tier 1. 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's prescribed rules relating to on-balance sheet and off-balance sheet exposures.

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## 25. Regulatory and capital management (continued):

As at December 31, 2011 and 2010, Vancity's capital ratio was greater than the minimum requirement.

	2011	2010
Capital:		
Tier 1 Capital:		
Equity shares	\$ 115,822	\$ 109,218
Vancity's retained earnings	815,889	732,884
Deferred tax credits (debits)	(32,717)	(20,788)
Other	29,275	29,275
Total Tier 1 Capital	928,269	850,589
Tier 2 Capital:		
50% of Vancity's proportion of retained earnings in CUDFIC, Central 1 and Stabilization Central Credit Union	99,631	92,732
Total Tier 2 Capital	99,631	92,732
Total capital	1,027,900	943,321
Deductions from capital	(34,184)	(31,388)
Total capital less deductions (capital base)	\$ 993,716	\$ 911,933

## 26. 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 behavior and the application of Vancity's asset and liability management policies.

The assumptions for the year ended December 31, 2011 and 2010 were as follows:

### Assets

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

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

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

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## 26. Interest rate sensitivity (continued):

### Liabilities

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

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

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

### Yields

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

December 31, 2011	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
<b>Assets:</b>									
Cash and cash equivalents	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 116,025	\$ 116,025
Interest bearing deposits with financial institutions	1.78%	367,884	605,000	735,393	375,000	-	-	-	2,083,277
Financial assets - FVTPL	1.69%	42,574	22,032	61,615	111,880	4,857	-	-	242,958
Financial assets - AFS	2.18%	27,499	63,735	24,442	-	54,686	-	7,668	178,030
Accrued interest receivable	1.80%	14,374	-	-	-	-	-	-	14,374
Derivative instruments	0.00%	3,885	8,245	5,417	-	-	-	1,711	19,258
Loans and advances to members	3.99%	6,430,142	1,547,677	1,269,854	1,452,208	1,111,529	1,437,695	-	13,249,105
Other	0.00%	-	-	-	-	-	-	224,090	224,090
		\$ 6,886,358	\$ 2,246,689	\$ 2,096,721	\$ 1,939,088	\$ 1,171,072	\$ 1,437,695	\$ 349,494	\$ 16,127,117
<b>Liabilities and Equity:</b>									
Deposits from members	1.46%	\$ 6,022,544	\$ 3,467,612	\$ 1,446,397	\$ 1,127,552	\$ 449,403	\$ 745,890	\$ 106,402	\$ 13,365,800
Borrowings	1.92%	1,363,142	86,067	43,053	150,024	7	-	-	1,642,293
Derivative instruments	0.00%	2,976	9,892	14,562	8,708	1,829	172	-	38,139
Other	0.00%	-	-	-	-	-	-	1,080,885	1,080,885
		\$ 7,388,662	\$ 3,563,571	\$ 1,504,012	\$ 1,286,284	\$ 451,239	\$ 746,062	\$ 1,187,287	\$ 16,127,117
Balance sheet mismatch		\$ (502,304)	\$ (1,316,882)	\$ 592,709	\$ 652,804	\$ 719,833	\$ 691,633	\$ (837,793)	\$ -
Notional amounts of derivatives		240,000	150,000	700,000	(740,000)	(100,000)	(250,000)	-	-
Net mismatch		\$ (262,304)	\$ (1,166,882)	\$ 1,292,709	\$ (87,196)	\$ 619,833	\$ 441,633	\$ (837,793)	\$ -

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## 26. Interest rate sensitivity (continued):

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
<b>Assets:</b>									
Cash and cash equivalents	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 208,689	\$ 208,689
Interest bearing deposits with financial institutions	1.33%	445,005	592,876	471,350	295,000	-	-	-	1,804,231
Financial assets – FVTPL	0.70%	35,968	746	-	-	-	-	-	36,714
Financial assets – AFS	1.02%	49,759	5,946	-	-	-	-	5,968	61,673
Accrued interest receivable	1.30%	8,832	-	-	-	-	-	-	8,832
Derivative instruments	0.00%	4,323	9,456	5,217	1,560	270	553	2,127	23,506
Loans and advances to members	3.37%	5,850,245	1,288,991	1,513,775	1,248,636	1,203,501	1,390,642	-	12,495,790
Other	0.00%	-	-	-	-	-	-	207,483	207,483
		\$ 6,394,132	\$ 1,898,015	\$ 1,990,342	\$ 1,545,196	\$ 1,203,771	\$ 1,391,195	\$ 424,267	\$ 14,846,918
<b>Liabilities and Equity:</b>									
Deposits from members	1.35%	\$ 4,131,869	\$ 4,526,446	\$ 1,653,612	\$ 1,463,996	\$ 392,996	\$ 404,946	\$ 118,786	\$ 12,692,651
Borrowings	1.10%	774,400	131,435	147,815	53,354	318	234	1,233	1,108,789
Derivative instruments	1.00%	2,856	7,251	4,745	65	(2,476)	(297)	-	12,144
Other	0.00%	-	-	-	-	-	-	1,033,334	1,033,334
		\$ 4,909,125	\$ 4,665,132	\$ 1,806,172	\$ 1,517,415	\$ 390,838	\$ 404,883	\$ 1,153,353	\$ 14,846,918
Balance sheet mismatch		\$ 1,485,007	\$ (2,767,117)	\$ 184,170	\$ 27,781	\$ 812,933	\$ 986,312	\$ (729,086)	\$ -
Notional amounts of derivatives		(210,000)	200,000	500,000	450,000	(740,000)	(200,000)	-	-
Net mismatch		\$ 1,275,007	\$ (2,567,117)	\$ 684,170	\$ 477,781	\$ 72,933	\$ 786,312	\$ (729,086)	\$ -

## 27. Fair value of financial instruments:

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, and certain other financial assets and liabilities, due to their short term nature.

The fair values of financial instruments are as follows:

### (a) Loans:

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

- (i) 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.
- (ii) 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.

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## 27. Fair value of financial instruments:

### (b) Financial assets:

The fair value of AFS financial assets is determined by using quoted market values when available. For financial assets 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 financial assets 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 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, and valuation models that use observable market data.

### (d) Deposits:

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

- (i) 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.
- (ii) 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.

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## 27. Fair value of financial instruments:

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 do not meet the definitions of financial instruments.

