

A photograph showing a woman with long brown hair, wearing a purple cardigan over a black top, smiling as she hands a brown paper bag to a man. The man has short dark hair and a goatee, wearing a black jacket, and is also smiling. They are at a service counter. In the background, there is a white wall with a sign that reads "Kitchen Staff and you will provide you with the entire dinner and it's ingredients being..." and a water dispenser.

2011 Annual Report  
Disclosure on management  
approach

**Vancity**  
Make Good Money.™

Disclosure on management approach: **South Fraser Community Services**

The Front Room Resource Centre, run by South Fraser Community Services in Surrey, BC, is a place where people in need can escape the cold and rain, get a shower, a hot meal, a bed and some guidance, 24 hours a day.

But the organization knows that to help people regain their lives, you have to tackle some of the root causes of homelessness—mental illness and drug addiction—with a round-the-clock support system aimed at setting people on the road to recovery.

That's why, with a mortgage from Vancity, South Fraser Community Services purchased a duplex that can house ten men. To cover the down payment, it received a grant from the Surrey Homelessness and Housing Fund.

## Vancity's 2011 Disclosure on Management Approach

This document is designed to be read in conjunction with Vancity's 2011 Annual Report, and is prepared in accordance with the Global Reporting Initiative's Sustainability Reporting Guidelines (G3.1) including the Financial Services Sector Supplement. It is accurate as at December 31, 2011, and provides detailed information on how Vancity manages material performance aspects, i.e. overarching goals, policies, procedures and monitoring systems as well as some standard disclosures and qualitative performance indicators. We created this document to avoid repeating information in our annual report that remains fairly constant, year after year. We update this document annually, and we note any significant changes to our management systems in our annual reports.

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## **Introduction: Vancity's framework for doing business**

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Vancity is a financial co-operative with a vision to redefine wealth. This means we put the needs of the members we serve first to enhance their well-being and create positive community impact. We believe we can only truly prosper as individuals if we're surrounded by and connected to a vibrant, healthy community that is sustainable for the long term. Our goal is to create positive member and community impact through all our operations—from how we make money to how we spend and invest it. We don't have a separate sustainability strategy; rather, we have a sustainable business strategy.

We're guided by the Co-operative Principles and, specifically, our Statement of Values and Commitments, which we created in 2000 with input from members, employees and community representatives. The Statement sets out our mission, purpose, our values of integrity, innovation and responsibility, and six commitments that guide our approach to doing business. Our Ethical Policy is a set of guidelines that help us decide which organizations we want to do business with (see Ethical Policy, p. 13).

🔗 [vancity.com/2011annualreport](http://vancity.com/2011annualreport) (About Vancity pp. 18-19, Operating context pp. 22-24, Vision and business strategy p. 25)

🔗 [vancity.com/values](http://vancity.com/values) (Co-operative Principles, Statement of Values and Commitments, Ethical Policy)

## Economic aspects

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We contribute to the economy in many ways, for example by providing credit and advice, purchasing goods and services, providing salaries and benefits to employees, paying taxes, and through our granting programs and sponsorships.

🔗 [vancity.com/2011annualreport](http://vancity.com/2011annualreport) (Our core activities and how they create long-term value p. 39)

## Community investment

Each year we give back the equivalent of 30 per cent of our net earnings from operations through our Shared Success program. We share net earnings with our members in the form of share dividends and patronage rebates, and with our community in the form of grants that support our Vision and strategic objectives. This includes an annual donation to the Vancity Community Foundation. The Foundation is a public, separately incorporated registered charity with its own arms-length Board of Directors and is not included in Vancity's consolidated balance sheet. It makes grants to charitable organizations and directly delivers charitable programs.

In addition to Shared Success, each year we donate one per cent of net revenues from the Jumpstart High Interest Savings Accounts (or \$70,000, whichever is greater) to support the Future Foundations Program. This program provides financial education, saving incentives, and other resources to help low-income individuals and their families move towards self-sufficiency.

In 2011, organizational responsibility for granting programs was shared between our SVP Community Investment and SVP Marketing and Communications.

🔗 [vancity.com/2011annualreport](http://vancity.com/2011annualreport) (Making loans and investments pp. 41-51, Giving back to members and the community, and paying taxes pp. 67-67, Key financial results pp. 75-77)

🔗 [vancity.com/granting](http://vancity.com/granting)

🔗 [vancitycommunityfoundation.ca](http://vancitycommunityfoundation.ca)

## Market presence

Vancity is the largest organization in Canada to adopt a living wage policy and among a growing number of employers certified under Metro Vancouver's Living Wage Employer program. Our vision strongly aligns with the Living Wage Campaign's mission to reduce poverty. A living wage is different from a minimum wage; it reflects the hourly rate of pay that enables a family with two parents working full time and two children living in Metro Vancouver to meet basic living needs.

