



Vancouver City

Savings Credit Union

1998 Annual Report

Financial Review

Including Audited

Financial Statements



CONSOLIDATED FINANCIAL HIGHLIGHTS

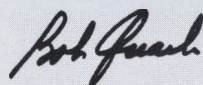
(thousands of dollars)	1998	1997	1996	1995	1994
ASSETS					
Cash and Securities	\$ 550,722	\$ 503,940	\$ 385,030	\$ 445,498	\$ 327,697
Loans	5,212,914	4,946,842	4,299,867	3,801,139	3,663,451
Other Assets	154,514	139,758	117,732	121,721	92,514
Total Assets	\$5,918,150	\$ 5,590,540	\$ 4,802,629	\$ 4,368,358	\$ 4,083,662
LIABILITIES AND MEMBERS' EQUITY					
Deposits and Equity Shares	\$5,359,291	\$ 4,687,703	\$ 4,081,405	\$ 3,817,912	\$ 3,550,250
Debentures and Loans Payable	187,710	559,951	414,780	250,000	279,000
Other Liabilities	144,322	139,591	120,357	134,967	110,234
Retained Earnings	226,827	203,295	186,087	165,479	144,178
Total Liabilities and Members' Equity	\$5,918,150	\$ 5,590,540	\$ 4,802,629	\$ 4,368,358	\$ 4,083,662
STATEMENTS OF EARNINGS					
Net Interest Income	\$ 149,751	\$ 140,668	\$ 118,025	\$ 114,107	\$ 103,867
Charge for Impairment of Loans	(5,516)	(5,101)	(3,553)	(3,162)	(3,400)
Other Income	41,619	32,837	27,632	26,779	26,142
Net Interest and Other Income	185,854	168,404	142,104	137,724	126,609
Salaries and Employee Benefits	78,415	68,263	55,986	51,138	46,788
Other Operating Expenses	68,864	69,523	51,038	47,769	45,008
Total Operating Expenses	147,279	137,786	107,024	98,907	91,796
Earnings from Operations	38,575	30,618	35,080	38,817	34,813
Donations to Foundation	600	775	600	900	650
Distributions to Members	6,420	8,641	7,835	9,322	5,180
Income Taxes	8,023	3,994	6,037	7,294	7,776
Net Earnings for the Year	\$ 23,532	\$ 17,208	\$ 20,608	\$ 21,301	\$ 21,207
STATISTICS					
Average Assets	\$5,738,457	\$ 5,112,619	\$ 4,631,941	\$ 4,259,824	\$ 4,047,848
Growth of Total Assets (%)	5.86%	16.41%	9.94%	6.97%	7.58%
Return on Assets	0.41%	0.34%	0.45%	0.50%	0.52%
Dividends per Equity Share	5.0%	5.0%	5.0%	8.0%	9.0%
Dividends per Investment Share	5.6%	6.0%	7.3%	8.8%	8.4%
Membership	261,613	252,638	231,558	218,296	207,259
No. of Employees (full-time equivalent)	1,513	1,417	1,265	1,135	1,038
No. of Branches	42	42	38	36	35

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

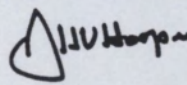
The consolidated financial statements included in this financial review have been prepared by the management of VanCity which is responsible for their reliability, completeness and integrity. They were developed in accordance with requirements of the Financial Institutions Act of British Columbia and conform in all material respects with generally accepted accounting principles.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that 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 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 comprised of six directors has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. Arthur Andersen LLP and Grant Thornton, the external auditors, appointed by the membership, examined the consolidated financial statements of the credit union in accordance with generally accepted auditing standards. They have had full and free access to the internal audit staff, and the Audit Committee of the Board. Their report appears herein, with the consolidated financial statements.