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Financial assets:				
Fair value through profit or loss	242,958	242,958	36,714	36,714
Available-for-sale	178,030	178,030	61,673	61,673
Accrued interest receivable	14,374	14,374	8,832	8,832
Derivative instruments	19,258	19,258	23,506	23,506
Assets carried at amortized cost:				
Cash and cash equivalents	\$ 116,025	\$ 116,025	\$ 208,689	\$ 208,689
Loans, net of allowance for credit losses	13,249,105	13,412,973	12,495,790	12,680,302
Interest bearing deposits with financial institutions	2,083,277	2,097,650	1,804,231	1,808,296
Other financial assets	27,230	27,230	30,525	30,525
Liabilities carried at fair value:				
Derivative instruments	38,139	38,139	12,144	12,144
Liabilities carried at amortized cost:				
Deposits	13,365,800	13,324,468	12,692,651	12,610,059
Borrowings	1,642,293	1,647,152	1,108,789	1,115,721
Other financial liabilities	193,886	193,886	214,629	214,629

The following tables summarize the valuation methods used to measure the fair value of financial instruments which are accounted for at fair value on Vancity's consolidated balance sheet, as at December 31, 2011 and 2010. Fair value measurements are analyzed according to a fair value hierarchy of three levels, as outlined below. Observable inputs represent instances where market data is obtained from independent sources. Unobservable inputs are based on Vancity's own internal assumptions.

Level 1: Unadjusted market prices in active markets for identical assets and liabilities.

Level 2: Inputs, other than quoted prices included within Level 1, are observable for the asset or liability either directly or indirectly. This level includes the majority of over the counter derivatives or certain monetary instruments.

Level 3: entity level inputs which are not based upon market observable data.

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

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## 27. Fair value of financial instruments (continued):

During the years ended December 31, 2011 and 2010, there were no transfers between Level 1, Level 2 and Level 3.

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

Financial instruments at fair value December 31, 2011	Level 1	Level 2	Level 3
Financial assets:			
Fair value through profit or loss	\$ 205,869	\$ 37,089	\$ -
Available-for-sale	113,896	57,138	6,996
Derivative instruments	-	19,258	-
<b>Total financial assets</b>	<b>\$ 319,765</b>	<b>\$ 113,485</b>	<b>\$ 6,996</b>
Financial liabilities:			
Derivative instruments	\$ -	\$ 38,139	\$ -
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ 38,139</b>	<b>\$ -</b>

Financial instruments at fair value December 31, 2010	Level 1	Level 2	Level 3
Financial assets:			
Fair value through profit or loss	\$ -	\$ -	\$ 36,714
Available-for-sale	2,653	52,927	6,093
Derivative instruments	-	23,506	-
<b>Total financial assets</b>	<b>\$ 2,653</b>	<b>\$ 76,433</b>	<b>\$ 42,807</b>
Financial liabilities:			
Derivative instruments	\$ -	\$ 12,144	\$ -
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ 12,144</b>	<b>\$ -</b>

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## 27. Fair value of financial instruments (continued):

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

Fair value measurements using level 3 inputs	2011	2010
Balance at beginning of year	\$ 42,807	\$ 41,357
(Losses) gains included in net income	(97)	6,592
Gains included in OCI	326	1,322
Purchases	3,750	-
Settlements	(1,723)	(6,464)
Transfers in (out)	(38,067)	-
Balance at end of year	\$ 6,996	\$ 42,807

Although the fair value estimates are deemed to be appropriate, the use of other approaches or assumptions would have led to different measurements of fair value. For fair value measurements in level 3, changing one or more of the assumptions would have resulted in the following effects:

	Reflected in profit or loss		Reflected in equity	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
At December 31, 2011:				
Financial assets designated at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -
Financial assets available-for-sale	-	-	121	3,626
At December 31, 2010:				
Financial assets designated at fair value through profit or loss	\$ 698	\$ 4	\$ -	\$ -
Financial assets available-for-sale	-	-	485	2

The above favourable and unfavourable changes are calculated independently from each other. When the fair value of an instrument has multiple unobservable inputs, there is the assumption that no correlation exists between those inputs.

For all other financial assets, the favourable and unfavourable changes were calculated using 1% change in the discount rate.

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## 28. 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.

	2011	2010
Undrawn lines of credit	\$ 2,957,736	\$ 2,736,845
Commitments to extend credit	186,879	240,768
Undrawn credit on credit cards issued	866,300	828,372
Documentary letters of credit	30,416	29,568
	<u>\$ 4,041,331</u>	<u>\$ 3,835,553</u>

### (b) Deposit commitments:

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

Liquidity deposits with Central 1 totaled \$2.1 billion at December 31, 2011 (2010 - \$1.8 billion); of the total, \$893.4 million (2010 - \$821.4 million) was deposited under contractual requirements.

### (c) Guarantees:

As part of its regular operations, Vancity issues performance guarantees for its development projects. At December 31, 2011, Vancity has an outstanding performance guarantee with the City of Victoria in the amount of \$5.0 million (2010 - \$6.0 million). In addition, Vancity has a commitment to the City of Victoria to subsidize affordable housing in a development project. At December 31, 2011, the value of this commitment is estimated at \$3.3 million (2010 - \$3.3 million).

### (d) Restricted cash:

In connection with its development projects, Vancity is holding restricted cash in the amount of \$112,000 (2010 - \$910,000) related to construction holdbacks.

Included in cash and cash equivalents are restricted funds from third parties totaling \$8.0 million (2010 - \$9.6 million). These amounts are being held in respect of specific lending programs and if unused, are repayable at the termination of the lending program.

Included in the cash and cash equivalents balance is \$12.1 million of restricted cash pledged as collateral for derivative contracts.

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## 28. Commitments and contingencies (continued):

### (e) Lease commitments:

Vancity has leases on certain branch and office premises for terms extending to 2018 with an option to renew after that period. The lease arrangements may include escalation clauses to reflect fair market rental rates. Total lease payments of \$13.8 million (2010 - \$12.3 million), were expensed during the year ended December 31, 2011, and are recognized in the consolidated statement of operations as part of occupancy and equipment expense.

The future minimum lease payments are as follows:

	2011	2010
No later than one year	\$ 10,838	\$ 10,801
Later than one year and no later than five years	24,436	27,526
Later than five years	4,735	5,882
	\$ 40,009	\$ 44,209

### (f) Legacy fund commitment:

Vancity has committed to making a \$5.0 million contribution to the Greater Victoria Savings Credit Union Legacy Fund and has paid a cumulative total of \$3.6 million as at December 31, 2011 (2010 - \$3.4 million). The remaining balance will be paid in seven annual installments of \$194,000, commencing 2012.