We try to leverage our spending dollars in the community. We also hire locally as much as possible, particularly at our branches. Vancity's procurement policy favours relationships with suppliers who demonstrate leadership in sustainable business practices. We include social and environmental criteria in our request for proposal process, including sourcing products and services locally.

🔗 [vancity.com/2011annualreport](http://vancity.com/2011annualreport) (Sustainable purchasing pp. 60-61)

## Indirect economic impacts

As a financial institution, we have an opportunity to be the catalyst for significant economic activity. We facilitate access to financial services and resources so members—individuals and business—can achieve their goals. In particular, we proactively seek to do business with organizations (for-profits, cooperatives, social enterprises, and not-for-profits) with a social and/or environmental purpose to build their organizational capacity and financial strength.

Understanding, measuring and reporting our indirect economic and community impact is a key priority, and in 2011 we began to measure and report the value of our organizational lending with demonstrable positive community impact. Our indirect impact includes jobs created or retained, greenhouse gas emissions reduced, increased home ownership, and greater participation in the economy as individuals attain financial literacy skills and economic self-reliance.

In addition, we work in partnership with local groups and societies to improve the quality of life in communities by undertaking socially responsible real estate development. We focus on the provision of affordable, accessible housing by balancing commercial, social/environmental and urban design factors in a manner that ensures long-term community sustainability.

[docksidegreen.ca](http://docksidegreen.ca)

## Environmental aspects

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Our goal is to enhance the environmental sustainability of our members' lives and their communities, and to provide clear environmental sustainability leadership in the financial sector. We are committed to action on four fronts:

- Reducing the environmental footprint of our operations
- Helping members and employees act by providing education and products and services that benefit the environment
- Enabling the community to act by funding projects that reduce negative environmental impacts
- Encouraging governments to implement public policy changes that reduce negative environmental impact.

As a service-based financial institution we do not manufacture any products and we are not a large direct emitter of greenhouse gases. Our Ethical Policy, which guides which organizations we lend to/do business, includes criteria related to environmental leadership (see page 13), and as noted above, we proactively seek to do business with organizations which benefit the community. We're a long-term signatory to the Ceres principles, a 10-point code of corporate environmental conduct. Our Environmental Policy commits us to making our operations, products and services as environmentally responsible as possible and to pursuing and encouraging activities that enhance the ecological and social health of the community. While we can't control which environmental programs are in place in the buildings we don't own, we try to work with our landlords where possible.

In 2011, our SVP Information Technology and Facility Management oversaw implementation of our environmental strategy.

[vancity.com/2011annualreport](http://vancity.com/2011annualreport) (Protecting the environment, p. 61)

## **Energy and greenhouse gas emissions**

We've been carbon neutral since 2008. This means we measure and reduce our greenhouse gas emissions as much as possible, then offset emissions through the purchase of registered carbon offsets from emission-reducing activities that others have undertaken. We focus our emission reduction efforts in four areas:

- Employee commuting
- Premises energy use
- Paper use
- Business-related travel, including a small fleet of vans and cars.

We are guided by the World Resources Institute's GHG Protocol and we prepare our reporting on greenhouse gases in accordance with ISO14064 Part 1. Our greenhouse gas emissions and carbon neutral assertion are externally assured.

We educate and engage our employees in reducing the greenhouse gas emissions from our operations by conducting regular employee communication and awareness campaigns. We have incentives and programs to encourage employees to commute via sustainable transportation modes, and we have a policy of locating our corporate offices near access to rapid transit.

🔗 [vancity.com/2011annualreport/accountabilitystmts](http://vancity.com/2011annualreport/accountabilitystmts) (Carbon offsets purchased in 2011 pp. 28-29, Vancity's 2011 Greenhouse Gas Inventory Report pp. 39-54)

## **Materials and waste**

Our Environmental Policy states we want to reduce our consumption of natural resources and production of waste, and to reuse and recycle resources and materials. As a service-based organization, our major material input and output is paper. Paper use and quality is managed as part of our carbon neutral commitment. We have recycling and waste-reduction programs along with a commitment to using environmentally friendly office materials, including office paper that is made from 100 per cent post-consumer waste. Our printers are set to print double-sided. We have a comprehensive recycling policy and program covering paper products (including paper towels and disposable coffee cups), as well as glass, cans, plastic, batteries, toner cartridges, fluorescent tubes, electronic equipment, furniture, and construction waste. We also have a composting program.

