

A close-up photograph of a bartender's hands pouring beer from a tap into a glass. The bartender is wearing a dark shirt. The background is blurred, showing other taps and lights. The text is overlaid on the image in red and white boxes.

Consolidated financial
statements

2013

Vancity
Make Good Money.™

Victoria gastropub supports the local food movement

Spinnakers Gastro Brewpub in Victoria is a pioneer. In addition to launching the growth of the craft beer market, Canada's oldest brewpub has supported the local food movement for decades.

Owner Paul Hadfield relies on more than 35 Vancouver Island farmers to provide fresh seasonal ingredients for his restaurant's inventive menu and for products sold at the pub's Provision store, including artisan breads, handmade chocolates and baked goods.

Both Vancity and Spinnakers support Victoria's vibrant local food movement and are committed to green business practices: Spinnakers is a registered **Climate Smart** business and has made significant investments in energy-efficient machinery.

"We made local food an essential part of our business model decades ago," says Hadfield, "and now it's on everyone's tongue."

Consolidated Financial Statements of

**VANCOUVER CITY SAVINGS
CREDIT UNION**

Year ended December 31, 2013

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 Committee of the Board, comprising four directors who are not officers or employees of the Credit Union, has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. KPMG LLP, 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 Committee of the Board. Their report appears herein.



Tamara Vrooman

President and Chief Executive Officer



Lisa Coltart

Chief Financial Officer

March 4, 2014



KPMG LLP
Chartered Accountants
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Canada

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INDEPENDENT AUDITORS' REPORT

To the Members of Vancouver City Savings Credit Union

We have audited the accompanying consolidated financial statements of Vancouver City Savings Credit Union, which comprise the consolidated balance sheet as at December 31, 2013, the consolidated statements of operations, comprehensive income, changes in members' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the 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 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, 2013 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The letters are slanted and connected, with a long horizontal stroke underneath the signature.

Chartered Accountants

March 4, 2014
Vancouver, Canada

VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Balance Sheet
(Expressed in thousands of dollars)

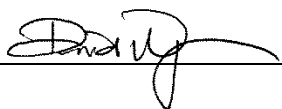
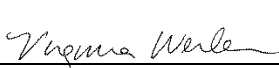
December 31, 2013, with comparative information for December 31, 2012

	Note	2013	2012
Assets			
Cash and cash equivalents		\$ 97,656	\$ 165,330
Interest bearing deposits with financial institutions		1,166,457	1,811,830
Financial assets:	5		
Fair value through profit or loss		369,302	325,058
Available-for-sale		643,235	153,284
		1,012,537	478,342
Accrued interest receivable		7,803	14,707
Derivative instruments	6	4,420	5,413
Loans and advances to members:	7		
Residential mortgages		7,720,175	7,426,860
Commercial mortgages		2,388,253	2,182,612
Consumer loans		3,020,473	2,931,077
Business loans		1,970,691	1,884,112
Accrued interest receivable		26,308	25,717
Allowance for credit losses		(65,812)	(78,369)
		15,060,088	14,372,009
Premises and equipment	8(a)	96,497	100,204
Intangibles	8(b)	31,148	32,846
Land held for development		13,676	13,676
Current tax assets		1,239	5,039
Deferred tax assets	9(c)	32,825	35,742
Other assets	11	21,887	20,690
Total assets		\$ 17,546,233	\$ 17,055,828
Liabilities and Members' Equity			
Deposits from members:			
Demand deposits		\$ 5,107,548	\$ 4,886,294
Term deposits		9,862,811	9,538,552
Shares	12	109,451	111,512
Accrued interest and dividends payable		105,450	101,852
		15,185,260	14,638,210
Derivative instruments	6	11,003	20,769
Borrowings:			
Secured borrowings	13	-	34,891
Wholesale borrowings		1,124,134	1,195,314
Accrued interest payable		1,995	2,063
		1,126,129	1,232,268
Accounts payable and accrued liabilities		204,786	203,592
Retirement benefit obligation	10(a)	51,369	58,280
Other liabilities		5,903	11,167
Total liabilities		16,584,450	16,164,286
Members' equity:			
Capital and reserves attributable to members:			
Contributed surplus		29,275	29,275
Retained earnings		945,032	883,619
Accumulated other comprehensive income (loss)		(12,524)	(21,352)
Total members' equity		961,783	891,542
Total liabilities and members' equity		\$ 17,546,233	\$ 17,055,828

Commitments and contingencies (note 24)

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

Approved on behalf of the Board on March 4, 2014:

VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Operations
(Expressed in thousands of dollars)

Year ended December 31, 2013, with comparative information for 2012

	Note	2013	2012
Interest income		\$ 599,070	\$ 600,267
Interest expense		257,970	239,200
Net interest income	14	341,100	361,067
Loan impairment expense	7(b)	7,088	9,043
Fee and commission income		99,444	103,587
Fee and commission expense		42,142	37,413
Net fee and commission income	15	57,302	66,174
Net gains on financial assets		15,430	2,246
Other income		871	2,696
Total operating income		407,615	423,140
Operating expenses:			
Salary and employee benefits	16	189,136	185,999
Occupancy and equipment		48,167	44,124
General and administrative	17	77,331	100,242
		314,634	330,365
Net earnings from operations before distribution and tax		92,981	92,775
Distribution to community and members	18	19,526	18,373
Net earnings from operations before tax		73,455	74,402
Income tax expense	9(a)	12,042	17,437
Net earnings from operations		\$ 61,413	\$ 56,965

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, 2013, with comparative information for 2012

	2013	2012
Net earnings from operations	\$ 61,413	\$ 56,965
Other comprehensive income (loss) for the year that was or may be reclassified to the consolidated statement of operations, net of tax:		
Net gains (losses) on available-for-sale financial assets:		
Unrealized gains arising during the year, net of tax of \$75 (2012 - \$411)	553	1,873
Amount transferred to the consolidated statement of operations, net of tax of \$1,200 (2012 – tax recovery of \$177)	(5,778)	804
	(5,225)	2,677
Cash flow hedges:		
Effective portion of changes in fair value, net of tax of \$543 (2012 - \$1,080)	2,423	4,920
Amount transferred to the consolidated statement of operations, net of tax of \$169 (2012 - \$13)	1,287	57
	3,710	4,977
Actuarial gain (loss) on defined benefit pension plans that will never be reclassified to the consolidated statement of operations, net of tax of \$2,109 (2012 – tax recovery of \$1,779)	10,343	(8,051)
Other comprehensive income (loss) for the year	8,828	(397)
Comprehensive income attributable to members	\$ 70,241	\$ 56,568

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, 2013, with comparative information for 2012

	Contributed surplus	AOCI		Employee benefits	Retained earnings	Total members' equity
		Hedging reserve	Fair value reserve			
Balance at January 1, 2013 (note 3(p))	\$ 29,275	\$ (8,427)	\$ 5,891	\$ (18,816)	\$ 883,619	\$ 891,542
Net earnings from operations	-	-	-	-	61,413	61,413
Other comprehensive income (loss) for the year, net of tax:						
Net gains on available-for-sale financial assets:						
Net unrealized gains during the year	-	-	553	-	-	553
Net amounts transferred to the consolidated statement of operations	-	-	(5,778)	-	-	(5,778)
Cash flow hedges:						
Net effective portion of changes in fair value	-	2,423	-	-	-	2,423
Net amount transferred to the consolidated statement of operations	-	1,287	-	-	-	1,287
	-	3,710	-	-	-	3,710
Actuarial gain on defined benefit pension plans	-	-	-	10,343	-	10,343
Other comprehensive income (loss) for the year	-	3,710	(5,225)	10,343	-	8,828
Total comprehensive income (loss) for the year	-	3,710	(5,225)	10,343	61,413	70,241
Balance at December 31, 2013	\$ 29,275	\$ (4,717)	\$ 666	\$ (8,473)	\$ 945,032	\$ 961,783
Balance at January 1, 2012 (note 3(p))	\$ 29,275	\$ (13,404)	\$ 3,214	\$ (10,765)	\$ 826,654	\$ 834,974
Net earnings from operations	-	-	-	-	56,965	56,965
Other comprehensive income (loss) for the year, net of tax:						
Net gains on available-for-sale financial assets:						
Net unrealized gains during the year	-	-	1,873	-	-	1,873
Net amounts transferred to the consolidated statement of operations	-	-	804	-	-	804
Cash flow hedges:						
Net effective portion of changes in fair value	-	4,920	-	-	-	4,920
Net amount transferred to the consolidated statement of operations	-	57	-	-	-	57
	-	4,977	-	-	-	4,977
Actuarial (loss) on defined benefit pension plans	-	-	-	(8,051)	-	(8,051)
Other comprehensive income (loss) for the year	-	4,977	2,677	(8,051)	-	(397)
Total comprehensive income (loss) for the year	-	4,977	2,677	(8,051)	56,965	56,568
Balance at December 31, 2012 (note 3(p))	\$ 29,275	\$ (8,427)	\$ 5,891	\$ (18,816)	\$ 883,619	\$ 891,542