### (g) 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 final determination of these claims will not have a material adverse effect on its consolidated balance sheet or consolidated statement of operations.

Vancity has a \$10 million contingent funding obligation to a US based venture capital company, to be used for social venture capital investments. This commitment has a number of conditions that need to be met and is based on uncertain future events.

In November 1991, Vancity entered into a 41 year finance lease arrangement with a nonprofit organization whereby the total of all minimum lease payments (\$3.6 million) was received at the commencement of the lease. As a result, there are no finance lease receivables recognized on the consolidated balance sheet and no related finance income recognized on the consolidated statement of operations.

### (h) Contractual commitment:

Vancity has a \$3.8 million (2010: \$nil) contractual commitment on software maintenance.

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 29. Related party disclosures:

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

(a) Loans and deposits:

Vancity provides banking services to key management personnel and persons connected to them. Balances outstanding at December 31, 2011 were loans of \$4.6 million (2010 - \$5.1 million) and deposits of \$5.1 million (2010 - \$4.1 million). For the years ended December 31, 2011 and 2010, no individual allowances for credit losses have been recognized with respect to these loans.

(b) Key management compensation:

	2011	2010
Salaries and other short-term employee benefits	\$ 5,953	\$ 5,627
Post employment benefits	452	382
Other long-term benefits	395	-
Termination benefits	-	9
	<u>\$ 6,800</u>	<u>\$ 6,018</u>

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

(c) Entities under common directorship:

Included in financial assets available-for-sale is an investment of US\$3.0 million in a US based venture capital limited liability company ("LLC"). The book value as at December 31, 2011, in Canadian dollars, was \$3.1 million (2010 - \$3.0 million). Vancity owns 38.7% of the issued and outstanding units of LLC. At December 31, 2011, LLC was managed and controlled by a member of the Vancity executive leadership team. During 2011 and 2010, there were no material related party transactions with the LLC.

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## 30. 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, interest-free personal loans are advanced 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, 2011 and December 31, 2010, the outstanding loans to employees amounted to:

	Fair value		Carrying value	
	2011	2010	2011	2010
Residential mortgages	\$ 298,985	\$ 282,503	\$ 301,414	\$ 286,194
Personal loans	9,793	10,368	9,793	10,368
	\$ 308,778	\$ 292,871	\$ 311,207	\$ 296,562

## 31. Transition to IFRS:

As stated in Note 2(e), these are Vancity's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS consolidated balance sheet at January 1, 2010.

Vancity has elected to apply the following optional exemptions from full retrospective application:

### Employee benefits:

Under CGAAP, Vancity's accounting policy was to defer the recognition of actuarial gains (losses) using the corridor approach.

IFRS 1 permits an entity to recognize all such 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 as at January 1, 2010. The impact of this exemption is detailed in Note 31(d)(1).

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## 31. Transition to IFRS (continued):

### Leases:

Vancity has elected to apply the transitional provisions in IFRIC 4 – “Determining whether an Arrangement contains a Lease” as at January 1, 2010 rather than making an assessment of whether there is a lease at the time of initial recognition of the contract under CGAAP. As a result, there was one change to the classification of agreements as leases. The impact of this exemption is detailed in Note 31(d)(6).

### Business combinations:

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 on the initial recognition of financial instruments measured at FVTPL. Vancity had no financial instruments where the most recent transaction price was not representative of fair value; therefore, there was no significant impact 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 impact of this optional election in relation to the capitalization of borrowing costs.

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

### Derecognition of financial assets and liabilities:

Financial assets and liabilities derecognized before January 1, 2004 are not re-recognized under IFRS. The application of the exception from full restatement of comparatives for IAS 39 means that Vancity only recognized any financial assets and financial liabilities derecognized since January 1, 2004 that do not meet the IAS 39 derecognition criteria and that have not otherwise matured or expired on January 1, 2010. Management did not apply the IAS 39 derecognition criteria to an earlier date than January 1, 2004, as there are no assets or financial liabilities that would need to qualify for derecognition before this date.

The application of this exception at the opening consolidated balance sheet date of January 1, 2010 is detailed in Note 31(d)(2).

# VANCOUVER CITY SAVINGS CREDIT UNION

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## 31. Transition to IFRS (continued):

### Hedge accounting:

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 has not identified an adjustment in the measurement of hedge ineffectiveness related to the measurement of credit risk in order to comply with IFRS requirements.

### Estimates:

IFRS 1 requires estimates made under IFRS at January 1, 2010 to be consistent with estimates made for the same date under CGAAP, 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 CGAAP for the same date. Therefore, this exemption had no impact on Vancity's IFRS consolidated financial statements.

### Reconciliation between IFRS and CGAAP:

The following reconciliations provide a quantification of the effect of the transition to IFRS, as follows:

- (a) Reconciliation of members' equity as at January 1, 2010
- (b) Reconciliation of members' equity as at December 31, 2010
- (c) Reconciliation of the consolidated statement of operations for the year ended December 31, 2010
- (d) Reconciliation notes. These reconciliations describe the impact of IFRS on Vancity's CGAAP consolidated financial statements, as contained in Part V of the Handbook of the Canadian Institute of Chartered Accountants.
- (e) Reconciliation of CGAAP financial statements to reclassified CGAAP

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(a) Reconciliation of members' equity as at January 1, 2010:

	Note	Reclassified CGAAP January 1, 2010	Effect of IFRS transition	IFRS January 1, 2010
(see Note 31(e))				
<b>Assets:</b>				
Cash and cash equivalents		\$ 144,737	\$ -	\$ 144,737
Interest bearing deposits with financial institutions		2,119,602	-	2,119,602
Financial assets:				
Fair value through profit or loss		30,404	-	30,404
Available-for-sale		524,684	-	524,684
		555,088	-	555,088
Accrued interest receivable		11,175	-	11,175
Derivative instruments		20,043	-	20,043
Loans and advances to members:				
Residential mortgages		5,990,134	620,518	6,610,652
Commercial mortgages		1,272,422	-	1,272,422
Consumer loans		2,610,122	-	2,610,122
Business loans		1,527,471	-	1,527,471
Accrued interest receivable		20,755	3,386	24,141
Allowance for credit losses		(85,620)	(3,386)	(89,006)
	31(d)(2)	11,335,284	620,518	11,955,802
Premises and equipment	31(d)(7)	83,031	(2,292)	80,739
Intangibles		2,842	-	2,842
Inventory		30,562	-	30,562
Investment property		1,864	-	1,864
Deferred tax assets	31(d)(8)	28,081	2,995	31,076
Assets held for sale		5,076	-	5,076
Retirement benefit asset	31(d)(1)	-	1,318	1,318
Other assets	31(d)(7)	80,757	(13,410)	67,347
<b>Total assets</b>		<b>\$ 14,418,142</b>	<b>\$ 609,129</b>	<b>\$ 15,027,271</b>