We recycle, re-use or donate furniture, computer or technical equipment that has reached the end of its life at Vancity. In addition, we have a list of environmental criteria for contractors to follow when renovating or building office locations. We also have criteria to cover other services, for example we request paint made with low or no volatile organic compounds, and green products for cleaning.

Our Facility Management department conducts waste audits every two years to measure and track the volume and type of outputs from our operations and staff activities. The results of these audits allow us to implement additional programs and engage suppliers and staff in efforts to reduce waste.

## Water

To conserve water at owned facilities, we use water-efficient appliances, repair water leaks as soon as is reasonably possible, and use water-efficient taps, faucets, toilets and urinals. We have set requirements for low water use in many of our new buildings. We track and report water use annually at facilities where water meters are installed.

## Labour practices and decent work aspects (including human rights in the workplace)

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Our Statement of Values and Commitments states we want to ensure Vancity is a great place to work. We want proud, motivated and diverse employees who are inspired to make a difference for members and their communities through the work they do. Our Human Resources department, led by our VP Human Resources, supports Vancity on all people-related issues.

[vancity.com/2011annualreport](http://vancity.com/2011annualreport) (Investing in employees, pp. 55-58)

## Employment

An engaged and diverse workforce leads to improved productivity, innovation, member service and profitability. We've been measuring employee engagement—defined as the energy or passion employees have for their employer—for many years through an annual survey. This, along with monitoring of employee turnover and additional employee feedback, provides us with a picture of how we're doing as an employer. Employee engagement is one of metrics on our organizational scorecard and is a key way we measure success. Every year, we focus on addressing specific issues organization-wide to increase engagement scores organizationally. Each branch and department is also encouraged to establish action plans to deal with their specific issues. We believe a primary driver of employee engagement comes from the leadership capabilities of the organization. Our Executive Leadership Team's compensation is tied to our achievement of annual employee engagement targets.

In alignment with our Total Rewards philosophy, our goal is to provide the right compensation, benefits, perks and recognition to attract and retain employees and to reward behaviour that aligns with our goals and vision. Our rewards package is benchmarked to our competitive market. The package includes base salary, variable pay (incentive plans and profit share) and benefits including retirement savings plans, free chequing accounts, discounted mortgage/loan rates and a flexible health benefits plan.

Our profit share program recognizes each employee's contribution to Vancity's success. The distribution of profit is based on scorecards aligned with our vision, and encourages employees to work together as a team to support business goals. Permanent employees are eligible for one of two retirement plan options: a group registered savings plan, or a defined benefits plan.

We offer all permanent full- and part-time employees the same comprehensive flexible benefits package, and provide flexible work arrangements and wellness programs to help employees maintain a healthy balance between their work and personal commitments.

[vancitycareers.com/benefits/](http://vancitycareers.com/benefits/)

[vancity.com/2011annualreport](http://vancity.com/2011annualreport) (Vancity as a Living Wage Employer, pp. 60-61)

### **Labour-management relations, freedom of association and collective bargaining**

We have collective agreements with two unions: The BC Government and Services Employees Union (BCGEU) and the Pulp and Paper Workers of Canada (PPWC). We believe that open and intentional communications with our union colleagues can promote discussion, transparency and proactive problem-solving around both issues and opportunities that impact community, members, employees and our workplace. Vancity does not endorse or discourage unionization, and recognizes that it's each employee's individual choice.

To ensure continued industry competitiveness, we are at times required to make changes in the delivery of our services that result in changes to existing roles and/or the elimination of positions. We make every effort to retain the skills and knowledge of displaced people within Vancity through redeployment to alternative positions. During periods of transition, we are committed to open communications and we provide career transition support to assist and support impacted employees. Our Employment Transition Policy for non-union employees requires us to provide as much notice as possible to employees who are directly impacted by proposed changes.

For unionized locations, the BC Labour Relations Code specifies that if an employer introduces or intends to introduce a measure, policy, practice or change that affects the terms, conditions or security of employment of a significant number of employees to whom a collective agreement applies, then the employer must give at least 60 days notice from the effective date to the trade union.

### **Occupational health and safety**

We are committed to providing a healthy and safe workplace. As a financial institution, our most significant health and safety issue is the risk of robberies. We have extensive robbery training and security procedures, as well as a robbery support program for affected employees.

Although the risk of work-related injuries at Vancity is relatively low, we review our health and safety program annually and collaborate with departments to ensure we're in compliance with relevant workplace standards, and provincial and federal legislation. Our Corporate Health and Safety Program includes the designation of Worker Safety Representatives and Joint Occupational Health and Safety (JOSH) committees. Information on these programs is available to all employees through our intranet. Our rules and safe work procedures manual sets out emergency procedures and general safety rules. It contains policies and procedures for workplace violence, including prevention and dealing with irate members or customers. Training for new hires includes a module on Handling a Robbery. An employee assistance program is available to all employees and their immediate families. It's a voluntary, confidential, short-term counselling, advisory and information service available 24 hours a day, seven days a week, and includes a robbery recovery support program.