Bob Quart
Chief Executive Officer



Jeremy Hooper
Senior Vice-President, Finance and Administration

TABLE 1

RISK-ADJUSTED ASSETS <i>(thousands of dollars)</i>	Balance Sheet or Contract Amount	Deduct Subsidiaries	Credit Union Amounts	Credit Equivalent Amount	Principal Risk Weight	Risk-adjusted Balance	
						1998	1997
On-balance sheet assets							
Cash and deposits with Credit Union Central of B.C.	\$ 391,522	\$ 12,500	\$ 379,022		0%	\$ -	\$ -
Securities issued or guaranteed by Canada, province, or municipalities	362,675	33,452	329,223		0%	-	-
Other securities	64,000	4,000	60,000		20%	12,000	8,000
Loans insured or guaranteed by Canada, province, or municipalities	719,711	82,285	637,426		0%	-	-
Mortgages	2,755,309	653,065	2,102,244		50%	1,051,122	1,001,667
Mortgages exceeding 75% of fair market value	205,797	-	205,797		100%	205,797	182,613
Personal Loans	429,263	8,202	421,061		80%	336,848	324,415
Commercial Loans	792,141	97,329	694,812		100%	694,812	592,219
Investment in other corporations	35,647	-	35,647		0%	-	-
Other assets	162,085	9,915	152,170		100%	152,170	134,686
	\$ 5,918,150	\$ 900,748	\$ 5,017,402			2,452,749	2,243,600
Off-balance sheet financial instruments							
Guarantees and standby letters of credit	\$ 12,432			\$ 5,470	100%	5,470	6,071
Derivatives	597,593			28,245	20%	5,649	4,609
Total risk-adjusted assets						\$ 2,463,868	\$ 2,254,280

TABLE 2

CAPITAL RATIOS <i>(thousands of dollars)</i>	1998	1997	1996	1995	1994
Capital Components					
Membership shares and accrued dividends thereon	\$ 38,605	\$ 33,951	\$ 29,184	\$ 25,698	\$ 21,813
Investment shares	21,861	23,474	21,502	20,662	19,200
Retained earnings	226,827	203,295	186,087	165,479	144,178
Deferred income taxes	(859)	(1,550)	(2,278)	(2,852)	(3,229)
Less: Capital requirements of subsidiary	(35,647)	(30,546)	(23,927)	(22,527)	(23,466)
VanCity group capital	250,787	228,624	210,568	186,460	158,496
Proportion of system capital	25,901	23,364	18,798	16,034	14,321
Total capital	\$ 276,688	\$ 251,988	\$ 229,366	\$ 202,494	\$ 172,817
Total risk-adjusted assets	\$ 2,463,868	\$ 2,254,280	\$ 1,837,909	\$ 1,561,686	\$ 1,475,409
Capital ratio	11.2%	11.2%	12.4%	13.0%	11.7%

TABLE 3

EARNINGS HIGHLIGHTS

(% of average assets)

	1998	1997	1996	1995	1994
	%	%	%	%	%
Net interest income	2.61	2.75	2.55	2.68	2.56
Charge for impairment of loans	0.10	0.10	0.08	0.07	0.08
	2.51	2.65	2.47	2.61	2.48
Other income	0.73	0.64	0.60	0.62	0.65
	3.24	3.29	3.07	3.23	3.13
Operating Expenses					
Salaries and employee benefits	1.37	1.33	1.21	1.20	1.16
Occupancy and equipment	0.34	0.37	0.35	0.35	0.28
General operating	0.86	0.99	0.75	0.77	0.83
	2.57	2.69	2.31	2.32	2.27
Earnings from Operations	0.67	0.60	0.76	0.91	0.86
Distributions and other items	0.12	0.18	0.18	0.24	0.15
Income taxes	0.14	0.08	0.13	0.17	0.19
	0.41	0.34	0.45	0.50	0.52
Net earnings - return on assets					
Net earnings (\$ thousands)	\$ 23,532	\$ 17,208	\$ 20,608	\$ 21,301	\$ 21,207
Average assets (\$ thousands)	\$ 5,738,457	\$ 5,112,619	\$ 4,631,941	\$ 4,259,824	\$ 4,047,848

TABLE 4

NET INTEREST INCOME

(thousands of dollars)

	1998	1997	1996	1995	1994
Interest Income					
Residential mortgages	\$ 247,365	\$ 241,718	\$ 257,406	\$ 251,109	\$ 236,941
Commercial mortgages	33,175	23,350	17,411	16,613	16,582
Other loans	84,248	57,385	54,498	62,486	47,242
Cash and securities	22,616	20,451	21,874	29,556	18,517
	387,404	342,904	351,189	359,764	319,282
Interest Expense					
T-Bill accounts	2,008	1,501	3,783	6,799	4,700
Chequing	937	689	1,183	1,507	1,220
Savings	11,728	6,992	8,624	9,743	6,084
Term deposits	122,313	94,131	109,278	122,156	91,796
Retirement plans	68,508	69,030	83,076	85,763	64,213
Debentures and loans	31,012	27,187	24,519	24,156	33,002
Other interest costs (income)	1,147	2,706	2,701	(4,467)	14,400
	237,653	202,236	233,164	245,657	215,415
Net interest income	\$ 149,751	\$ 140,668	\$ 118,025	\$ 114,107	\$ 103,867