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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## 31. Transition to IFRS (continued):

(a) Reconciliation of members' equity as at January 1, 2010 (continued):

	Note	Reclassified CGAAP January 1, 2010	Effect of IFRS transition	IFRS January 1, 2010
		(see Note 31(e))		
<b>Liabilities:</b>				
Deposits from members:				
Demand deposits		\$ 3,981,827	\$ -	\$ 3,981,827
Term deposits		8,145,344	-	8,145,344
Shares		101,105	-	101,105
Accrued interest and dividends payable		91,476	-	91,476
		12,319,752	-	12,319,752
Derivative instruments		10,900	-	10,900
Borrowings:				
Secured borrowings	31(d)(2)	-	623,757	623,757
Wholesale borrowings		1,150,845	-	1,150,845
Accrued interest payable		4,319	-	4,319
		1,155,164	623,757	1,778,921
Accounts payable and accrued liabilities	31(d)(7)	189,866	(5,814)	184,052
Provisions	31(d)(5)	4,056	302	4,358
Current tax liabilities		6,625	-	6,625
Retirement benefit obligation	31(d)(1)	19,673	5,752	25,425
Other liabilities	31(d)(7)	6,871	(623)	6,248
<b>Total liabilities</b>		<b>\$ 13,712,907</b>	<b>\$ 623,374</b>	<b>\$ 14,336,281</b>
<b>Members' Equity:</b>				
Capital and reserves attributable to members:				
Contributed surplus		\$ 29,275	\$ -	\$ 29,275
Retained earnings	31(d)(9)	664,013	(14,258)	649,755
Accumulated other comprehensive income	31(d)(10)	11,947	13	11,960
<b>Total members' equity</b>		<b>705,235</b>	<b>(14,245)</b>	<b>690,990</b>
<b>Total liabilities and members' equity</b>		<b>\$ 14,418,142</b>	<b>\$ 609,129</b>	<b>\$ 15,027,271</b>

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(b) Reconciliation of members' equity as at December 31, 2010:

	Note	Reclassified CGAAP December 31, 2010	Effect of IFRS transition	IFRS December 31, 2010
		(see Note 31(e))		
<b>Assets:</b>				
Cash and cash equivalents		\$ 208,689	\$ -	\$ 208,689
Interest bearing deposits with financial institutions		1,804,231	-	1,804,231
Financial assets:				
Fair value through profit or loss		36,714	-	36,714
Available-for-sale		61,673	-	61,673
		98,387	-	98,387
Accrued interest receivable		8,832	-	8,832
Derivative instruments		23,506	-	23,506
Loans and advances to members:				
Residential mortgages		6,456,735	374,992	6,831,727
Commercial mortgages		1,453,256	1,405	1,454,661
Consumer loans		2,638,598	-	2,638,598
Business loans		1,642,950	-	1,642,950
Accrued interest receivable		23,325	1,431	24,756
Allowance for credit losses		(93,970)	(2,932)	(96,902)
	31(d)(2)	12,120,894	374,896	12,495,790
Premises and equipment	31(d)(7)	98,013	(2,152)	95,861
Intangibles		11,687	-	11,687
Inventory		23,916	-	23,916
Investment property		1,232	-	1,232
Deferred tax assets	31(d)(8)	31,386	365	31,751
Assets held for sale		5,076	-	5,076
Retirement benefit asset	31(d)(1)	-	1,039	1,039
Other assets	31(d)(7)	39,931	(3,010)	36,921
<b>Total assets</b>		<b>\$ 14,475,780</b>	<b>\$ 371,138</b>	<b>\$ 14,846,918</b>

# VANCOUVER CITY SAVINGS CREDIT UNION

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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(b) Reconciliation of members' equity as at December 31, 2010 (continued):

	Note	Reclassified CGAAP December 31, 2010	Effect of IFRS transition	IFRS December 31, 2010
(see Note 31(e))				
<b>Liabilities:</b>				
Deposits from members:				
Demand deposits		\$ 4,197,454	\$ -	\$ 4,197,454
Term deposits		8,313,020	-	8,313,020
Shares		101,794	-	101,794
Accrued interest and dividends payable		80,383	-	80,383
		12,692,651	-	12,692,651
Derivative instruments		12,144	-	12,144
Borrowings:				
Secured borrowings	31(d)(2)	-	376,198	376,198
Wholesale borrowings		731,356	-	731,356
Accrued interest payable		1,235	-	1,235
		732,591	376,198	1,108,789
Accounts payable and accrued liabilities	31(d)(7)	211,874	(6,218)	205,656
Provisions	31(d)(5)	5,686	153	5,839
Current tax liabilities		10,826	-	10,826
Retirement benefit obligation	31(d)(1)	22,640	9,530	32,170
Other liabilities	31(d)(7)	10,198	(623)	9,575
<b>Total liabilities</b>		<b>\$ 13,698,610</b>	<b>\$ 379,040</b>	<b>\$ 14,077,650</b>
<b>Members' Equity:</b>				
Capital and reserves attributable to members:				
Contributed surplus		\$ 29,275	\$ -	\$ 29,275
Retained earnings	31(d)(9)	741,427	(8,543)	732,884
Accumulated other comprehensive income	31(d)(10)	6,468	641	7,109
<b>Total members' equity</b>		<b>777,170</b>	<b>(7,902)</b>	<b>769,268</b>
<b>Total liabilities and members' equity</b>		<b>\$ 14,475,780</b>	<b>\$ 371,138</b>	<b>\$ 14,846,918</b>

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(c) Reconciliation of the consolidated statement of operations for the year ended December 31, 2010:

	Note	Reclassified CGAAP December 31, 2010	Effect of IFRS transition	IFRS December 31, 2010
		(see Note 31(e))		
Interest income		\$ 542,562	\$ 30,368	\$ 572,930
Interest expense		197,325	20,953	218,278
Net interest income	31(d)(7)	345,237	9,415	354,652
Loan impairment expense	31(d)(3)	27,682	(454)	27,228
Fee and commission income		93,606	732	94,338
Fee and commission expense		25,815	(2,268)	23,547
Net fee and commission income	31(d)(11)	67,791	3,000	70,791
Hedge ineffectiveness on cash flow hedges		16	-	16
Real estate development income		2,866	-	2,866
Net gains (losses) on financial assets		6,888	-	6,888
Other income	31(d)(6)	3,152	(88)	3,064
		12,922	(88)	12,834
Total operating income		398,268	12,781	411,049
Operating expenses				
Salary and employee benefits	31(d)(1)	163,962	(162)	163,800
Occupancy and equipment	31(d)(6)	37,093	(140)	36,953
General and administrative expenses		71,676	-	71,676
		272,731	(302)	272,429
Gain (loss) from business reorganization and other		259	-	259
Net earnings from operations		125,796	13,083	138,879
Distributions to community and members		24,856	-	24,856
Net earnings before income tax expense		100,940	13,083	114,023
Income tax expense		23,526	4,284	27,810
Net earnings		\$ 77,414	\$ 8,799	\$ 86,213

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

### (d) Reconciliation notes:

The following notes explain the adjustments to Vancity's consolidated balance sheet and consolidated statement of operations as a result of the transition to IFRS, as at Vancity's transition date of January 1, 2010 and as at December 31, 2010.

#### (1) Retirement benefit obligations:

Vancity has elected to apply the employee benefits optional exemption in IFRS 1, as disclosed in Note 31 above. All actuarial gains and losses not previously recognized through the application of the corridor approach in Vancity's CGAAP consolidated financial statements have been recognized at the date of transition to IFRS. Vancity will recognize actuarial gains (losses) subsequent to its initial transition date immediately through other comprehensive income.

	January 1, 2010	December 31, 2010
Recognition of actuarial gains and losses not recognized under CGAAP at the date of transition for consistent application of employee benefits exemption	\$ (4,027)	\$ (4,027)
Write-off of unvested past service costs	(228)	(228)
Adjustment of the measurement date of the deficit of the defined benefit plans from November 30, 2009 to January 1, 2010	(173)	(173)
Pension income (expense) for the year	(6)	162
<b>Total decrease in consolidated retained earnings</b>	<b>\$ (4,434)</b>	<b>\$ (4,266)</b>

The total effect of these adjustments on the consolidated balance sheet is as follows:

	January 1, 2010	December 31, 2010
Net increase in retirement benefit asset	\$ 1,318	\$ 1,039
Net increase in retirement benefit obligation	(5,752)	(9,530)
	<b>\$ (4,434)</b>	<b>\$ (8,491)</b>

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(d) Reconciliation notes (continued):

(1) Retirement benefit obligations (continued):

	Net effect during 2010
Pension income recognized in retained earnings	\$ 168
Actuarial losses recognized in OCI and closed to retained earnings	(4,225)
<b>Net decrease in members' equity</b>	<b>\$ (4,057)</b>

(2) Recognition of financial assets and liabilities:

Vancity reviewed mortgage transfers to securitization vehicles and third parties which were derecognized under CGAAP in order to determine whether IFRS derecognition requirements were met at the date of transition. Under a mandatory exemption from full retrospective application of IFRS 1, Vancity's review was of transfers of unexpired mortgages subsequent to January 1, 2004. Vancity determined that certain mortgages previously securitized which had met derecognition requirements under CGAAP did not qualify for derecognition under IFRS because Vancity did not assume an obligation to pay over all of the cash flows of the receivables to a transferee, as is required by IFRS to qualify for derecognition. Vancity continues to have a right to an interest spread differential between the transferred receivables and the securitization funding costs and is entitled to early prepayment penalties of the mortgage. Therefore, Vancity has not assumed an obligation to pay over all of the cash flows of the transferred mortgages and has recognized a secured borrowing in respect of the initial securitization proceeds.

Vancity re-recognized the mortgages at the brought forward (January 1, 2010) amortized cost of the mortgages of \$621.4 million and recognized a secured borrowing of \$623.8 million, equivalent to the amortized cost of the proceeds received as a result of previous securitization transactions.

Under CGAAP, a gain on securitization was recognized in Vancity's consolidated statement of operations when the mortgages were derecognized and retained interests reflecting the net present value of Vancity's continuing interests in the mortgages were recognized in the consolidated balance sheet along with a servicing liability for Vancity's servicing responsibilities. As a result of the re-recognition of previously securitized mortgages, these amounts were reversed and the cumulative interest receipts and payments on the mortgages and secured borrowings have been recognized at transition.

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(d) Reconciliation notes (continued):

(2) Recognition of financial assets and liabilities (continued):

The total effect of these adjustments on the consolidated balance sheet is as follows:

Loans and advances to members:

	January 1, 2010	December 31, 2010
Recognition of loans and securitized mortgages derecognized under previous CGAAP that did not meet IAS 39's de-recognition criteria (at the date of transition)	\$ 621,443	\$ 621,443
Recognition of the remaining breakage fee and fair value adjustment on re-purchased pools	(925)	(925)
90+ day delinquent accrued interest adjustment		
- Accrued interest receivable	3,386	-
- Allowance for credit losses	(3,386)	-
Recognition of the remaining breakage fee and fair value adjustment on the re-purchased mortgage pools	-	925
Repayments of securitized loans and advances during the year ended December 31, 2010	-	(246,451)
Payments received on a mortgage previously categorized as impaired under CGAAP		
- Commercial mortgage	-	1,405
- Allowance for credit losses	-	(1,405)
Interest recognized on impaired loans		
- Accrued interest receivable	-	1,431
- Allowance for credit losses	-	(1,431)
Increase in the collective allowance for credit losses on securitized mortgages (Note 31(d)(9))	-	(96)
<b>Net increase in loans and advances to members</b>	<b>\$ 620,518</b>	<b>\$ 374,896</b>

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(d) Reconciliation notes (continued):

(2) Recognition of financial assets and liabilities (continued):

### Secured borrowings:

	January 1, 2010	December 31, 2010
Recognition of secured borrowings as a result of securitizations which did not meet IAS 39's de-recognition criteria (at the date of transition)	\$ 623,757	\$ 623,757
Repayment of secured borrowing during the year ended December 31, 2010	-	(246,451)
Amortization of the deferred premium / (discount) and transaction fees during the year ended December 31, 2010	-	(1,108)
<b>Net increase in secured borrowings</b>	<b>\$ 623,757</b>	<b>\$ 376,198</b>