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, 2013, with comparative information for 2012

	2013	2012
Cash flow from operating activities:		
Net earnings from operations before distribution and tax	\$ 92,981	\$ 92,775
Adjustments for:		
Loan impairment expense	7,088	9,043
Net gains on financial assets	(15,430)	(2,246)
Other items, net	20,291	9,799
	104,930	109,371
Change in derivative instruments	(5,063)	1,452
Change in deferred tax assets	2,917	6,419
Change in other assets	(1,206)	21,401
Change in accounts payable and accrued liabilities	1,194	16,338
Change in other liabilities	(1,832)	2,739
	100,940	157,720
Interest received	605,383	598,151
Interest paid	(254,950)	(230,402)
Income taxes paid	(7,041)	(7,379)
Net cash generated from operating activities	444,332	518,090
Cash flow from investing activities:		
Change in interest bearing deposits with financial institutions	645,373	271,447
Change in financial assets	(558,576)	(93,934)
Change in loans and advances to members	(1,259,058)	(1,688,928)
Purchase of premises and equipment	(14,284)	(20,781)
Purchase of intangibles	(1,796)	(12,418)
Change in inventory	-	1,415
Net cash used in investing activities	(1,188,341)	(1,543,199)
Cash flow from financing activities:		
Change in deposits from members	761,212	1,458,304
Change in shares	(2,061)	5,110
Secured borrowings repayment	(34,136)	(141,363)
Change in wholesale borrowings	(29,154)	(229,264)
Distributions to community and members	(19,526)	(18,373)
Net cash generated from financing activities	676,335	1,074,414
Cash and cash equivalents at the beginning of the year	165,330	116,025
Net increase (decrease) in cash and cash equivalents	(67,674)	49,305
Cash and cash equivalents at the end of the year	\$ 97,656	\$ 165,330
Cash and cash equivalents consists of:		
Cash and deposits held with Central 1 and other banks	\$ 73,654	\$ 133,721
Cheques and other items in transit	14,316	14,986
Restricted cash (note 24(d))	9,686	16,623
	\$ 97,656	\$ 165,330

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, 2013

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, 2013 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.

The consolidated financial statements were authorized for issue by the Board of Directors ("Board") on March 4, 2014.

(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 and the retirement benefit obligation, which is measured at the net of the fair value of the plan assets and the present value of the defined benefit obligation.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is Vancity's functional currency.

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2013

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) Comparative figures:

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

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, Vancity Capital Corporation, Vancity Life Insurance Services Ltd., SCU Insurance Services Ltd., Squamish Insurance Agencies Ltd., Vancity Investment Management Ltd. ("VCIM") and Dockside Green Limited Partnership. Vancity has a majority interest in Dockside Green Energy Limited Liability Partnership and it is fully consolidated in the results of Vancity.

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, 2013

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 acquisition, including cash on hand, cheques and other items in transit with original maturities of three months or less.

(d) Financial instruments:

(i) Categorization, measurement and recognition:

Management determines the categorization of its financial assets and liabilities at initial recognition. Vancity initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets 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: fair value through profit or loss ("FVTPL"), loans and receivables, and available-for-sale ("AFS"). Financial liabilities are categorized as either FVTPL or as other financial liabilities.

Financial assets and liabilities at FVTPL:

A financial asset or liability 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.

As at December 31, 2013, Vancity's FVTPL assets consist of long-term bonds and mortgage-backed securities. 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 and liabilities classified as FVTPL are recorded in net earnings from operations.

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2013

3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(i) Categorization, measurement and recognition (continued):

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 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; those that Vancity upon initial recognition designates as AFS; or 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.

At December 31, 2013 and 2012, Vancity's loans and receivables principally consist of loans and advances to members and other receivables.

Available-for-sale:

AFS assets are those non-derivative financial assets that are designated as AFS; are not classified or designated as FVTPL; or 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.

As at December 31, 2013, Vancity's AFS assets consist of treasury bills, banker's acceptances, mortgage-backed securities, convertible debentures and equity investments. As at December 31, 2012 Vancity's AFS assets also included holdings of asset-backed commercial paper and long-term bonds.

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2013

3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(i) Categorization, measurement and recognition (continued):

Other financial liabilities:

Other financial liabilities are measured at fair value on initial recognition and subsequently at amortized cost using effective interest method. At December 31, 2013 and 2012 other financial liabilities consist of accounts payable and accrued liabilities, borrowings, deposits and member shares.

(ii) Fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which Vancity has access at that date. The fair value of a liability reflects its non-performing risk.

When applicable, Vancity measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, Vancity uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. The subsequent measurement of the fair values of financial instruments quoted in active markets are determined by reference to closing bid prices for financial assets and ask prices for financial liabilities 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 and discounted cash flow analysis for investments in unquoted securities, discounted cash flow analysis for derivatives, third-party option pricing models for index-linked option contracts 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.

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2013

3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(iii) Impairment of financial assets:

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.

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.

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2013

3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(iii) Impairment of financial assets (continued):

On an ongoing basis, Vancity adjusts the inputs on its 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).

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 net earnings, 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 net earnings, 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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Notes to the Consolidated Financial Statements
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3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(iv) 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 special purpose entities ("SPEs") 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.

(v) 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.

(e) Derivative instruments and hedge accounting:

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

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3. Summary of significant accounting policies (continued):

(e) Derivative instruments and hedge accounting (continued):

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 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.

(f) Cash flow hedges:

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

The effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recognized in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in other income in the consolidated statement of operations. Amounts accumulated in members' equity are reclassified to the consolidated statement of operations in the periods when the hedged item affects net earnings. 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.

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3. Summary of significant accounting policies (continued):

(g) 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):

(h) 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 a 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.

(i) Premises and equipment:

(i) Recognition and measurement:

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

(ii) Subsequent costs:

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

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

(iii) Depreciation:

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

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

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3. Summary of significant accounting policies (continued):

(i) Premises and equipment (continued):

(iii) Depreciation (continued):

The residual values and useful lives of premises and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.

(iv) Impairment:

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

(j) Intangibles:

(i) Computer software:

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

(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.

(k) Leased assets:

Leases for which Vancity assumes 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.

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3. Summary of significant accounting policies (continued):

(l) Income taxes:

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in the consolidated statement of 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.

(ii) Deferred tax:

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

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

(m) Employee benefits:

Vancity operates various 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.

Vancity has one defined benefit pension plan that is registered with OSFI and regulated under the Federal Pension Benefit Standards Act, 1985. Vancity's other defined benefit pension plans are unregistered arrangements.

VANCOUVER CITY SAVINGS CREDIT UNION

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Year ended December 31, 2013

3. Summary of significant accounting policies (continued):

(m) Employee benefits (continued):

(i) Defined benefit pension plans (continued):

The retirement benefit obligation 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 and the effect of the asset ceiling (if any).

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.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plans assets and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. Net interest expense and other expenses related to defined benefit pension plans are recognized in the consolidated statement of operations.

(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.

VANCOUVER CITY SAVINGS CREDIT UNION

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3. Summary of significant accounting policies (continued):

(m) Employee benefits (continued):

(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 10(h).

(n) Provisions:

A provision is recognized if, as a result of a past event, Vancity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived by Vancity from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, Vancity recognizes any impairment loss on the assets associated with the contract.

(o) Distribution to members:

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

(p) Adoption of new and amended standards:

Vancity has adopted the following new or amended standards with an initial application date of January 1, 2013:

IAS 1 – Presentation of Financial Statements (Amended):

Vancity adopted the changes within IAS 1, which was applied retrospectively. IAS 1 prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
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Year ended December 31, 2013

3. Summary of significant accounting policies (continued):

(p) Adoption of new and amended standards (continued):

IAS 1 – Presentation of Financial Statements (Amended) (continued):

As a result of the adoption of changes within IAS 1, items presented within the consolidated statement of comprehensive income are grouped into items that can or cannot be reclassified to the statement of operations.

IFRS 10 – Consolidated Financial Statements and IFRS 12 – Disclosure of Interests in Other Entities:

Vancity adopted IFRS 10 and IFRS 12, which were applied retrospectively. Under IFRS 10, there is one approach for determining if an investor controls an investee for all entities, based on the concept of power, variability of returns and their linkage. This replaced the previous approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 12 includes the disclosure requirements for subsidiaries and associates and introduces new requirements for unconsolidated structured entities. Vancity determined that its consolidated group structure remained unchanged under IFRS 10, and as a result, there was no impact on Vancity's consolidated financial statements.

IFRS 13 – Fair Value Measurement:

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs.