Practical information on health and safety requirements is provided to all new employees as part of their orientation. In particular, managers are provided with a list of health and safety accountabilities, which includes appointing safety representatives or committees in their work area and orientation to safe work practices. We annually track and report robbery-related incidents, monitor the number of paid care days used per permanent employee, and maintain records of employee training on health and safety.

## Training and education

To be successful, we need to acquire, manage, develop and retain the talent required by the organization to drive our business strategy. This means regularly assessing performance and potential, and providing opportunities for learning and development to support both lateral moves and vertical advancement.

We encourage learning, growth and development through a variety of approaches from on-the-job development, formal courses, e-learning and conferences through to mentorship, coaching, volunteerism and specific job assignments. In addition we offer up to \$2,400 per year for professional development on non-work time. Our underpinning performance management system ensures that development opportunities are based on individual achievement and includes mechanisms for both positive and constructive feedback as well as personal development planning.

 [vancitycareers.com/careergrowth](http://vancitycareers.com/careergrowth)

## Diversity and equal opportunity, equal remuneration for women and men, non-discrimination, security practices, and remediation

We want a positive and welcoming work environment that is free from harassment and discrimination, where the individual differences of employees are valued. Having a workforce that reflects the communities we serve is important as it helps us better understand our members and meet their needs. We're guided by a Commitment to Diversity along with our Respect in the Workplace and Employment Equity policies, or relevant Collective Agreement for employees belonging to a union. These policies are required reading for new employees. Respect in the Workplace e-learning is a required course for all employees and helps employees understand the various aspects of harassment and discrimination or bullying.

Our Employee Diversity strategy is supported by an employee Diversity in Action team, with the objective of identifying and removing barriers in our employment practices and policies and ensure that all employees have appropriate, accessible information regarding diversity and human rights. Our Workplace Accommodation Policy sets out how we will change our standard practices and arrangements if they place an employee at a disadvantage in the workplace.

Our Employee Code of Conduct, Employment Equity Policy and Respect in the Workplace Policy set out procedures for making and dealing with employee complaints and any requisite corrective actions. Our collective agreements govern union employees and include formal procedures for resolving workplace issues. We track grievances and breaches of the Code of Conduct and report these quarterly to the Conduct Review Committee of the Board.

 Commitment to diversity: [vancity.com/values](http://vancity.com/values)

## Society aspects

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Our vision to redefine wealth focuses on meeting the long-term needs of the people we serve, and their communities. We serve residents of British Columbia through branches in Metro Vancouver, the Fraser Valley and Victoria and through Citizens Bank, we also operate in Calgary, Toronto and Vancouver.

## Local communities

Our vision to redefine wealth means putting the needs of the members we serve first to enhance their well-being and create positive community impact. We involve the community when designing new branches to ensure our branches reflect the community in which they are located. Through annual and post-transactional surveys, we ask for member opinions on a range of issues, including satisfaction with products and services. Results are reported by diversity (gender, age, with a disability, Aboriginal, low-income, etc.) to help ensure we are meeting the needs of all our members and communities.

Our Statement of Values and Commitments commits us to ensure low-income and marginalized individuals have access to basic financial products, services and education. We provide access to basic banking services at a cost that low-income people, youth, immigrants, refugees and other vulnerable populations can afford, with programs that support sound financial decision-making.

We continue to look for innovative ways to recognize unique circumstances within our communities and develop programs that support access to banking and credit and that have a positive community impact. We place an emphasis on supporting access to affordable housing and home ownership, and economic self-reliance. We have an Aboriginal strategy to assist Aboriginal organizations and First Nations in their efforts to improve the standard of living of their members and move forward in their goal of financial independence. Through a partnership with the Portland Hotel Society, at Pigeon Park Savings we serve some 3,700 low-income and marginalized individuals living in Vancouver's Downtown Eastside - Canada's poorest neighbourhood.

 [vancity.com/financialliteracy](http://vancity.com/financialliteracy)

Our branches are wheelchair-accessible, our Automated Teller Machines (ATMs) have Braille keypads and our walk-up ATMs have guided voice functionality. Our websites are designed to be accessible by those who use screen-reading devices such as JAWS (Job Access With Speech). We train senior call centre agents to provide TTY (text telephone) banking services to members with hearing disabilities. When merging or relocating branches, we keep members informed through a variety of mechanisms including statement inserts, letters and signs.