TABLE 5

ANALYSIS OF CHANGES IN NET INTEREST INCOME

(thousands of dollars)

	1998 vs 1997			1997 vs 1996		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
Assets						
Residential mortgages	\$ 26,518	\$ (20,871)	\$ 5,647	\$ 7,191	\$ (22,879)	\$ (15,688)
Commercial mortgages	8,285	1,540	9,825	9,064	(3,125)	5,939
Other loans	11,130	15,733	26,863	12,271	(9,384)	2,887
Cash and securities	24	2,141	2,165	3,329	(4,752)	(1,423)
Total interest income	45,957	(1,457)	44,500	31,855	(40,140)	(8,285)
Liabilities						
Demand deposits	(580)	(4,911)	(5,491)	(1,179)	5,587	4,408
Term deposits	(22,092)	(6,090)	(28,182)	(13,160)	28,307	15,147
Registered plans	(1,858)	2,380	522	(1,619)	15,665	14,046
Debentures and loans	1,088	(4,913)	(3,825)	(15,081)	12,413	(2,668)
Total interest expense	(23,442)	(13,534)	(36,976)	(31,039)	61,972	30,933
	\$ 22,515	\$ (14,991)	7,524	\$ 816	\$ 21,832	22,648
Other interest income (costs)			1,559			(5)
Change in net interest income			\$ 9,083			\$ 22,643

INTRODUCTION

This review consists of financial information provided in tabular form with management's commentary. It supplements data provided in the audited financial statements of VanCity. This commentary refers to notes to the financial statements and the tables presented here. Unless otherwise specified, all information is consolidated data of VanCity and its subsidiaries.

For the third year VanCity operated in a low interest rate environment. This is reflected in the growth patterns experienced on the balance sheet. Members favoured longer term borrowing to assure themselves of lower mortgage rates. Deposits, on the other hand, increased mainly in the short term as members avoided locking into low investment rates.

BALANCE SHEET

At the end of 1998, consolidated assets stood at \$5.92 billion. The year's total asset growth is \$327.6 million or 5.9%. Asset growth in 1997 was \$787 million or 16.4% and included Teacher Savings assets of \$215 million. Deposit growth in 1998 of \$671.6 million or 14.3% included government and corporate member deposits of \$238 million. This compares very favourably with 1997 when the impact of Teacher's is excluded. Debentures and loans payable declined \$372.2 million to \$187.7 million.

Conservative accounting policies ensured a very strong balance sheet position. These factors, when combined with VanCity's continued investment in technology, position VanCity favourably to compete in the financial marketplace and to provide cost-effective quality service to our members.

STATEMENT OF EARNINGS

Consolidated earnings from operations of \$38.6 million for the year compare favourably to the 1997 earnings of \$30.6 million.

The Credit Union's earnings from operations decreased slightly to \$38.8 million in 1998 from \$39.1 million in 1997. Citizens Bank incurred an operating loss of \$241,000, substantially reduced from the 1997 loss of \$8.5 million.

Net interest income year-over-year increased 6.5%, other income 26.7% and operating expenses 6.9% resulting in an increase of 26% in earnings from operations.

Dividends on member shares were \$2.1 million for the year, slightly ahead of 1997. With patronage dividends of \$3.1 million the total distribution to members for 1998 is \$5.2 million. The 1997 member distribution totalled \$7.4 million which included a patronage dividend of \$5.3 million. Investment share dividends of approximately \$1.2 million were paid in both years.

Income taxes for VanCity of about \$9.1 million were offset on consolidation by Citizens taxes recoverable of \$1.1 million. Net earnings total \$23.5 million up \$6.3 million from the \$17.2 million reported in 1997.

CAPITAL RATIO

Government regulations set the minimum risk-adjusted capital ratios which financial institutions must maintain. Details of assets by risk-rated category and their relative risk-adjusted balance are shown in TABLE 1. This table also shows the off-balance sheet financial instruments and the weighting applied to each.