In accordance with the transitional provisions of IFRS 13, Vancity has applied the new fair value measurement guidance prospectively. The adoption of IFRS 13 did not have any impact on Vancity's reported financial results or financial position. However, there were certain new and revised disclosures as set out in Note 23.

IAS 19 – Employee Benefits (revised):

Vancity adopted IAS 19 *Employee Benefits* ("IAS 19 revised"), which was applied retrospectively. The revised standard introduces a new approach to the calculation of the net interest income or expense on the net defined benefit liability (asset). Under the revised standard an entity is no longer able to recognize in the statement of operations the long-term expected return on the plan assets actually held. Net interest under the amended standard is calculated on the retirement benefit obligation based on the discounted rate that is used to measure the defined benefit obligation. The quantitative impact of this change is set out below.

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3. Summary of significant accounting policies (continued):

(p) Adoption of new and amended standards (continued):

IAS 19 – *Employee Benefits (revised) (continued)*:

The revised standard also allows for entities to transfer the amounts recognized in other comprehensive income to a separate category within equity; previously it was a requirement to transfer the amounts recognized in other comprehensive income to retained earnings.

On adoption of IAS 19 revised, Vancity chose to amend its accounting policy related to the recognition of unrealized actuarial gains and losses. Vancity will transfer cumulative amounts recognized through other comprehensive income to another component of equity, accumulated other comprehensive income – employee benefits (“AOCI – employee benefits”).

The impact on retained earnings and AOCI – employee benefits as a result of the adoption of IAS 19 revised is as follows:

Retained earnings	As previously disclosed	Impact of transitional adjustments	As revised
As at January 1, 2012	\$ 815,889	\$ 10,765	\$ 826,654
Net earnings from operations	57,305	(340)	56,965
Actuarial losses on defined benefit pension plans		(8,391)	8,391 -
Balance at December 31, 2012	\$ 864,803	\$ 18,816	\$ 883,619

Accumulated other comprehensive income - employee benefits	As previously disclosed	Impact of transitional adjustments	As revised
As at January 1, 2012	\$ -	\$ (10,765)	\$ (10,765)
Actuarial losses on defined benefit pension plans	-	(8,051)	(8,051)
Balance at December 31, 2012	\$ -	\$ (18,816)	\$ (18,816)

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3. Summary of significant accounting policies (continued):

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

At December 31, 2013, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these consolidated financial statements. Those which may be relevant to Vancity's consolidated financial statements are set out below:

IFRS 9 – Financial Instruments:

IFRS 9, published on November 12, 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, *Financial Instruments: Recognition and Measurement* 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.

The mandatory effective date of IFRS 9 is currently under review by the IASB, but it is unlikely to be effective for annual periods commencing prior to January 1, 2016. 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.

IAS 32 – Offsetting Financial Assets and Financial Liabilities (Amended)

Amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014. The impact of adopting the amendments to IAS 32 is not expected to have a significant impact on these consolidated financial statements.

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.

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4. Use of estimates and judgments (continued):

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.

(c) 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.

VANCOUVER CITY SAVINGS CREDIT UNION

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4. Use of estimates and judgments (continued):

(d) Income taxes:

Vancity computes an income tax provision which includes an evaluation of the small business rate eligible to credit unions under the Income Tax Act. This small business rate applies until, in general, retained earnings reach five percent of amounts owing to members, including deposits and shares, and will be reduced progressively between 2013 and 2017 as a result of a recent legislative change. An estimate of deposit, share and income growth based on the modeling of the Vancity business plan inclusive of economic indicators provides the basis in determining the small business tax rate for Vancity.

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income. The assessment is based on enacted tax acts and estimates of future taxable income.

The actual expense does not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements. To the extent that estimates differ from the final tax returns, net earnings would be affected in the subsequent year.

5. Financial assets:

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

December 31, 2013	Effective yield	Within 1 year	1 to 5 years	Over 5 years	Total fair value
Financial assets classified as FVTPL:					
Securities issued or guaranteed by Canadian federal government	1.51%	\$ 155,807	\$ 189,404	\$ -	\$ 345,211
Long term bonds	1.06%	-	24,091	-	24,091
Total financial assets classified as FVTPL		\$ 155,807	\$ 213,495	\$ -	\$ 369,302
Financial assets classified as AFS:					
Securities issued or guaranteed by Canadian federal government	1.20%	\$ 379,071	\$ 184,830	\$ -	\$ 563,901
Central 1 shares	4.14%	-	-	59,494	59,494
Other securities	2.40%	13,206	3,000	3,634	19,840
Total financial assets classified as AFS		\$ 392,277	\$ 187,830	\$ 63,128	\$ 643,235

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5. Financial assets (continued):

December 31, 2012	Effective yield	Within 1 year	1 to 5 years	Over 5 years	Total fair value
Financial assets classified as FVTPL:					
Securities issued or guaranteed by					
Canadian federal government	1.47%	\$ -	\$ 244,286	\$ -	\$ 244,286
Long term bonds	1.38%	35,345	-	-	35,345
MAV II notes	0.00%	-	42,744	-	42,744
Superior Trust notes	0.00%	-	2,683	-	2,683
Total financial assets classified as FVTPL		\$ 35,345	\$ 289,713	\$ -	\$ 325,058
Financial assets classified as AFS:					
Securities issued or guaranteed by					
Canadian federal government	1.04%	\$ 48,870	\$ 5,140	\$ -	\$ 54,010
Central 1 shares	4.23%	-	-	57,020	57,020
Long term bonds	1.54%	24,092	-	-	24,092
Other securities	0.59%	11,668	-	6,004	17,672
MAV III notes	0.00%	-	490	-	490
Total financial assets classified as AFS		\$ 84,630	\$ 5,630	\$ 63,024	\$ 153,284

6. Derivative instruments:

	Notional amounts				Current replacement cost		Fair values	
	Maturities of derivatives		Total	Total	2013	2012	2013	2012
	Within 1 year	1 to 5 years	2013	2012				
Derivatives used to manage interest rate risk								
Receive fixed interest current swaps	\$ 100,000	\$ -	\$ 100,000	\$ 1,600,000	\$ 17	\$ 3,062	\$ 17	\$ 2,986
Receive fixed interest forward starting swaps	-	-	-	100,000	-	4	-	4
Pay fixed interest current swaps	450,000	831,000	1,281,000	1,200,000	950	591	(9,228)	(20,016)
Pay fixed interest forward starting swaps	-	100,000	100,000	100,000	14	155	(99)	155
	550,000	931,000	1,481,000	3,000,000	981	3,812	(9,310)	(16,871)
Other derivatives								
Foreign currency forward sell contracts	53,507	-	53,507	44,053	29	79	(667)	(171)
Foreign currency forward buy contracts	44,738	-	44,738	40,937	833	285	826	234
Foreign currency future sell contracts	1,121	-	1,121	1,539	3	10	(3)	(11)
Foreign currency future buy contracts	-	-	-	-	-	-	-	-
Index-linked call options purchased	2,959	19,547	22,506	24,099	2,571	1,463	2,571	1,463
	102,325	19,547	121,872	110,628	3,436	1,837	2,727	1,515
Total derivative contracts	\$ 652,325	\$ 950,547	\$ 1,602,872	\$ 3,110,628	\$ 4,417	\$ 5,649	\$ (6,583)	\$ (15,356)
Less: impact of master agreements					3,715	5,399		
Net credit risk on derivatives					\$ 702	\$ 250		

VANCOUVER CITY SAVINGS CREDIT UNION

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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 other income 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 \$4.4 million as at December 31, 2013 (2012 - \$5.7 million). Vancity manages this credit risk by dealing with creditworthy counterparties and setting specific limits for investments with those counterparties, which are reviewed on a monthly basis.

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

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, 2013, Vancity recognized \$5.1 million (2012 - \$0.6 million) in unrealized gains from changes in the fair value of derivatives and \$2.9 million (2012 - \$0.7 million) in realized losses on these derivatives in net interest income.