 [vancity.com/waystobank](http://vancity.com/waystobank)

## Internal fraud (corruption)

We communicate our values, Vision, key strategies and Ethical Policy to new employees during their orientation, and on an ongoing basis as opportunities arise.

All Board [Directors](#) and [employees](#) are required annually to review and sign off on a code of conduct, which necessitate adherence to a high standard of business ethics. We have a process to monitor that this gets done. The codes also set out the reporting responsibilities of employees, should they observe anything that appears to violate the terms of the policy. Employees can report any suspected incidents of serious business misconduct to their managers or through a secure, third-party, anonymous reporting system.

Additional policies and procedures governing cash handling, member transaction processing, and other internal processes, include controls such as dual custody, passwords and transaction limits. These are designed to mitigate the risks of employee dishonesty. Employee dishonesty is

covered in the security training given to new employees whose jobs require it, and representatives from our Corporate Security department periodically meet with groups of branch managers to raise awareness of employee dishonesty and provide guidance in managing incidents. Our Employee Dishonesty Policy requires that all incidents of employee dishonesty are reported for investigation, and if substantiated, the employee could be dismissed. We report incidents of employee dishonesty and/or breach of conduct to the Audit and Operational Risk and Conduct Review Committees, who monitor for any significant breakdown in controls and/or business ethical issues.

### **Political activities and public policy**

Vancity is a non-partisan organization and does not affiliate with or support any particular political party. Therefore, we do not permit use of corporate funds to provide political contributions.

We participate on committees and have memberships and relationships with other organizations and industry associations, including the Canadian and BC Co-operative Associations and allied co-ops and Central 1 (the central financial facility and trade association for the BC and Ontario credit union systems). We work with these groups and communities to help inform stakeholders about ways to reduce negative impacts that can help inform public policy and community response to such impacts.

### **Compliance (anti-competitive behaviour)**

In 2011, our SVP Governance, Risk and Compliance, supported by our compliance, legal services, and internal audit departments, was accountable for ensuring the organization is aware of and has procedures in place to ensure compliance with applicable laws, regulations, legislation and codes of conduct. As part of the normal course of business, Vancity occasionally faces legal proceedings. Updates on significant litigation and potential litigation are reported to the Board's Audit and Operational Risk Committee quarterly. Provisions are recorded in the financial statements where appropriate.

## **Product responsibility aspects**

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### **Product and service labelling, and fair design and sale of products and services**

We're committed to delivering top-quality banking and other financial services at a fair, reasonable price to all our members. We monitor and make adjustments to interest rates to ensure our competitiveness. In accordance with relevant legislation, we disclose interest rates and fees associated with our products and services. All fees associated with our *Visa* cards are disclosed in our *Visa* disclosure statement. We post our approach to member fees and rates on our website. In addition, we offer a number of programs to increase financial literacy for individuals, micro-entrepreneurs and community organizations including an online financial literacy program.

 [vancity.com/feesandrates](http://vancity.com/feesandrates)

 [vancity.com/financialliteracy](http://vancity.com/financialliteracy)

### **Mechanism to collect and respond to client feedback**

As well as providing members with outstanding service, we are committed to provide meaningful opportunities for members to have input in setting the direction of the credit union. We take

member input and complaints seriously and view them as our best way to identify and rectify problems. In 2011, member engagement and satisfaction was overseen by our SVP Member Services and our SVP Marketing and Communications.

Each year we survey our personal and business credit union members (including not-for-profit members) to measure their satisfaction and loyalty, which encompasses all their various experiences (or “touch points”) with our products and services. We monitor member loyalty scores and include the results and our responses in our annual reports. In addition, through a Member Experience Tracking System we learn about the experiences of members who borrowed, invested or opened new accounts in the week previous to being interviewed. This information is used to understand and improve our performance.

In addition to surveys, members can provide feedback through our branches, call centre and website and by mail, and email. They can also attend and participate in our Annual General Meeting and run for or vote for our Board of Directors (subject to eligibility). In addition, we use online member panels and hold focus groups with members (and sometimes non-members) on various topics to inform our strategies, products and services.

As a credit union and a co-operative, the Board of Directors is accountable to our membership. Our members have the option of communicating their concerns to their board. Only a very small minority of concerns are escalated to the Board, CEO, or SVP levels. The vast majority of concerns are handled directly by front-line staff. Members may also choose to communicate their concerns via an external party, such as FICOM, Central 1, or the Better Business Bureau.

When it comes to member concerns, our goal is that they are dealt with in a timely manner by the branch or member-facing employee receiving the complaint. We don't formally track or report on all complaints on an ongoing basis; rather, themes are discussed at regional branch manager meetings. We do formally track complaints that are received by the Board of Directors, the Office of the CEO, and/or the SVP Member Services. These complaints are reported to the Board by category on a quarterly basis. We have systems that allow us to track, monitor, and report member responses to significant issues as they arise; for example branch closures or a significant change to a product or service.