TABLE 2 details the major components of VanCity's capital and the resulting capital ratio. The required minimum capital ratio for VanCity is 8% of the risk-adjusted assets total. The ratio at year end stood at a healthy 11.2%.

Several factors have influenced the capital ratio over the last five years. Capital is strengthened by increased investment by members in member and investment shares and the retention

TABLE 6

OTHER INCOME (thousands of dollars)	1998	1997	1996	1995	1994
Account service fees	\$ 9,173	\$ 7,354	\$ 7,093	\$ 6,532	\$ 6,538
Building rentals	551	475	610	483	301
Credit card fees	1,614	204	229	586	597
Foreign exchange	6,127	4,745	3,677	3,504	2,582
Insurance fees	5,359	5,270	4,608	3,907	2,651
Loan administration fees	2,986	2,892	2,656	2,952	3,985
Loan application fees	2,221	2,659	2,410	2,419	4,111
Safety deposit box rentals	847	775	755	753	708
Trust and management fees	9,345	6,229	3,869	2,683	2,404
Other	3,396	2,234	1,725	2,960	2,265
Total other income	\$ 41,619	\$ 32,837	\$ 27,632	\$ 26,779	\$ 26,142

TABLE 7

OPERATING EXPENSES (thousands of dollars)	1998	1997	1996	1995	1994
Salary and employee benefits					
Salaries and wages	\$ 64,289	\$ 57,405	\$ 47,882	\$ 43,747	\$ 40,327
Benefits and training	14,126	10,858	8,104	7,391	6,461
	78,415	68,263	55,986	51,138	46,788
Occupancy and equipment					
Rent	8,005	5,912	5,410	6,529	5,049
Equipment	1,582	1,454	1,309	1,307	998
Maintenance and security	4,245	6,312	4,889	4,066	3,017
Amortization	5,816	5,413	4,612	2,925	2,316
	19,648	19,091	16,220	14,827	11,380
General operating					
B.C. Corporation Capital Tax	3,257	3,263	2,754	2,386	2,010
Communications and advertising	10,831	16,061	8,178	6,953	5,572
Computer	12,549	11,066	8,556	8,830	9,752
Credit Union Central of B.C. dues and assessment	1,002	923	902	905	898
Deposit insurance	3,229	2,725	2,602	2,435	3,015
Insurance	803	688	665	610	778
Meetings and travel	1,194	1,113	921	671	637
Postage	1,862	1,692	1,304	1,155	1,215
Professional services	5,152	4,716	2,324	2,460	1,935
Stationery	2,364	2,189	1,767	1,570	1,579
Telephone	3,413	2,966	2,110	1,854	1,467
Other	3,560	3,030	2,735	3,113	4,770
	49,216	50,432	34,818	32,942	33,628
Total operating expenses	\$ 147,279	\$ 137,786	\$ 107,024	\$ 98,907	\$ 91,796

TABLE 8**INCOME AND OTHER TAXES***(thousands of dollars)*

	1998	1997	1996	1995	1994
Income taxes	\$ 8,023	\$ 3,994	\$ 6,037	\$ 7,294	\$ 7,776
B.C. Corporation Capital Tax	3,257	3,263	2,754	2,386	2,010
Payroll taxes	3,326	2,907	2,470	2,305	2,073
Property taxes	1,484	1,287	1,156	572	471
Total income and other taxes	\$ 16,090	\$ 11,451	\$ 12,417	\$ 12,557	\$ 12,330

TABLE 9**DISTRIBUTIONS TO MEMBERS***(thousands of dollars)*

	1998	1997	1996	1995	1994
Dividends on membership shares	\$ 2,138	\$ 2,043	\$ 1,701	\$ 2,835	\$ 1,848
Dividends on investment shares	1,191	1,269	1,597	1,617	1,506
Patronage rebates	3,091	5,329	4,537	4,870	1,826
	\$ 6,420	\$ 8,641	\$ 7,835	\$ 9,322	\$ 5,180

of earnings. The ratio is also affected by changes in asset balances and the change in asset mix; for example, commercial lending and personal loans have a higher risk weighting. VanCity follows a conservative policy of insuring high ratio mortgages to remove the related credit risk. Insured loans bear a zero risk weighting and, therefore, enhance the capital ratio. The acquisition of Teacher Savings Credit Union also impacted 1997.