VANCOUVER CITY SAVINGS CREDIT UNION

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Year ended December 31, 2013

7. Loans and advances to members:

(a) Loan maturities and rate sensitivities:

December 31, 2013	Maturity term			Total	Rate sensitivity		
	Under 1 year	1 to 5 Years	> 5 Years		Floating	Fixed rate	Total
Residential mortgages	\$ 2,632,326	\$ 5,071,675	\$ 16,174	\$ 7,720,175	\$ 2,593,906	\$ 5,126,269	\$ 7,720,175
Commercial mortgages	281,787	1,312,567	793,899	2,388,253	115,276	2,272,977	2,388,253
Consumer loans	2,957,534	62,290	649	3,020,473	2,881,261	139,212	3,020,473
Business loans	700,340	1,224,380	45,971	1,970,691	189,646	1,781,045	1,970,691
Accrued interest	11,444	13,371	1,493	26,308	10,063	16,245	26,308
Total loans	6,583,431	7,684,283	858,186	15,125,900	5,790,152	9,335,748	15,125,900
Allowance for credit losses	(28,644)	(33,434)	(3,734)	(65,812)	(25,193)	(40,619)	(65,812)
Total loans, net of allowance for credit losses	\$ 6,554,787	\$ 7,650,849	\$ 854,452	\$ 15,060,088	\$ 5,764,959	\$ 9,295,129	\$ 15,060,088

December 31, 2012	Maturity term			Total	Rate sensitivity		
	Under 1 year	1 to 5 Years	> 5 Years		Floating	Fixed rate	Total
Residential mortgages	\$ 2,444,896	\$ 4,974,631	\$ 7,333	\$ 7,426,860	\$ 2,824,044	\$ 4,602,816	\$ 7,426,860
Commercial mortgages	287,376	1,101,881	793,355	2,182,612	127,933	2,054,679	2,182,612
Consumer loans	2,864,409	66,016	652	2,931,077	2,786,328	144,749	2,931,077
Business loans	681,552	1,154,782	47,778	1,884,112	197,239	1,686,873	1,884,112
Accrued interest	11,186	13,016	1,515	25,717	10,579	15,138	25,717
Total loans	6,289,419	7,310,326	850,633	14,450,378	5,946,123	8,504,255	14,450,378
Allowance for credit losses	(34,109)	(39,647)	(4,613)	(78,369)	(32,247)	(46,122)	(78,369)
Total loans, net of allowance for credit losses	\$ 6,255,310	\$ 7,270,679	\$ 846,020	\$ 14,372,009	\$ 5,913,876	\$ 8,458,133	\$ 14,372,009

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
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Year ended December 31, 2013

7. Loans and advances to members (continued):

(b) Reconciliation of allowance for credit losses:

	Residential	Commercial	Consumer	Business	2013 Total	2012 Total
Balance, beginning of year	\$ 5,301	\$ 38,914	\$ 22,967	\$ 11,187	\$ 78,369	\$ 83,586
Allowance for credit losses:						
Normal credit factors	196	(7,271)	9,195	4,968	7,088	9,043
	5,497	31,643	32,162	16,155	85,457	92,629
Loans written-off	(2,360)	-	(13,668)	(6,259)	(22,287)	(16,963)
Recoveries of loans written-off	214	-	2,136	292	2,642	2,703
Balance, end of year	\$ 3,351	\$ 31,643	\$ 20,630	\$ 10,188	\$ 65,812	\$ 78,369
Loans with individual allowances:						
Loan balance	\$ 4,411	\$ -	\$ 3,520	\$ 3,301	\$ 11,232	\$ 20,166
Accrued interest	210	-	32	32	274	801
Related allowance	(1,027)	-	(3,522)	(2,738)	(7,287)	(10,639)
Carrying amount	\$ 3,594	\$ -	\$ 30	\$ 595	\$ 4,219	\$ 10,328
Loans with collective allowances:						
Loan balance	\$7,715,764	\$2,388,253	\$3,016,953	\$1,967,390	\$15,088,360	\$14,404,495
Accrued interest	9,798	10,684	4,443	1,109	26,034	24,916
Related allowance	(2,324)	(31,643)	(17,108)	(7,450)	(58,525)	(67,730)
Carrying amount	\$7,723,238	\$2,367,294	\$3,004,288	\$1,961,049	\$15,055,869	\$14,361,681

(c) Loans and advances individually impaired:

	2013	2012
Impaired loans with individual allowances:		
Residential mortgages	\$ 4,621	\$ 8,147
Consumer loans	3,552	3,492
Business loans	3,333	9,328
Individual provision	(7,287)	(10,639)
	\$ 4,219	\$ 10,328

The fair value of the collateral held by Vancity as security for the above loans was \$4.7 million (2012 - \$10.5 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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Year ended December 31, 2013

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, 2013 are as follows:

	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 14,883	\$ 3,069	\$ 13,799	\$ 31,751
Commercial mortgages	-	1,953	159	2,112
Consumer loans	5,375	2,644	7,172	15,191
Business loans	200	262	1,330	1,792
	\$ 20,458	\$ 7,928	\$ 22,460	\$ 50,846

Loans that were past due but not impaired as at December 31, 2012 are as follows:

	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 18,925	\$ 5,493	\$ 14,408	\$ 38,826
Commercial mortgages	1,902	1,875	160	3,937
Consumer loans	4,468	3,094	4,037	11,599
Business loans	1,341	61	1,467	2,869
	\$ 26,636	\$ 10,523	\$ 20,072	\$ 57,231

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2013

8. Premises, equipment and intangibles:

(a) Premises and equipment:

The movement of premises and equipment during the years ended December 31, 2013 and 2012 is as follows:

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
Cost:						
Balance at January 1, 2013	\$ 11,653	\$ 62,696	\$ 44,871	\$ 25,209	\$ 22,650	\$ 167,079
Acquisitions	80	843	6,534	4,010	2,817	14,284
Disposals	-	-	-	(343)	(1,060)	(1,403)
Balance at December 31, 2013	\$ 11,733	\$ 63,539	\$ 51,405	\$ 28,876	\$ 24,407	\$ 179,960
Accumulated depreciation and impairment losses:						
Balance at January 1, 2013	\$ -	\$ 24,894	\$ 17,181	\$ 14,319	\$ 10,481	\$ 66,875
Disposals	-	-	-	(342)	(1,060)	(1,402)
Depreciation	-	3,265	4,214	4,676	3,483	15,638
Impairment	-	2,352	-	-	-	2,352
Balance at December 31, 2013	\$ -	\$ 30,511	\$ 21,395	\$ 18,653	\$ 12,904	\$ 83,463
Carrying amounts:						
Balance at January 1, 2013	\$ 11,653	\$ 37,802	\$ 27,690	\$ 10,890	\$ 12,169	\$ 100,204
Balance at December 31, 2013	\$ 11,733	\$ 33,028	\$ 30,010	\$ 10,223	\$ 11,503	\$ 96,497

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
Cost:						
Balance at January 1, 2012	\$ 11,653	\$ 56,052	\$ 40,319	\$ 24,492	\$ 20,360	\$ 152,876
Acquisitions	-	7,256	5,827	3,957	3,741	20,781
Disposals	-	(612)	(1,275)	(3,240)	(1,451)	(6,578)
Balance at December 31, 2012	\$ 11,653	\$ 62,696	\$ 44,871	\$ 25,209	\$ 22,650	\$ 167,079
Accumulated depreciation and impairment losses:						
Balance at January 1, 2012	\$ -	\$ 21,890	\$ 14,945	\$ 12,768	\$ 9,047	\$ 58,650
Disposals	-	(612)	(1,275)	(3,168)	(1,522)	(6,577)
Depreciation	-	2,732	3,511	4,719	2,956	13,918
Impairment	-	884	-	-	-	884
Balance at December 31, 2012	\$ -	\$ 24,894	\$ 17,181	\$ 14,319	\$ 10,481	\$ 66,875
Carrying amounts:						
Balance at January 1, 2012	\$ 11,653	\$ 34,162	\$ 25,374	\$ 11,724	\$ 11,313	\$ 94,226
Balance at December 31, 2012	\$ 11,653	\$ 37,802	\$ 27,690	\$ 10,890	\$ 12,169	\$ 100,204

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
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Year ended December 31, 2013

8. Premises, equipment and intangibles (continued):

(b) Intangibles:

The movement of intangibles during the years ended 2013 and 2012 is as follows:

	Software	ICBC Licenses	Total
Cost:			
Balance at January 1, 2013	\$ 37,367	\$ 400	\$ 37,767
Acquisitions	1,796	-	1,796
Disposals	-	-	-
Balance at December 31, 2013	\$ 39,163	\$ 400	\$ 39,563
Accumulated amortization:			
Balance at January 1, 2013	\$ 4,921	\$ -	\$ 4,921
Disposals	-	-	-
Amortization	3,494	-	3,494
Balance at December 31, 2013	\$ 8,415	\$ -	\$ 8,415
Carrying amounts:			
Balance at January 1, 2013	\$ 32,446	\$ 400	\$ 32,846
Balance at December 31, 2013	30,748	400	31,148

	Software	ICBC Licenses	Total
Cost:			
Balance at January 1, 2012	\$ 25,613	\$ 400	\$ 26,013
Acquisitions	12,418	-	12,418
Disposals	(664)	-	(664)
Balance at December 31, 2012	\$ 37,367	\$ 400	\$ 37,767
Accumulated amortization:			
Balance at January 1, 2012	\$ 3,263	\$ -	\$ 3,263
Disposals	(664)	-	(664)
Amortization	2,322	-	2,322
Balance at December 31, 2012	\$ 4,921	\$ -	\$ 4,921
Carrying amounts:			
Balance at January 1, 2012	\$ 22,350	\$ 400	\$ 22,750
Balance at December 31, 2012	32,446	400	32,846