[vancity.com/complimentsandcomplaints](http://vancity.com/complimentsandcomplaints)

### **Marketing communications**

In 2011, our SVP Marketing and Communications was responsible for ensuring all our advertising, sponsorships, and other marketing-related communications adhere to the Canadian Code of Advertising Standards. For TV commercials, our advertising agencies are responsible for acquiring clearance from The Telecaster Committee of Canada. As required, we obtain approval from the Canadian Broadcasting Corporation.

### **Member privacy**

We are committed to ensuring the accuracy, confidentiality and integrity of members' personal information. We do not sell member information to third parties and we obtain our members' consent to collect, use and disclose personal information. We conduct business according to our Member Privacy Statement and Member Privacy Code, which sets clear guidelines for employees. This code is in accordance with the federal *Personal Information Protection and Electronic Documents Act* (PIPEDA) and British Columbia's *Personal Information Protection Act* (PIPA). Our practice is to inform members if they may have been subject to a privacy breach.

All employees are required to complete a privacy e-learning course every two years. We have a system to track and report which employees have taken the training and who has passed or failed the course. Certain employees, particularly those who deal with member information on a regular basis, must pass the course (along with other required courses) to be eligible for profit-share.

Privacy issues are handled by our Corporate Privacy Office, which in 2011 was overseen by our SVP Governance, Risk and Compliance. Members have the option of escalating privacy concerns to the Office of the Information and Privacy Commissioner of British Columbia.

[vancity.com/privacy](http://vancity.com/privacy)

## Compliance

Our goal is to comply with applicable laws, regulations, legislation and codes of conduct.

## **Risk aspects (including human rights in investment and procurement practices, and product and service impact aspects per the Financial Services Sector Supplement)**

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### Our approach to risk

[vancity.com/2011annualreport](http://vancity.com/2011annualreport) (Integrated governance and risk management, pp.71-72)

[vancity.com/2011annualreport/financialstmts](http://vancity.com/2011annualreport/financialstmts) (Note 23, Risk management framework and how we manage credit, liquidity and market risk)

In assessing risk appetite we ask the question: Does what we do match our members' perception of the risks we should be taking? Return for the risk we take is characterized by creation of measureable member value in economic as well as social and environmental terms.

For each risk category we set risk appetites, tolerance levels and monitoring standards. Our risk monitoring and oversight practices include regular reporting to the appropriate management committees and the Board of Directors. We review risk management policies and systems annually to reflect changes in market conditions, products and services offered, and changes to portfolio performance and trends.

Responsibility for approving Vancity's overall risk appetite, and for monitoring the integration of our enterprise-risk framework and adherence to risk policy, lies with the Board of Directors. Individual risk areas may be delegated to Board committees for oversight. We assign accountability for ensuring each principle risk is well managed to the relevant member of the executive leadership team. We want to enable all parts of our business to understand, examine and assess the impact and likelihood of risks.

The Board's Audit and Operational Risk Committee's principal role is to apply due diligence in ensuring that an effective risk management and control framework has been implemented by management. It is responsible for the oversight of the design and implementation of internal controls to support the risk management framework, the integrity of reporting, and compliance with regulatory matters.

Internal audit and compliance functions assist the Audit and Operational Risk Committee by monitoring adherence to the risk management processes, policies and procedures in place within Vancity. Our internal audit function provides an independent assessment of the controls in place to: safeguard Vancity's assets and members' deposits; comply with laws and regulations; have reliable financial and management information; and have efficient and effective operations. Internal Audit's annual audit plan considers risk conditions. Through annual audits, Internal Audit independently evaluates risks and controls within the business units and reports to management and the Audit and Operational Risk Committee on the adequacy and effectiveness of risk management and systems of internal control, together with ideas, counsel and recommendations to improve these systems. Most high-risk areas are audited at least once every three years, and severe risk areas are audited more frequently.

### **Ethical Policy**

Our Ethical Policy is a set of guidelines that help us decide which organizations we want to do business with. Key areas covered include ethical business practices, environmental leadership, respect and fair treatment, healthy communities and peaceful communities. The Ethical Policy applies to relationships with external organizations, including business and not-for-profit members, suppliers, treasury relationships, strategic business/community partners and grant recipients.