INTEREST RATE SENSITIVITY

VanCity's main source of income is its net interest income which can be explained as the difference between interest earned on assets and interest paid on liabilities. Financial institutions are susceptible to changes in interest rates. When asset and liability terms differ, this occurrence is commonly called the mismatch.

Analysis of interest rate sensitivity is necessary so VanCity can mitigate at least part of this asset and liability mismatch risk. Financial instruments or derivatives are used for this purpose. Note seven to the financial statements analyzes the balance sheet as to its term sensitivity at year-end. The maturity stream of loans is adjusted for expected prepayments. The mismatch is quantified and then managed within established risk limits.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from the underlying asset or index, such as interest rates or foreign exchange rates. Derivatives allow financial institutions to identify, isolate and manage separately the market risks in financial instruments for purposes of hedging, speculating, arbitraging price differences and adjusting portfolio risks.

VanCity uses derivatives to hedge business risk, for investment and to provide products, such as a stock market index-linked deposit, to members. VanCity manages the use of derivatives through defined policies set by the Board and managed by an Asset/Liability Committee. Derivative financial instruments are summarized in note eight to the financial statements by notional amounts, maturities and fair market values.

When a contract has a positive fair market value it shows that the counter party owes, and creates a credit risk for, the Credit Union. VanCity manages credit risk by dealing with credit worthy counter parties which are reviewed regularly.

EARNINGS HIGHLIGHTS

A five-year summary of earnings is included at the beginning of the financial review section. TABLE 3 sets out the dollar earnings information as a percentage of average assets. This information identifies changes in earnings components independent of asset size. It also provides a measure to compare VanCity to other financial institutions. The corporate goal is to maintain minimum earnings from operations at 0.65% of average assets in order to provide sufficient capital for asset growth and new strategic initiatives, such as Citizens Bank and new branch development. This corporate goal was achieved when the first year cost of operations of Citizens Bank of Canada is excluded from 1997 data. The variations in earnings from operations in the last three years were largely attributable to the launch of Citizens Bank.

NET INTEREST INCOME

Interest income and interest expense segments of the earnings are summarized in TABLE 4. Other interest income and costs include financial instrument income and costs, the cost of packaging and insuring mortgage-backed securities and gains on securitized asset sales.

Interest income is sensitive to changes in mix and volumes of assets and liabilities, and to interest rate fluctuations. TABLE 5 analyzes the relative effect of these factors on VanCity's net interest income for 1998 and 1997.

OTHER INCOME

VanCity has not increased its general fee schedule for five years and, therefore, recent growth in other income (TABLE 6) is mainly volume related. This is also evident in the growth of foreign exchange income. Credit card fees recognized the first full year in 1998 of our in-house VISA operations. Mutual fund administration income account for the 1997 and 1998 increase in trust fees.

TABLE 10

OTHER INFORMATION*(thousands of dollars)*

Employee Loans Category	Rate	Number of such loans	1998		1997	
			Amount	Amount	Amount	Amount
Mortgages	4% - 8%	474	\$ 40,424	\$ 36,951		
Personal loans						
Regular	4% - 5%	594	6,112	5,414		
Computer	0%	181	285	269		
			\$ 46,821	\$ 42,634		

OPERATING EXPENSES

Operating expenses (TABLE 7) in 1997 and 1998 were affected by the launch of Citizens Bank, the acquisition of Teacher Savings Credit Union and VanCity's VISA receivables. The expansion of the branch network also impacted years prior to 1998. The cost of new branches is mainly felt in the first year as computer costs, stationery and promotion costs are expended. Costs in the second year include a full year of salary and occupancy costs but these costs are partially offset by increased income.

General operating costs are influenced by VanCity's aggressive information technology research and development program and the policy of writing off personal computer hardware and software in the year of acquisition.

INCOME AND OTHER TAXES

Major taxes payable by VanCity are shown on TABLE 8. Sales taxes are not recorded separately and are not included in the table. Effective 1997, property taxes include those paid on rental properties that were previously included as rent

expense. Income taxes are lower in 1996 and 1997 due to the utilization of losses of a subsidiary.

DISTRIBUTION TO MEMBERS

Distribution to members is shown in TABLE 9.