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9. Income taxes:

(a) Income tax expense (recovery):

	2013	2012
Current tax expense (recovery):		
Current year	\$ 17,121	\$ 13,202
Adjustment for current tax of prior periods	(5,887)	(3,959)
	11,234	9,243
Deferred tax expense:		
Origination and reversal of temporary differences	173	666
Increase in tax rate	635	7,479
Recognition of previously unrecognized tax losses	-	49
	808	8,194
	\$ 12,042	\$ 17,437

(b) Reconciliation of effective tax rate:

The effective tax rate of 16.4% (2012 - 23.3%) differed from the combined federal and provincial tax rate for the following reasons:

	2013	2012
Combined federal and provincial statutory tax rate	25.7%	25.0%
Credit union preferred rate reduction	(5.1)%	(10.5)%
Change in predicted future tax rates	(2.0)%	10.0%
Non-deductible and other items	(2.2)%	(1.2)%
	16.4%	23.3%

(c) Deferred tax assets and liabilities:

	Balance at January 1, 2013	Recognized in net earnings	Recognized in in OCI	Balance at December 31, 2013
Deferred tax assets:				
Pensions, post-retirement benefits and deferred revenue	\$ 14,199	\$ 389	\$ (2,109)	\$ 12,479
Allowance for impairment of loans	12,034	(1,056)	-	10,978
Other provisions	2,600	2,271	-	4,871
Deferred expenses	1,873	(755)	-	1,118
Tax loss carried forward	7,998	(1,326)	-	6,672
	38,704	(477)	(2,109)	36,118
Deferred tax liabilities:				
Premises and equipment	(2,962)	(331)	-	(3,293)
Total	\$ 35,742	\$ (808)	\$ (2,109)	\$ 32,825

VANCOUVER CITY SAVINGS CREDIT UNION

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9. Income taxes (continued):

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

	Balance at January 1, 2012	Recognized in net earnings	Recognized in in OCI	Balance at December 31, 2012
Deferred tax assets:				
Pensions, post-retirement benefits and deferred revenue	\$ 13,652	\$ (1,228)	\$ 1,775	\$ 14,199
Allowance for impairment of loans	15,652	(3,618)	-	12,034
Other provisions	3,632	(1,032)	-	2,600
Deferred expenses	3,068	(1,195)	-	1,873
Tax loss carried forward	7,999	(1)	-	7,998
	44,003	(7,074)	1,775	38,704
Deferred tax liabilities:				
Premises and equipment	(1,842)	(1,120)	-	(2,962)
Total	\$ 42,161	\$ (8,194)	\$ 1,775	\$ 35,742

(d) Unrecognized deferred tax liabilities:

At December 31, 2013, deferred tax liabilities for temporary differences of \$19.4 million (2012 - \$24.7 million) related to investments in subsidiaries that were not recognized because Vancity controls whether the liability will be incurred and is satisfied that it will not be incurred in the foreseeable future.

10. 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 December 31, 2013 (prior period was measured at December 31, 2012). The effective date of the last actuarial valuation report for funding purposes was December 31, 2012 and the effective date of the next required actuarial valuation report will be December 31, 2013.

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10. Pension and other retirement benefits (continued):

(a) Retirement benefit obligation:

	Pension plans		Other benefit plans	
	2013	2012	2013	2012
Defined benefit obligation - funded	\$ (21,680)	\$ (23,058)	\$ -	\$ -
Defined benefit obligation - unfunded	(10,949)	(11,565)	(39,885)	(41,949)
Fair value of plan assets	21,145	18,292	-	-
Net retirement benefit obligation	\$ (11,484)	\$ (16,331)	\$ (39,885)	(41,949)

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

	Pension plans		Other benefit plans	
	2013	2012	2013	2012
Defined benefit obligation at January 1	\$ (34,623)	\$ (28,366)	\$ (41,949)	\$ (32,822)
Current service cost (net of employee contributions)	(1,697)	(1,404)	(3,048)	(2,548)
Interest cost	(1,315)	(1,293)	(1,620)	(1,514)
Employee contributions	(53)	(50)	-	-
Actuarial gains (losses) arising from				
Experience adjustments	(82)	(341)	(233)	(1,933)
Demographic adjustments	(974)	(57)	(364)	-
Financial assumptions	5,263	(3,845)	6,726	(4,018)
Benefit payments	852	733	603	886
Defined benefit obligation at December 31	\$ (32,629)	\$ (34,623)	\$ (39,885)	\$ (41,949)

(c) Fair value of plan assets:

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

	Pension plans		Other benefit plans	
	2013	2012	2013	2012
Fair value of plan assets at January 1	\$ 18,292	\$ 16,916	\$ -	\$ -
Interest income on plan assets	690	767	-	-
Return on plan assets, excluding interest income	1,948	364	-	-
Employer contributions	1,620	720	-	-
Employee contributions	53	50	-	-
Benefit payments	(1,458)	(525)	-	-
Fair value of plan assets at December 31	\$ 21,145	\$ 18,292	\$ -	\$ -

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10. Pension and other retirement benefits (continued):

(c) Fair value of plan assets (continued):

(ii) Plan assets comprise the following:

	Pension plans		Other benefit plans	
	2013	2012	2013	2012
Equity securities	\$ 8,435	\$ 7,297	\$ -	\$ -
Debt securities	5,418	4,848	-	-
Pooled funds	6,868	5,855	-	-
Other assets	424	292	-	-
Fair value of plan assets	\$ 21,145	\$ 18,292	\$ -	\$ -

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

	Pension plans		Other benefit plans	
	2013	2012	2013	2012
Current service cost	\$ (1,697)	\$ (1,404)	\$ (3,048)	\$ (2,548)
Interest cost	(1,315)	(1,293)	(1,620)	(1,514)
Interest income on plan assets	690	767	-	-
Total included in employee benefits expense	\$ (2,322)	\$ (1,930)	\$ (4,668)	\$ (4,062)

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

	Pension plans		Other benefit plans	
	2013	2012	2013	2012
Cumulative actuarial losses at January 1	\$ (10,491)	\$ (6,272)	\$ (13,819)	\$ (7,868)
Actuarial gain (loss) in the year	6,155	(3,879)	6,129	(5,951)
Cumulative actuarial losses at December 31	\$ (4,336)	\$ (10,151)	\$ (7,690)	\$ (13,819)

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

	Pension plans		Other benefit plans	
	2013	2012	2013	2012
Discount rate	4.70%	3.75%	4.70%	3.75%
Future salary increases	3.00%	3.50%	n/a	n/a
Health care cost trend	n/a	n/a	6.00%	8.00%

VANCOUVER CITY SAVINGS CREDIT UNION

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10. Pension and other retirement benefits (continued):

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

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	21 years
Female	23 years

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

Male	22 years
Female	24 years

The interest rate sensitivity of the defined benefit obligation can be measured using duration. The duration also provides information on the maturity profile of the obligation. At December 31, 2013, the weighted average duration of the defined benefit obligation was 15 years (2012 – 16 years).

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10. Pension and other retirement benefits (continued):

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

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

	Retirement benefit obligation			
	Pension plans		Other benefit plans	
	2013	2012	2013	2012
Discount rate	4.70%	3.75%	4.70%	3.75%
Impact of: 1% increase	\$ (4,372)	\$ (4,957)	\$ (5,022)	\$ (5,333)
1% decrease	5,515	6,370	5,979	6,322
Salary growth rate	3.00%	3.50%	n/a	n/a
Impact of: 0.25% increase	\$ 4	\$ 51	n/a	n/a
0.25% decrease	(4)	(10)	n/a	n/a
Assumed overall health care trend rate	n/a	n/a	6.00%	8.00%
Impact of: 1% increase	n/a	n/a	\$ 3,779	\$ 3,676
1% decrease	n/a	n/a	(3,637)	(3,379)

The results shown in the sensitivity tables were determined by recalculating the defined benefit obligation but only changing the assumption for which the sensitivity is required and then calculating the difference between the recalculated obligation and the actual obligation. There have been no changes from the previous period to the methods or assumptions used in preparing the sensitivity analysis.

- (g) Future contributions:

The expected contributions for the year ending December 31, 2014 are as follows:

	2014
Company contributions	\$ 1,645
Employee contributions	56
	\$ 1,701

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10. Pension and other retirement benefits (continued):

(h) 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).

An actuarial valuation of the overall Plan was carried out as at December 31, 2012. It was determined that the overall Plan had an actuarial going concern unfunded liability of \$32 million and a solvency deficit of \$130 million. The deficit is targeted to be financed over time through increased contributions. Contributions to the Plan are established by Central 1.