	January 1, 2010	December 31, 2010
Write-off of retained interest recognized on de-recognition of securitized mortgages under CGAAP (see also 31(d)(7))	\$ (12,244)	\$ (2,828)
Write-off of servicing liabilities of re-recognized securitized mortgages (see also 31(d)(7))	2,584	1,100
Deferral of the premium / (discount) and transaction fees on the re-recognized securitized mortgages	(2,473)	(1,365)
Write-off of the remaining breakage fee and fair value adjustment on the re-purchase of mortgage pools	(925)	-
Recognition of payments on impaired loans as income	159	159
<b>Decrease in consolidated retained earnings (Note 31(d)(9))</b>	<b>\$ (12,899)</b>	<b>\$ (2,934)</b>

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2011

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## 31. Transition to IFRS (continued):

### (d) Reconciliation notes (continued):

#### (3) Individual loan loss impairment:

Under CGAAP, Vancity's accounting policy was to classify a loan as impaired when, in management's opinion, there had been a deterioration in credit quality to the extent that there was no longer a reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan was contractually 90 days in arrears, the loan would be classified as impaired, unless the loan was fully secured, the collection of the debt was in progress, and collection efforts were 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 had become contractually in arrears; or the account was contractually in arrears less than 90 days, but there had been a deterioration in credit quality to the extent there was a reasonable doubt about the ultimate collectability of principal and interest; or the account was contractually 180 days in arrears. Visa accounts were considered impaired when they were 180 days in arrears. Loans considered uncollectable were written off. Impaired loans were carried at their estimated realizable amounts, determined by discounting the expected future cash flows. When the amounts of future cash flows could not be estimated with reasonable reliability, impaired loans were carried at the fair value of the underlying security, net of estimated costs of realization.

Under IFRS, Vancity assesses whether there is any objective evidence of impairment for loans which are individually significant and secondly assesses loans which are not individually significant. The amount of any loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate.

Subsequent to the measurement of any impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. As a result of the change in policy with respect to the recognition of interest income subsequent to measurement of any impairment loss, an adjustment was not recorded to retained earnings or to accrued interest on loans for specifically identified impaired loans, as sufficient collateral was available to offset the effects of the change in specific loan loss allowance methodology. There was no change in the collective impairment provision at the date of transition as a result of the application of the collective loan loss allowance methodology required under IFRS.

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2011

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## 31. Transition to IFRS (continued):

(d) Reconciliation notes (continued):

(3) Individual loan loss impairment (continued):

The total effect of loan impairment adjustments on consolidated statement of operations is as follows:

	December 31, 2010
90+ day delinquent accrued interest adjustment	\$ (3,386)
Payments received on a mortgage previously categorized as impaired under CGAAP	1,405
Interest recognized on impaired loans	1,431
Increase in the collective allowance for credit losses on securitized mortgages (Note 31(d)(9))	96
<b>Net decrease in loan impairment expense</b>	<b>\$ 454</b>

(4) Member loyalty programs:

Vancity provides eligible members in participating credit card programs with the opportunity to accumulate membership reward points in proportion to credit card purchases on participating credit card plans which may then be redeemed for travel, merchandise, charitable donations or other prescribed rewards under the Program terms. Under CGAAP, an accrual was made in proportion to the member points as they were earned based on an expected cost and probability of eventual redemption. Under IFRS, this type of membership loyalty program is considered to be an integral part of the overall services provided via the credit card and therefore a proportion of income should be deferred in relation to the fair value of the points awarded which will be subsequently recognized at the date of the redemption of the points. Accordingly, Vancity has estimated that 9.13% of interchange fees that should be deferred at the time the points are earned, based on an expected probability of redemption and estimated fair value of the points and should be recognized in the consolidated statement of operations as points are redeemed.

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(d) Reconciliation notes (continued):

### (4) Member loyalty programs (continued):

As a result of this change, the following adjustments have been recorded in consolidated retained earnings:

	January 1, 2010	Net income effect during 2010	December 31, 2010
Deferral of interchange revenue	\$ (15,666)	\$ (144)	\$ (15,810)
Elimination of Visa points liability	18,182	2,120	20,302
Net increase in consolidated retained earnings (Note 31(d)(7)&(9))	\$ 2,516	\$ 1,976	\$ 4,492

### (5) Onerous contracts:

As a result of a substantial reduction in usage of services from an information technology service provider, Vancity has fallen significantly below a minimum contractually required transaction threshold according to the terms of the non-cancellable contract. Vancity is required to make minimum annual payments. As the unavoidable costs of meeting the contractually due payments exceed the economic benefits expected to be obtained through the contract, Vancity has recorded an onerous obligation at transition equivalent to the present value estimate of the unavoidable cost of fulfilling the contract. As a result, consolidated retained earnings was reduced by \$302,000.

In addition, various amounts were reclassified from accounts payable and accrued liabilities to provisions, as a result of required additional presentation on the face of the IFRS consolidated balance sheet.

	January 1, 2010	December 31, 2010
Provision in respect of an onerous contract obligation	\$ (302)	\$ (302)
Payments made during 2010	-	149
Net decrease in consolidated retained earnings (Note 31(d)(9))	\$ (302)	\$ (153)

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(d) Reconciliation notes (continued):

### (6) Reclassification of lease agreement:

On transition to IFRS, a review of all lease arrangements resulted in the reclassification of a lease from an operating to a finance lease.

	January 1, 2010	Net income effect during 2010	December 31, 2010
Removal of net book value of building under lease (Note 31(d)(7))	\$ (459)	\$ 140	\$ (319)
Reversal of deferred revenue set up in respect of prepaid lease payments (Note 31(d)(7))	1,936	(88)	1,848
Net increase in consolidated retained earnings (Note 31(d)(9))	\$ 1,477	\$ 52	\$ 1,529

### (7) Movements in other consolidated balance sheet items:

Premises and equipment:

	January 1, 2010	December 31, 2010
Removal of net book value of building under lease (Note 31(d)(6))	\$ (459)	\$ (319)
Write down of building to net recoverable value	(1,833)	(1,833)
Net decrease in premises and equipment	\$ (2,292)	\$ (2,152)
Write down of building to net recoverable value:		
- Decrease in other liabilities	\$ (623)	\$ (623)
- Decrease in retained earnings	(1,210)	(1,210)
Net decrease in liabilities and equity	\$ (1,833)	\$ (1,833)

The carrying value of a building was written down to its net recoverable amount as of January 1, 2010. The impairment loss was \$1.8 million, calculated based on management's best estimate of the asset's selling price less costs of disposal.