OTHER INFORMATION

At December 31, 1998, outstanding loans to directors, officers and employees of the Credit Union amounted to \$88.9 million (1997 - \$78.3 million). All such loans are within normal lending terms, except as detailed below.

The compensation of employees and officers of the Credit Union may include the benefit of loans granted at rates less than those available to other members. The aggregate of such loans at favourable rates, and the rate of interest at December 31, 1998, is as shown in TABLE 10.

There were no loans to directors of the Credit Union at interest rates or terms and conditions different from those available to other members.

AUDITORS' REPORT

To the Members of Vancouver City Savings Credit Union:

We have audited the consolidated balance sheet of Vancouver City Savings Credit Union as at December 31, 1998 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the credit union as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Arthur Andersen LLP
Chartered Accountants

Grant Thornton
Chartered Accountants

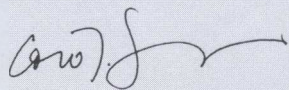
Vancouver, Canada
January 27, 1999

CONSOLIDATED BALANCE SHEET

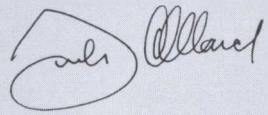
As at December 31, 1998

	Note	1998	1997
<i>(thousands of dollars)</i>			
ASSETS			
CASH AND SECURITIES			
Cash		\$ 49,500	\$ 38,098
Deposits with financial institutions		396,539	379,831
Government and corporate securities		104,683	86,011
		550,722	503,940
LOANS			
Residential mortgages		3,715,561	3,571,922
Commercial mortgages		535,407	448,800
Consumer loans		754,991	744,821
Business loans		225,645	201,399
Allowance for impairment	2	(18,690)	(20,100)
		5,212,914	4,946,842
OTHER			
Accrued interest receivable		22,715	20,501
Premises and equipment	3	56,151	53,855
Other assets	4	75,648	65,402
		154,514	139,758
		\$ 5,918,150	\$ 5,590,540
LIABILITIES			
DEPOSITS			
Demand		\$ 869,986	\$ 822,601
Term		4,424,663	3,799,735
Shares	5	64,642	65,367
		5,359,291	4,687,703
DEBENTURES AND LOANS PAYABLE			
Demand loan with Credit Union Central of B.C.		53,000	194,000
Short-term loans payable		34,710	165,951
Debentures			
7%, due August 1998		-	100,000
7 1/8%, due August 2001		100,000	100,000
		187,710	559,951
OTHER LIABILITIES			
Accrued interest and dividends payable		107,922	89,284
Accounts payable and other accrued liabilities		36,400	50,307
		144,322	139,591
MEMBERS' EQUITY			
RETAINED EARNINGS		226,827	203,295
		\$ 5,918,150	\$ 5,590,540

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



Director



Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the year ended December 31, 1998

	Note	1998	1997
<i>(thousands of dollars)</i>			
INTEREST INCOME			
Loans		\$ 364,788	\$ 322,453
Cash and securities		22,616	20,451
		387,404	342,904
INTEREST EXPENSE			
Deposits		205,494	172,343
Debentures and loans payable		31,012	27,187
Other		1,147	2,706
		237,653	202,236
NET INTEREST INCOME		149,751	140,668
CHARGE FOR IMPAIRMENT OF LOANS	2	5,516	5,101
		144,235	135,567
OTHER INCOME		41,619	32,837
NET INTEREST AND OTHER INCOME		185,854	168,404
OPERATING EXPENSES			
Salaries and employee benefits		78,415	68,263
Occupancy and equipment		19,648	19,091
General operating		49,216	50,432
		147,279	137,786
EARNINGS FROM OPERATIONS		38,575	30,618
DONATION TO VANCITY COMMUNITY FOUNDATION		600	775
DISTRIBUTIONS TO MEMBERS	6	6,420	8,641
EARNINGS BEFORE INCOME TAXES		31,555	21,202
PROVISION FOR INCOME TAXES		8,023	3,994
NET EARNINGS		23,532	17,208
RETAINED EARNINGS, beginning of year		203,295	186,087
RETAINED EARNINGS, end of year		\$ 226,827	\$ 203,295