The next actuarial valuation is scheduled for December 31, 2015 with results available in mid-2016. The Trustees of the Plan may, however, decide to conduct a valuation sooner than December 31, 2015.

11. Other assets:

	2013	2012
Accounts receivable	\$ 11,558	\$ 10,701
Investment property	2,626	1,579
Prepaid and deferred expenses	7,282	7,695
Security deposits	94	386
Other	327	329
	<u>\$ 21,887</u>	<u>\$ 20,690</u>

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12. Shares:

	2013	2012
Membership shares	\$ 68,950	\$ 70,324
Investment shares	37,821	38,182
Savings shares	2,680	3,006
	<hr/>	<hr/>
	\$ 109,451	\$ 111,512

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

Savings shares can no longer be purchased by members and additional deposits are not permitted to these accounts. These shares have endowment insurance as a product feature and are paid an annual dividend. Deposits held in membership and investment shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia ("CUDIC"). Savings shares are guaranteed by CUDIC.

13. 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 special purpose entities which issue bonds to third party investors at specified interest rates.

Vancity had no securitization transactions during the years ended December 31, 2013 and 2012 that were accounted for as secured borrowings. During 2013, all existing secured borrowings and the residential mortgages categorized as loans held as security for secured borrowings matured. At December 31, 2012, the carrying amount of the secured borrowings was \$34.9 million and the carrying amount of the associated residential mortgages held as security was \$34.9 million. Vancity received the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowing.

During the years ended December 31, 2013 and 2012, Vancity had no loan transfers.

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14. Net interest income:

	2013	2012
Interest income:		
Cash and cash equivalents	\$ 125	\$ 111
Interest bearing deposits with financial institutions	20,377	30,960
Financial assets:		
Fair value through profit or loss	2,253	4,332
Available-for-sale	5,855	6,016
Loans and advances to members	564,483	558,763
Other assets	5,977	85
	599,070	600,267
Interest expense:		
Deposits from members	213,668	198,451
Secured borrowings	755	5,444
Wholesale borrowings	19,158	21,523
Other liabilities	24,389	13,782
	257,970	239,200
	\$ 341,100	\$ 361,067

15. Net fee and commission income:

	2013	2012
Fee and commission income:		
Account service fees	\$ 21,253	\$ 21,446
Credit card and prepaid card fees	34,208	40,255
Foreign exchange	10,124	10,142
Insurance broker commissions and fees	2,953	2,931
Loan fees	1,873	2,039
Loan insurance fees	5,496	6,176
Trust and investment fees	23,537	20,598
	99,444	103,587
Fee and commission expense:		
Credit card fees	36,304	31,352
Other fees paid	5,838	6,061
	42,142	37,413
	\$ 57,302	\$ 66,174

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16. Salary and employee benefits:

	2013	2012
Salaries	\$ 151,387	\$ 151,434
Benefits	21,744	20,417
Pension costs:		
Defined benefit plans	2,322	1,930
Defined contribution plans	9,015	8,156
Post-employment benefits	4,668	4,062
	\$ 189,136	\$ 185,999

17. General and administrative expenses:

	2013	2012
Central 1 dues	\$ 12,105	\$ 10,166
Data processing	8,169	7,964
Insurance	2,374	2,447
Marketing and advertising	9,873	13,906
Member service and lending	9,423	9,728
Professional and consulting	19,498	38,383
Travel, meeting and entertainment	1,897	2,163
Telecommunication, stationery and postage	9,471	10,565
Miscellaneous	4,521	4,920
	\$ 77,331	\$ 100,242

18. Distribution to community and members:

	2013	2012
Donations to community	\$ 9,777	\$ 9,180
Membership distribution - dividends	2,888	2,973
Membership distribution - patronage	5,657	5,060
Total shared success	18,322	17,213
Investment share dividends	1,204	1,160
Total distributions to community and members	\$ 19,526	\$ 18,373

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 and VCIM. The bonus on deposit interest amounted to \$1.2 million (2012 - \$1.2 million). Rebates relating to loan interest received amounted to \$3.3 million (2012 - \$3.2 million). Bonus on member funds under administration amounted to \$1.2 million (2012 - \$0.6 million).

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19. Risk management framework:

Vancity's risk management policies are established by the Board 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.

Vancity accepts deposits from members at both fixed and floating rates for various periods and seeks to earn an interest rate margin by investing these funds in high quality financial instruments - principally mortgages. Vancity's principal business activities result in a consolidated balance sheet that consists primarily of financial instruments. In addition, Vancity uses derivative financial instruments for asset/liability management purposes. The primary types of financial risk which arise from this activity are credit risk, liquidity risk and market risk.

(a) Credit risk:

Credit risk refers to the potential that a borrower or counterparty will fail to meet their financial obligations and the ability of Vancity to absorb losses as both move through the business cycle.

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.

(i) Credit risk management:

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

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19. Risk management framework (continued):

(a) Credit risk (continued):

(ii) Credit risk exposure:

The following information represents the maximum exposure to credit risk before taking into consideration any collateral or credit enhancements. For financial assets recognized on the 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.

	2013	2012
On-balance sheet exposures:		
Cash and cash equivalents	\$ 97,656	\$ 165,330
Interest bearing deposits with financial institutions	1,166,457	1,811,830
Financial assets: fair value through profit or loss	369,302	325,058
Financial assets: available-for-sale	643,235	153,284
Accrued interest receivable	7,803	14,707
Derivatives	4,420	5,413
Loans and advances to members	15,060,088	14,372,009
Off-balance sheet exposures:		
Undrawn lines of credit	3,405,210	3,151,128
Commitments to extend credit	245,850	305,227
Undrawn credit on credit cards	893,149	883,987
Documentary letters of credit	37,686	42,061
	\$ 21,930,856	\$ 21,230,034

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. Beacon scores are credit scores that are considered in assessing the credit risk of the retail portfolio.

Risk category	Beacon score range	2013	2012
High	less than 620	\$ 464,623	\$ 451,866
Medium	620 - 720	2,938,569	2,878,228
Low	more than 720	7,337,456	7,027,843
Total		\$ 10,740,648	\$ 10,357,937

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19. Risk management framework (continued):

(a) Credit risk (continued):

(ii) 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	2013	2012
11 - 21	\$ 926,608	\$ 731,062
22 - 32	3,421,427	3,318,389
41 - 52	10,910	17,273
	\$ 4,358,945	\$ 4,066,724

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19. Risk management framework (continued):

(b) Liquidity risk:

Liquidity risk describes the risk that Vancity will not be able to meet its current and future cash flow and collateral needs, both expected and unexpected, without materially affecting daily operations or our overall financial condition. Vancity must maintain a statutory level of liquidity cash reserves at Central 1 and an additional amount of liquidity reserves to fund member and community lending.

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

(i) Liquidity risk management:

Vancity's liquidity risk is subject to extensive risk management controls and is managed within the framework, policies and limits approved by the Board. On an annual basis, the Board, through the Risk Committee reviews and approves the liquidity policy presented by management to ensure adherence to regulatory requirements. The Asset Liability Committee ("ALCO") oversees the operational adherence to the liquidity policy. ALCO approves liquidity management processes and strategies presented by treasury and finance management in addition to overseeing adherence to minimum liquidity limits, eligibility requirements for liquid assets, investments with counterparties, funding diversification, deposit concentration and diversification limits.

(ii) Liquidity risk exposure:

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

For this purpose, liquid assets may comprise the total market value of cash, Government of Canada or provincial treasury bills, debt securities with a government guarantee and a minimum DBRS Limited ("DBRS") investment rating of A, government guaranteed mortgage backed securities, banker's acceptances and bearer deposit notes from Schedule I and II banks with a DBRS rating of R-1 low or higher, and corporate commercial paper with a DBRS rating of R-1 low or higher.