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

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## 31. Transition to IFRS (continued):

(d) Reconciliation notes (continued):

(7) Movements in other consolidated balance sheet items:

Other assets:

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	January 1, 2010	Net income and OCI effect during 2010	December 31, 2010
Write-off of retained interest:			
• Through net interest income and consolidated retained earnings (Note 31(d)(2))	\$ (12,244)	\$ 9,416	\$ (2,828)
• Through accumulated other comprehensive income ("AOCI") (Note 31(d)(10))	(1,166)	984	(182)
<b>Net decrease in other assets</b>	<b>\$ (13,410)</b>	<b>\$ 10,400</b>	<b>\$ (3,010)</b>

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# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(d) Reconciliation notes (continued):

(7) Movements in other consolidated balance sheet items (continued):

Accounts payable and other liabilities:

	Note	January 1, 2010	December 31, 2010
Member loyalty program	31(d)(4)	\$ (2,516)	\$ (4,492)
Write-off of servicing liabilities	31(d)(2)	(2,584)	(1,100)
Reversal of deferred revenue	31(d)(6)	(1,936)	(1,848)
Recognition of liability in respect of self-funded short-term disability costs	31(d)(9)	1,222	1,222
<b>Net decrease in accounts payable and other liabilities</b>		<b>\$ (5,814)</b>	<b>\$ (6,218)</b>

(8) Deferred taxes:

Based on the impact of the IFRS adjustments, Vancity has recalculated deferred taxes in accordance with IAS 12 - "Income Taxes" ("IAS 12"). As a result, an increase in the deferred tax asset has been calculated in the amount \$2.995 million and accordingly, consolidated retained earnings and AOCI have been increased by \$2.989 million and \$6,000 respectively as at January 1, 2010. See Note 11(c) on the breakdown of deferred tax assets and liabilities, along with movements during the year.

	January 1, 2010	December 31, 2010
Deferred taxes recognized in retained earnings	\$ 2,989	\$ (160)
Deferred taxes recognized in OCI	6	525
<b>Net increase in deferred tax assets</b>	<b>\$ 2,995</b>	<b>\$ 365</b>

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(d) Reconciliation notes (continued):

(9) Retained earnings:

The following summary outlines the total impact of the IFRS adjustments on the consolidated retained earnings.

	Note	Retained earnings impact January 1, 2010	Net income effect during 2010	Comprehensive income	Retained earnings impact December 31, 2010
Retirement benefit assets / obligations	31(d)(1)	\$ (4,434)	\$ 168	\$ (4,225)	\$ (8,491)
Loans and advances to members	31(d)(2)	-	(96)	-	(96)
Recognition of financial assets and liabilities	31(d)(2)	(12,899)	9,965	-	(2,934)
Deferred taxes	31(d)(8)	2,989	(4,290)	1,141	(160)
Onerous contracts	31(d)(5)	(302)	149	-	(153)
Member loyalty programs	31(d)(4)	2,516	1,976	-	4,492
Reclassification of lease agreement	31(d)(6)	1,477	52	-	1,529
Premises and equipment	31(d)(7)	(1,210)	-	-	(1,210)
Reclassification of foreign exchange losses on monetary AFS assets from consolidated retained earnings and net fee and commission income to AOCI	31(d)(10)	(1,173)	875	-	(298)
Recognition of liability in respect of self-funded short-term disability costs	31(d)(7)	(1,222)	-	-	(1,222)
<b>Net decrease in consolidated retained earnings</b>		<b>\$ (14,258)</b>	<b>\$ 8,799</b>	<b>\$ (3,084)</b>	<b>\$ (8,543)</b>

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Notes to the Consolidated Financial Statements  
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Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(d) Reconciliation notes (continued):

(10) AOCI:

The following summary outlines the total impact of the IFRS adjustments presented above on AOCI:

	Note	January 1, 2010	December 31, 2010
Deferred taxes	31(d)(8)	\$ 6	\$ 525
Reclassification of foreign exchange losses on AFS assets from consolidated retained earnings	31(d)(9)	1,173	298
Write-off of the retained interest valuation pertaining to the securitized mortgages derecognized under CGAAP	31(d)(7)	(1,166)	(182)
<b>Net increase in AOCI</b>		<b>\$ 13</b>	<b>\$ 641</b>

(11) Fee and commission income:

	Note	December 31, 2010
Member loyalty programs	31(d)(4)	\$ 1,976
Onerous contracts	31(d)(5)	149
Reclassification of foreign exchange losses on monetary AFS assets	31(d)(9)	875
<b>Net increase in fee and commission income</b>		<b>\$ 3,000</b>

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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## 31. Transition to IFRS (continued):

(e) Reconciliation of CGAAP financial statements to reclassified CGAAP

Reconciliation of CGAAP consolidated balance sheet to reclassified CGAAP per Note 31(a,b):

	CGAAP January 1, 2010	IFRS reclassification	Reclassified CGAAP January 1, 2010	CGAAP December 31, 2010	IFRS reclassification	Reclassified CGAAP December 31, 2010
<b>Assets</b>						
Cash and non-interest bearing deposits with financial institutions	\$ 132,637	\$ 12,100	\$ 144,737	\$ 196,589	\$ 12,100	\$ 208,689
Interest bearing deposits with financial institutions	2,119,602	-	2,119,602	1,804,231	-	1,804,231
Government and corporate securities	515,658	(515,658)	-	59,050	(59,050)	-
<b>Financial assets:</b>						
Fair value through profit or loss	-	30,404	30,404	-	36,714	36,714
Available-for sale	-	524,684	524,684	-	61,673	61,673
Accrued interest receivable	11,175	-	11,175	9,318	(486)	8,832
Derivative instruments	20,043	-	20,043	23,506	-	23,506
<b>Loans:</b>						
Residential mortgages	5,990,134	-	5,990,134	6,456,735	-	6,456,735
Commercial mortgages	1,272,422	-	1,272,422	1,453,256	-	1,453,256
Consumer loans	2,610,122	-	2,610,122	2,638,598	-	2,638,598
Business loans	1,527,471	-	1,527,471	1,642,950	-	1,642,950
Accrued interest receivable	20,755	-	20,755	23,324	1	23,325
Allowance for credit losses	(85,620)	-	(85,620)	(93,970)	-	(93,970)
	11,335,284	-	11,335,284	12,120,893	1	12,120,894
<b>Others:</b>						
Premises and equipment	79,923	3,108	83,031	86,207	11,806	98,013
Intangibles	2,842	-	2,842	11,687	-	11,687
Inventory	-	30,562	30,562	-	23,916	23,916
Investment property	-	1,864	1,864	-	1,232	1,232
Deferred tax assets	-	28,081	28,081	-	31,386	31,386
Assets held for sale	-	5,076	5,076	-	5,076	5,076
Retirement benefit assets	-	-	-	-	-	-
Other assets	193,364	(112,607)	80,757	156,684	(116,753)	39,931
	276,129	(43,916)	232,213	254,578	(43,337)	211,241
<b>Total assets</b>	<b>\$ 14,410,528</b>	<b>\$ 7,614</b>	<b>\$ 14,418,142</b>	<b>\$ 14,468,165</b>	<b>\$ 7,615</b>	<b>\$ 14,475,780</b>