Procedures for screening against the Policy are risk-based: the more significant the relationship in terms of dollars or profile, the deeper the level of analysis performed. Screening procedures have been integrated into existing policies and procedures where possible, such as lending, account opening, and purchasing policies and procedures. Ethical Policy screening for business account relationships is well-integrated into relevant policies and procedures: all business accounts are subject to some level of Ethical Policy screening at the time of account opening, which includes the assessment of environmental and social risk. Screening is also triggered by an escalation in services provided. For strategic business relationships, such as major suppliers and partners, we use our highest type of due diligence—a formal screen with 45 indicators across a broad range of environmental, social and governance criteria.

In 2011, oversight of the Ethical Policy was the responsibility of the SVP Community Investment. Vancity Internal Audit and our external sustainability assurance provider may periodically check compliance. Ethical Policy training is available online to all employees and is designed to equip relevant staff with the knowledge, tools and skills to apply the Policy. We review the Ethical Policy regularly to ensure it remains relevant to our business decision-making and operations, and reflects changes in the external environment and member opinions.

[vancity.com/ethicalpolicy](http://vancity.com/ethicalpolicy)

### **Procurement**

Departments responsible for purchasing goods and services for our business are guided by our Procurement Policy, which is aligned to our Ethical Policy. Our procurement process requires us to conduct formal Ethical Policy screens on strategic suppliers, including treasury relationships, before entering into a relationship. Thereafter, we require that treasury relationships are screened once a year and all other strategic suppliers and business relationships are screened once every two years. Strategic suppliers are those with a total annual spend of more than \$250,000 or who pose a high financial or reputational risk. In 2011, the CFO was responsible for the Procurement Policy and associated processes.

## Lending

We manage key lending risks, including financial, social and environmental risks, through our lending and investment policies, which are aligned to our Ethical Policy. We believe the application of our policies and practices translates into prudent lending and reduced reputational risk. Beyond risk management, we take an innovative approach to lending and seek to do more business with organizations that benefit their communities. In 2011, responsibility for lending to businesses and managing the associated risks was with the SVP, Community Investment.

The Environmental Risk Policy requires employees to exercise due diligence in applying the Ethical Policy for identifying environmentally risky situations in order that environmental risk and liability are minimized. Our Lending Policy describes procedures for considering social and environmental issues. All loan underwriting must include an assessment of the potential financial, legal and reputational risks associated with these issues. The Policy also gives consideration to the effect of natural disasters – such as storms and floods – which could come about as a result of climate change. Procedures also exist with respect to business interruption caused by natural disasters. An emerging risk is the impact of climate change on rising sea levels, particularly in the low-lying coastal areas of BC. We monitor and seek to better understand this issue and its long-term implications. In accordance with the Ethical Policy and/or the Environmental Policy, we reserve the right to decline financing for activities that, while technically in compliance with laws and regulations, have significant adverse environmental or social consequences.

Social and environmental risks of larger business banking loans (non-credit-scored loans) and commercial mortgages are assessed at the time of the loan application, guided by our Ethical and Lending policies, and subject to environmental due diligence. An Environmental Cautions list assists employees in determining which organizations and projects may have significant adverse environmental consequences and so require further investigation prior to engaging or renewing a relationship. When managing risk on lending to any type of business on this list, we take additional precautions, such as more frequent and in-depth monitoring. For commercial mortgages, and a majority of our business loans, site visits are a mandatory pre-funding condition. These visits can identify environmental and social issues.

As well as minimizing the negative impacts of our lending practices, our Ethical and Environmental Risk policies commit us to play a leadership role in supporting members and the community to adopt positive environmental practices, including those that mitigate climate change and its impact. Within prudent credit guidelines or special loan programs, we will find ways to meet their credit needs. We also support municipal, provincial, and federal efforts to protect the environment and support social improvements through lending practices and special loans programs.

We also provide growth capital to small-to medium-sized organizations based in BC. Environmental and social risks are assessed on a transaction-by-transaction basis by the investment manager, with support if necessary from subject matter experts.

Our personal, commercial and business lending areas are subject to an internal audit annually. To the extent that regulatory and strategic risks are addressed by environmental and social policies, the controls that ensure compliance are reviewed and tested by Internal Audit, as required. Staying abreast of changes in the external environment and developing the capabilities necessary to address these changes is integral to maintaining our professional standards.

Our goal is to provide members with best advice on how they structure their debt, including responsible use of credit, and to educate members on financial management. We offer a range of financial literacy tools to help members understand the true costs and obligations of borrowing, and our policies encourage member-serving employees to work with directly members to find solutions to their problems. Factors we look at when lending include the use of the loan, the member's history with Vancity, and the member's credit history.

The majority of our loans outstanding are residential mortgages. One key way we mitigate risk and build capacity for future loan growth is by insuring approximately one quarter of our residential mortgage portfolio. In addition, our residential mortgage process includes an advisory session as the first step in the application process to determine if debt is the best option for the member. We decline credit if we don't think it is in the member's best long-term interests, even if it means that member might end up borrowing from another financial institution.