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19. Risk management framework (continued):

(b) Liquidity risk (continued):

Vancity

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

	2013	2012
At December 31	13.03%	14.49%
Average for the year	13.61%	14.88%
Maximum for the year	14.25%	16.62%
Minimum for the year	12.96%	14.01%

	2013	2012
Cash and deposits with Central 1	\$ 1,210,871	\$ 1,910,983
Deposit with deposit taking institutions	-	1,891
Financial assets: fair value through profit or loss	369,302	279,630
Financial assets: available-for-sale	519,218	26,066
Accrued interest	7,659	14,530
Total liquid assets	\$ 2,107,050	\$ 2,233,100
Total liquid assets as a percentage of deposits and debt liabilities	13.03%	14.49%

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19. Risk management framework (continued):

(b) Liquidity risk (continued):

The Bank

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

	2013	2012
At December 31	63.78%	60.21%
Average for the year	72.98%	54.74%
Maximum for the year	81.75%	67.43%
Minimum for the year	63.78%	44.99%
Cash	\$ 22,458	\$ 22,835
Interest bearing deposits with financial institutions	-	3,000
Financial assets: available-for-sale	57,889	57,834
Accrued interest	146	177
Liquid assets	80,493	83,846
Cash and securities pledged as collateral	(10,952)	(10,959)
Total liquid assets	69,541	72,887
Total assets	\$ 109,030	\$ 121,060
Liquid assets as a percentage of total assets	63.78%	60.21%

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

December 31, 2013	Less than 1 year	1 - 3 years	4 to 5 years	Over 5 years	Total
Retail deposits	\$ 10,030,743	\$ 2,355,783	\$ 88,340	\$ 157	\$12,475,023
Wholesale deposits	2,982,674	140,986	9,012	-	3,132,672
Wholesale borrowings	1,142,429	-	-	-	1,142,429
Other financial liabilities	208,949	-	-	-	208,949
Derivatives	7,947	3,056	-	-	11,003
	\$ 14,372,742	\$ 2,499,825	\$ 97,352	\$ 157	\$16,970,076

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19. 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, 2012	Less than 1 year	1 - 3 years	4 to 5 years	Over 5 years	Total
Retail deposits	\$ 9,433,667	\$ 2,181,978	\$ 102,512	\$ 2,809	\$11,720,966
Wholesale deposits	3,179,057	111,627	27,315	102	3,318,101
Wholesale borrowings	1,067,195	152,133	-	-	1,219,328
Secured borrowings	35,451	138	-	-	35,589
Other financial liabilities	210,216	-	-	-	210,216
Derivatives	11,279	9,434	56	-	20,769
	\$ 13,936,865	\$ 2,455,310	\$ 129,883	\$ 2,911	\$16,524,969

(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 (due to changes in 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.

The Board, through the Risk Committee, 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 Risk Committee and the Board.

Vancity has various policy and procedure statements that specify roles and responsibilities for senior management, treasury, trading management, traders, finance, and compliance. Many of these policies fall under the responsibility of the Risk Committee. The Risk Committee's role is to provide effective oversight, on behalf of the Board, of Vancity's risk management activities. In addition, Vancity has developed and maintains a practice of performing independent valuations of positions, mark to market methodologies, and asset liability modeling.

(i) Interest rate risk:

Interest rate risk, inclusive of credit spread risk, is the risk of loss to Vancity due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; the maturity profile of assets and liabilities; mortgage prepayment rates; changes in the market price of credit; and the creditworthiness of a particular issuer. For Vancity, mismatches in the balance of assets, liabilities and off-balance sheet financial instruments that mature and re-price in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as Vancity manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of Vancity to enhance profitability.

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19. Risk management framework (continued):

(c) Market risk (continued):

(i) Interest rate risk (continued):

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 22 discloses Vancity's gap position at December 31, 2013.

Duration analysis is a measure of interest rate exposure and provides an indication of when on average the present value of any financial instrument will be received. Vancity uses duration analysis to measure the sensitivity of asset and liability market values to a change in interest rates and provides an indication of long term interest rate exposure.

Based on Vancity's interest rate positions as at December 31, 2013, 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.

	2013		2012	
	Market value impact	Financial margin impact	Market value impact	Financial margin impact
Interest rate sensitivity				
Before tax impact of:				
25 bps decrease in rates	\$ 19,992	\$ (3,462)	\$ 15,439	\$ (4,138)
25 bps increase in rates	(19,999)	3,341	(15,496)	3,741

(ii) 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.

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20. 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:

	2013	2012
Cash	\$ 5,000	\$ 6,891
Securities	5,952	5,959
Mortgages	165,000	199,879
General charge	1,700,000	1,654,000
	\$ 1,875,952	\$ 1,866,729

Assets pledged to, or charged against by:

Central 1 Credit Union	\$ 1,202,985	\$ 1,235,264
Other financial institutions	672,967	631,465
	\$ 1,875,952	\$ 1,866,729

	2013	2012
Assets pledged in relation to:		
Clearing facilities	\$ 6,000	\$ 6,000
Secured borrowings	-	34,891
Standby credit facilities	1,248,000	1,172,000
Derivative contracts	5,000	6,891
	\$ 1,259,000	\$ 1,219,782

21. 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.

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21. Regulatory and capital management (continued):

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.

As at December 31, 2013 and 2012, Vancity's capital ratio was in compliance with the regulatory requirements.

	2013	2012
Capital:		
Tier 1 Capital:		
Equity shares	\$ 114,895	\$ 116,465
Vancity's retained earnings	945,032	883,619
Deferred tax	(24,671)	(26,325)
Other	29,275	29,275
Total Tier 1 Capital	1,064,531	1,003,034
Tier 2 Capital:		
50% of Vancity's proportion of retained earnings in CUDIC, Central 1 and Stabilization Central Credit Union	117,284	111,000
Total capital	1,181,815	1,114,034
Deductions from capital	(27,324)	(52,549)
Total capital less deductions (capital base)	\$ 1,154,491	\$ 1,061,485

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22. 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, 2013 and 2012 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.

Liabilities

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

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

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

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22. Interest rate sensitivity (continued):

Yields

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

December 31, 2013	Yield	Within 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets:									
Cash and cash equivalents	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97,656	\$ 97,656
Interest bearing deposits									
with financial institutions	1.10%	205,310	267,228	453,919	240,000	-	-	-	1,166,457
Financial assets - FVTPL	1.59%	12,960	167,389	130,807	46,637	11,509	-	-	369,302
Financial assets - AFS	1.11%	129,612	286,952	70,046	68,608	24,609	59,820	3,588	643,235
Accrued interest receivable	1.18%	7,803	-	-	-	-	-	-	7,803
Derivative instruments	0.00%	2,521	(321)	(126)	659	820	-	867	4,420
Loans and advances									
to members	3.52%	6,282,044	1,906,320	1,964,707	1,746,935	1,240,258	1,919,824	-	15,060,088
Other	0.00%	-	-	-	-	-	-	197,272	197,272
		\$ 6,640,250	\$ 2,627,568	\$ 2,619,353	\$ 2,102,839	\$ 1,277,196	\$ 1,979,644	\$ 299,383	\$ 17,546,233
Liabilities and Equity:									
Deposits from members	1.77%	\$ 5,903,740	\$ 4,992,005	\$ 1,676,910	\$ 1,359,284	\$ 366,686	\$ 886,635	\$ -	\$ 15,185,260
Borrowings	1.89%	974,504	150,000	-	-	-	-	1,625	1,126,129
Derivative instruments	0.00%	2,128	5,213	3,075	(20)	(182)	182	607	11,003
Other	0.00%	-	-	-	-	-	-	1,223,841	1,223,841
		\$ 6,880,372	\$ 5,147,218	\$ 1,679,985	\$ 1,359,264	\$ 366,504	\$ 886,817	\$ 1,226,073	\$ 17,546,233
Balance sheet mismatch		\$ (240,122)	\$ (2,519,650)	\$ 939,368	\$ 743,575	\$ 910,692	\$ 1,092,827	\$ (926,690)	\$ -
Notional amounts of derivatives		1,281,000	(350,000)	(410,000)	(421,000)	(100,000)	-	-	-
Net mismatch		\$ 1,040,878	\$ (2,869,650)	\$ 529,368	\$ 322,575	\$ 810,692	\$ 1,092,827	\$ (926,690)	\$ -

December 31, 2012	Yield	Within 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets:									
Cash and cash equivalents	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 165,330	\$ 165,330
Interest bearing deposits									
with financial institutions	1.53%	442,190	554,910	704,955	109,775	-	-	-	1,811,830
Financial assets - FVTPL	1.29%	55,503	62,849	138,334	65,760	2,612	-	-	325,058
Financial assets - AFS	0.79%	46,957	32,049	5,140	-	-	60,765	8,373	153,284
Accrued interest receivable	1.45%	14,707	-	-	-	-	-	-	14,707
Derivative instruments	0.00%	2,230	2,289	42	228	297	205	122	5,413
Loans and advances									
to members	3.82%	6,472,495	1,470,958	1,905,915	1,574,179	1,229,025	1,719,437	-	14,372,009
Other	0.00%	-	-	-	-	-	-	208,197	208,197
		\$ 7,034,082	\$ 2,123,055	\$ 2,754,386	\$ 1,749,942	\$ 1,231,934	\$ 1,780,407	\$ 382,022	\$ 17,055,828
Liabilities and Equity:									
Deposits from members	1.50%	\$ 5,674,338	\$ 4,897,070	\$ 1,219,420	\$ 1,595,765	\$ 402,174	\$ 849,443	\$ -	\$ 14,638,210
Borrowings	1.82%	1,053,285	27,306	150,108	-	-	-	1,569	1,232,268
Derivative instruments	0.00%	2,812	8,456	7,441	1,993	55	-	12	20,769
Other	0.00%	-	-	-	-	-	-	1,164,581	1,164,581
		\$ 6,730,435	\$ 4,932,832	\$ 1,376,969	\$ 1,597,758	\$ 402,229	\$ 849,443	\$ 1,166,162	\$ 17,055,828
Balance sheet mismatch		\$ 303,647	\$ (2,809,777)	\$ 1,377,417	\$ 152,184	\$ 829,705	\$ 930,964	\$ (784,140)	\$ -
Notional amounts of derivatives		(100,000)	1,200,000	(400,000)	(200,000)	(400,000)	(100,000)	-	-
Net mismatch		\$ 203,647	\$ (1,609,777)	\$ 977,417	\$ (47,816)	\$ 429,705	\$ 830,964	\$ (784,140)	\$ -

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23. 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, accrued interest receivable, demand deposits, demand loans, and certain other financial assets and liabilities, due to their short term nature.