A reclassification adjustment was recorded in respect of restricted cash pledged as collateral for derivative transactions, which increased cash and decreased other assets by \$12.1 million as at January 1, 2010 and December 31, 2010.

As at January 1, 2010, a recasting adjustment was recorded in respect of intercompany capitalized interest, which increased inventory and retained earnings by \$7.6 million.

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
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## 31. Transition to IFRS (continued):

(e) Reconciliation of CGAAP financial statements to reclassified CGAAP (continued):

Reconciliation of CGAAP consolidated balance sheet to reclassified CGAAP per Note 31(a,b) (continued):

	CGAAP January 1, 2010	IFRS reclassification	Reclassified CGAAP January 1, 2010	CGAAP December 31, 2010	IFRS reclassification	Reclassified CGAAP December 31, 2010
<b>Liabilities:</b>						
<b>Deposits:</b>						
Demand	\$ 3,981,827	\$ -	\$ 3,981,827	\$ 4,197,454	\$ -	\$ 4,197,454
Term	8,145,344	-	8,145,344	8,313,020	-	8,313,020
Shares	101,105	-	101,105	101,794	-	101,794
Accrued interest and dividends payable	91,476	-	91,476	80,383	-	80,383
	12,319,752	-	12,319,752	12,692,651	-	12,692,651
Derivative instruments	10,900	-	10,900	12,144	-	12,144
<b>Borrowings:</b>						
Demand loans and banker's acceptances	795,000	(795,000)	-	332,468	(332,468)	-
Bearer deposit notes	355,845	(355,845)	-	398,888	(398,888)	-
Wholesale borrowings	-	1,150,845	1,150,845	-	731,356	731,356
Accrued interest payable	4,319	-	4,319	1,235	-	1,235
	1,155,164	-	1,155,164	732,591	-	732,591
Accounts payable and accrued liabilities	227,091	(37,225)	189,866	261,223	(49,349)	211,874
Provisions	-	4,056	4,056	-	5,686	5,686
Current tax liabilities	-	6,625	6,625	-	10,826	10,826
Retirement benefit obligation	-	19,673	19,673	-	22,640	22,640
Other liabilities	-	6,871	6,871	-	10,198	10,198
<b>Total liabilities</b>	<b>\$ 13,712,907</b>	<b>\$ -</b>	<b>\$ 13,712,907</b>	<b>\$ 13,698,609</b>	<b>\$ 1</b>	<b>\$ 13,698,610</b>
<b>Members' Equity:</b>						
<b>Capital and reserves attributable to members:</b>						
Contributed surplus	29,275	-	29,275	29,275	-	29,275
Retained earnings	656,399	7,614	664,013	733,813	7,614	741,427
Accumulated other comprehensive income	11,947	-	11,947	6,468	-	6,468
<b>Total member's equity</b>	<b>\$ 697,621</b>	<b>\$ 7,614</b>	<b>\$ 705,235</b>	<b>\$ 769,556</b>	<b>\$ 7,614</b>	<b>\$ 777,170</b>
<b>Total member's equity</b>	<b>\$ 14,410,528</b>	<b>\$ 7,614</b>	<b>\$ 14,418,142</b>	<b>\$ 14,468,165</b>	<b>\$ 7,615</b>	<b>\$ 14,475,780</b>

# VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2011

## 31. Transition to IFRS (continued):

(e) Reconciliation of CGAAP financial statements to reclassified CGAAP (continued):

Reconciliation of CGAAP consolidated statement of operations to reclassified CGAAP per Note 31(c):

	CGAAP December 31, 2010	IFRS reclassification	Reclassified CGAAP December 31, 2010
Interest income:			
Loans	\$ 501,858	\$ 6,031	\$ 507,889
Cash and securities	23,982	-	23,982
Other	5,688	5,003	10,691
	531,528	11,034	542,562
Interest expense:			
Deposits	162,043	(1,232)	160,811
Wholesale borrowings	5,672	-	5,672
Other	19,262	11,580	30,842
	186,977	10,348	197,325
Net interest income	344,551	686	345,237
Provision for credit losses	27,682	-	27,682
Fee and commission income:			
Account service fees	22,550	70	22,620
Credit card fees	30,359	-	30,359
Foreign exchange	10,622	-	10,622
Insurance service fees	2,872	-	2,872
Loan fees	2,294	300	2,594
Trust and investment fees	16,769	-	16,769
Loan insurance fees	7,770	-	7,770
Securitization income	1,425	(1,425)	-
Other	2,730	(2,730)	-
	97,391	(3,785)	93,606
Fee and commission expense:			
Credit card expense fees	-	20,151	20,151
Other fees paid	-	5,664	5,664
	-	25,815	25,815
Net fee and commission income	97,391	(29,600)	67,791
Hedge ineffectiveness on cash flow hedges	-	16	16
Recovery (impairment) of securities	6,888	-	6,888
Real estate development income	2,866	-	2,866
Other income	-	3,152	3,152
	9,754	3,168	12,922
Total operating income	424,014	(25,746)	398,268
Operating expenses:			
Salaries and employee benefits	163,962	-	163,962
Occupancy and equipment	37,093	-	37,093
General operating	97,422	(25,746)	71,676
	298,477	(25,746)	272,731
Gain from business reorganization and other	259	-	259
Earnings from operations	125,796	-	125,796
Distributions to community and members	24,856	-	24,856
Earnings before income taxes	100,940	-	100,940
Provision for income taxes	23,526	-	23,526
Net earnings	\$ 77,414	\$ -	\$ 77,414