### **External fraud**

It's important we safeguard the credit union's assets as well as protect members from fraud. Our code of conduct, risk-management policies and procedures and employee training programs are designed to protect members from fraud and employee misconduct. Members also play an important role in fighting financial crime, and Vancity provides tools and information to help members protect themselves.

The types of fraud we and our members are exposed to continue to evolve along with technological advances. We collaborate with our technology partners, the credit union system and Interac to protect members through fraud prevention programs and sophisticated fraud detection and monitoring systems. We provide a notification feature that lets members know when certain activity or changes have occurred on their account through a computer or through mobile banking.

Our Anti-Money Laundering and Terrorist Financing Policy, along with fraud and forgery policies, help us mitigate risk in transactions and specific areas of the business due to money laundering, identity theft, debit card skimming and other types of fraud. Members are protected by the Debit Card Code of Conduct. We adhere to the voluntary Canadian Code of Practice for Consumer Debt Services, and we will reimburse members who incur losses due to unauthorized online banking or debit card transaction activity as long as they fulfill their responsibilities under the [Account and Services Guide](#) (for personal accounts) and the [Business Direct Access Services Agreement](#) (for business accounts).

 [vancity.com/privacysecurity](http://vancity.com/privacysecurity)

In 2011, the Director, Corporate Compliance & Chief Anti-Money Laundering Compliance Officer for Vancity was responsible for the development and application of compliance policies and procedures to detect and deter money laundering and terrorist financing activities, for reviewing these policies on a regular basis to test their effectiveness, and for the implementation of ongoing training for employees. Our policies and procedures comply with all requirements under the following legislation: the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act of Canada (PCMLTFA)*, the *Anti-Terrorist Act*, the *United Nations Suppression of Terrorism Regulations* and the *Canadian Criminal Code*.

Corporate Security provides ongoing employee training on external fraud and money laundering. This is in addition to security and anti-fraud training provided to employees through the new hire program. Relevant employees are required to complete an anti-money laundering

online course annually; a system is in place to track course completion. These employees must pass the course to be eligible for profit sharing. Incidents of money laundering or fraud are reviewed by our Corporate Security department, and we take action to recover funds from the member or third party where appropriate. Some matters are referred to the police, and large dollar losses are referred to an outside company for recovery.

## **Key externally developed voluntary charters, principles or initiatives to which we subscribe or endorse**

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[AA1000 series](#)

[Aboriginal Financial Literacy Committee](#)

[Accord Between the Government of Canada and the Voluntary Sector](#)

[Carbon Disclosure Project](#)

[Ceres principles](#)

[Code of Good Practice on Funding](#)

[Code of Good Practice on Policy Dialogue](#)

[Co-operative principles](#), International Co-operative Alliance

[Copenhagen Communiqué on Climate Change](#), The Prince of Wales's Corporate Leaders' Group on Climate Change

[Global Reporting Initiative Sustainability Reporting Guidelines](#)

[Living Wage Employer](#)

[London Benchmarking Group](#)

[Social Finance Task Force](#)

Standards of Sound Business and Financial Practices for Canadian credit unions

[United Nations Principles for Responsible Investment](#)

## **Key memberships in industry and advocacy associations**

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Note: Our positions on key issues are not necessarily the same as the associations'.

[Aboriginal Tourism Association of BC](#)

[BC Asset Building Collaborative](#)

[BC Co-operative Association](#)

[BC Living Wage Campaign](#)

[BC Non-profit Housing Association](#)

[BC Poverty Reduction Coalition](#)

[Better Business Bureau of Mainland BC](#)

[Board of Change](#)

[Business Council of BC](#)

[Canadian Bankers Association](#)

[Canadian Business Owner Strategy](#)

[Canadian Centre for Policy Alternatives](#)

[Canadian Co-operative Association](#)

[Central 1 Credit Union](#)

[Co-op Housing Federation of BC](#)

[Credit Union Central of Canada](#)

[Global Alliance for Banking on Values](#)

[Global Reporting Initiative](#) (Organizational Stakeholder)

[Industry Council for Aboriginal Business](#)

[International Integrated Reporting Committee](#) (Pilot Project)

[LOCO BC](#)

[Mortgage Investment Association of BC](#)

[Portfolio Management Association of Canada](#)

[Public Policy Forum](#)

[Social Investment Organization](#) (Canadian Association for Socially Responsible Investment)

[Urban Development Institute](#)

[United Community Services Co-op](#)

[World Council of Credit Unions](#)

Vancity is also a member of several local boards of trade, chambers of commerce and business improvement associations.