The fair values of financial instruments are determined as follows:

Loans:

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

- (i) For performing term 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 term loans determined using the above assumption is reduced by the allowance for credit losses to determine the fair value of Vancity's loan portfolio.

Financial assets:

The fair value of AFS and FVTPL 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 the use of discounted cash flows and internal models that maximize the use of observable market data and minimize the use of unobservable data.

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.

Interest bearing deposits with financial institutions and borrowings:

In determining the fair value of interest bearing deposits with financial institutions and borrowings, Vancity discounts the remaining contractual cash flows at market interest rates offered for deposits with similar terms and risks.

Deposits:

In determining the fair value of term deposits, Vancity discounts the remaining contractual cash flows, adjusted for expected redemptions, at market interest rates offered for deposits with similar terms and risks.

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23. Fair value of financial instruments (continued):

Accounting classifications and fair values

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.

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Financial assets:				
Fair value through profit or loss	\$ 369,302	\$ 369,302	\$ 325,058	\$ 325,058
Available-for-sale	643,235	643,235	153,284	153,284
Derivative instruments	4,420	4,420	5,413	5,413
Assets carried at amortized cost:				
Cash and cash equivalents	97,656	97,656	165,330	165,330
Accrued interest receivable	7,803	7,803	14,707	14,707
Loans, net of allowance for credit losses	15,060,088	15,099,615	14,372,009	14,538,904
Interest bearing deposits with financial institutions	1,166,457	1,163,470	1,811,830	1,814,254
Other financial assets	13,173	13,173	12,647	12,647
Liabilities carried at fair value:				
Derivative instruments	\$ 11,003	\$ 11,003	\$ 20,769	\$ 20,769
Liabilities carried at amortized cost:				
Deposits	15,185,260	15,214,106	14,638,210	14,643,958
Borrowings	1,126,129	1,126,625	1,232,268	1,233,592
Other financial liabilities	208,949	208,949	211,679	211,679

Fair value of financial instruments held at fair value using the fair value hierarchy

Vancity measures fair value using the following hierarchy that reflects the significance of inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in an active market for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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23. Fair value of financial instruments (continued):

Fair value of financial instruments held at fair value using the fair value hierarchy (continued)

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

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

Financial instruments at fair value December 31, 2013	Level 1	Level 2	Level 3
Financial assets:			
Fair value through profit or loss	\$ 24,091	\$ 345,211	\$ -
Available-for-sale	438,508	196,217	8,510
Derivative instruments	-	4,420	-
Total financial assets	\$ 462,599	\$ 545,848	\$ 8,510
Financial liabilities:			
Derivative instruments	\$ -	\$ 11,003	\$ -
Total financial liabilities	\$ -	\$ 11,003	\$ -

Financial instruments at fair value December 31, 2012	Level 1	Level 2	Level 3
Financial assets:			
Fair value through profit or loss	\$ 35,345	\$ 289,713	\$ -
Available-for-sale	87,796	57,837	7,651
Derivative instruments	-	5,413	-
Total financial assets	\$ 123,141	\$ 352,963	\$ 7,651
Financial liabilities:			
Derivative instruments	\$ -	\$ 20,769	\$ -
Total financial liabilities	\$ -	\$ 20,769	\$ -

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23. Fair value of financial instruments (continued):

Reconciliation of Level 3 fair values

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

Fair value measurements using level 3 inputs	2013	2012
Balance at beginning of year	\$ 7,651	\$ 6,996
Losses included in net earnings from operations	18	(3,027)
Gains included in OCI	341	123
Purchases	500	3,559
Balance at end of year	\$ 8,510	\$ 7,651

Realized gains and losses from AFS financial assets are presented under "Net gains on financial assets" in the income statement while unrealized gains and losses are presented in "Unrealized gains arising during the year" in other comprehensive income. Change in unrealized gains or losses for the year for Level 3 fair value measurements included in net earnings from operations for assets held at the end of the reporting period is nil.

During the years ended December 31, 2013 and 2012, there were no transfers between Level 1, Level 2 and Level 3. Vancity recognizes transfers between levels of the fair value hierarchy at the end of the year during which the change occurred.

Fair value of financial instruments held at amortized cost using the fair value hierarchy

The following table illustrates the fair value hierarchy classification of Vancity's financial instruments which are not carried at fair value on the consolidated balance sheet. The table does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial instruments disclosed at fair value December 31, 2013	Level 1	Level 2	Level 3
Assets:			
Term loans	\$ -	\$ 12,077,992	\$ -
Interest bearing deposits with financial institutions	-	1,163,470	-
Total	\$ -	\$ 13,241,462	\$ -
Liabilities:			
Term deposits	\$ -	\$ 10,075,603	\$ -
Borrowings	-	1,126,625	-
Total	\$ -	\$ 11,202,228	\$ -

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24. 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.

	2013	2012
Undrawn lines of credit	\$ 3,405,210	\$ 3,151,128
Commitments to extend credit	245,850	305,227
Undrawn credit on credit cards issued	893,149	883,987
Documentary letters of credit	37,686	42,061
	<u>\$ 4,581,895</u>	<u>\$ 4,382,403</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.

Cash and deposits with Central 1 totaled \$1.2 billion at December 31, 2013 (2012 - \$1.9 billion), including deposits under contractual requirements. At December 31, 2013, Vancity's minimum required deposit with Central 1 is \$959.4 million (2012 - \$945.1 million).

(c) Guarantees:

As part of its regular operations, Vancity issues performance guarantees for its development projects. At December 31, 2013, Vancity has an outstanding performance guarantee with the City of Victoria in the amount of \$4.2 million (2012 - \$4.2 million). In addition, Vancity has a commitment to the City of Victoria to subsidize affordable housing in a development project. At December 31, 2013, the value of this commitment is estimated at \$3.4 million (2012 - \$3.3 million).

(d) Restricted cash:

Included in cash and cash equivalents are restricted funds from third parties totaling \$4.7 million (2012 - \$9.7 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 \$5.0 million (2012 - \$6.9 million) of restricted cash pledged as collateral for derivative contracts.

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24. 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 \$13.1 million (2012 - \$13.9 million), were expensed during the year ended December 31, 2013, and are recognized in the consolidated statement of operations as part of occupancy and equipment expense.

The future minimum lease payments are as follows:

	2013	2012
No later than one year	\$ 12,116	\$ 11,797
Later than one year and no later than five years	37,278	25,434
Later than five years	9,106	8,381
	\$ 58,500	\$ 45,612

(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 \$4.0 million as at December 31, 2013 (2012 - \$3.8 million). The remaining balance will be paid in five annual installments of \$194,000, from 2014 to 2018.

(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 limited liability company ("LLC"), 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. At December 31, 2013 Vancity and LLC are in the early stages of litigation in relation to this contingent funding obligation. An estimate of the potential outflow is not practicable at this time.

(h) Contractual commitment:

Vancity has \$4.9 million (2012: \$2.8 million) in contractual commitments to software maintenance.

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25. 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, 2013 were loans of \$5.7 million (2012 - \$3.6 million) and deposits of \$5.6 million (2012 - \$5.6 million).

(b) Key management compensation:

	2013		2012	
Salaries and other short-term employee benefits	\$	6,257	\$	7,068
Post employment benefits		505		594
Other long-term benefits		293		237
Termination benefits		-		43
	\$	7,055	\$	7,942

In addition to their salaries, Vancity also provides non-cash benefits to directors and executive officers, and contributes to either a group RRSP or a post-employment defined benefit plan on their behalf. In accordance with the terms of the plan, under the circumstance of a normal retirement, executive officers who 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.

26. Employee loans:

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, 2013 and December 31, 2012, the outstanding loans to employees amounted to:

	Fair value		Carrying value	
	2013	2012	2013	2012
Residential mortgages	\$ 320,330	\$ 308,224	\$ 321,840	\$ 310,275
Personal loans	8,647	9,465	8,647	9,465
	\$ 328,977	\$ 317,689	\$ 330,487	\$ 319,740