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

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1998

	1998	1997
	<i>(thousands of dollars)</i>	
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings	\$ 23,532	\$ 17,208
Adjustments to determine cash flows from operating activities		
Gain on sale of mortgage backed securities	(521)	(5,399)
Charge for impairment of loans	5,516	5,101
Amortization of premises and equipment	5,816	5,413
Other	898	(215)
	35,241	22,108
Net change in other assets and liabilities used in operations	(499)	8,306
	34,742	30,414
FINANCING ACTIVITIES		
Demand and term deposits	672,313	600,548
Shares	(725)	5,750
Loans payable	(272,241)	145,171
Debenture repayment	(100,000)	-
	299,347	751,469
CASH PROVIDED BY OPERATING AND FINANCING ACTIVITIES	334,089	781,883
INVESTING ACTIVITIES		
Deposits with financial institutions	(16,708)	(66,525)
Government and corporate securities	(18,672)	(48,764)
Loans	(588,603)	(942,950)
Sale of securitized mortgages	317,536	296,273
Premises and equipment	(8,112)	(9,460)
Other assets	(8,128)	(6,836)
CASH USED IN INVESTING ACTIVITIES	(322,687)	(778,262)
INCREASE IN CASH	11,402	3,621
CASH, beginning of year	38,098	34,477
CASH, end of year	\$ 49,500	\$ 38,098

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 1998

Vancouver City Savings Credit Union is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. The credit union serves members principally in the Greater Vancouver and surrounding areas. Citizens Bank of Canada and Citizens Trust Company, the principal subsidiaries of the credit union, are federally incorporated and serve customers across Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. The significant accounting policies used in these consolidated financial statements are as follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the credit union and its subsidiaries, all of which are wholly owned (collectively referred to as "VanCity"). The active subsidiaries are Citizens Bank of Canada, Citizens Trust Company, VanCity Enterprises Ltd., VanCity Insurance Services Ltd., Oliver & Moore Associates Ltd. and VanCity Investment Services Ltd.

(b) Deposits with Financial Institutions

Deposits with Credit Union Central of B.C. and chartered banks are recorded at cost. Interest income is recorded on an accrual basis.

(c) Securities

Investments in government and corporate securities are carried at cost. Interest income is recorded on an accrual basis and gains and losses are taken into earnings when realized.

(d) Loans

Loans are carried at the principal amount less an allowance for impairment. Interest income is recorded on an accrual basis except when a loan is considered to be impaired. Interest income on impaired loans is recognized on a cash basis but only after any specific provision for impairment or partial write-off has been recovered, and provided that there is no further doubt as to the collectability of the principal amount.

Impaired Loans

Loans are generally considered to be impaired at the earlier of when, in the opinion of management, there is reasonable doubt regarding the timely collection of the full amount of principal and interest, or when interest is 90 days past due. Impaired loans are carried at their estimated realizable amounts determined by discounting the expected future cash flows at the interest rates inherent in the loans. When the amounts of future cash flows cannot be estimated with reasonable reliability, impaired loans are carried at the fair value of the underlying security, net of estimated costs of realization.

Allowance for Impairment

The allowance for impairment is maintained at a level considered adequate to absorb anticipated credit losses. The amount provided for anticipated credit losses is determined by reference to specific impaired loans and by the judgement of management based on previous experience and current economic conditions.

Fees

Net fees earned and direct costs incurred in connection with lending activities are deferred and amortized over the initial term of the underlying loans.

(e) Premises and Equipment

Premises and equipment are recorded at cost and amortized over the estimated useful life of each asset.

(f) Other Assets

Investments in shares are recorded at cost. Properties acquired for investment purposes are recorded at cost and depreciated over the estimated useful life of each property.

(g) Derivative Financial Instruments

VanCity enters into various credit related agreements, equity indexed options, and interest rate and currency contracts to meet the needs of its members, earn trading income and manage its exposures to interest rate and currency fluctuations. When used to earn trading income, these instruments are marked to market and the resultant gains and losses are recognized in earnings. When used for asset/liability risk management, the premiums and the gains and losses on settlement of these instruments are deferred and amortized to earnings over the expected remaining life of the related position.

(h) Distributions to Members

Patronage rebates and dividends are charged to earnings.

(i) Comparative Figures

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

2. ALLOWANCE FOR IMPAIRMENT

					1998	1997
					<i>(thousands of dollars)</i>	
	Residential	Commercial	Consumer	Business	Total	Total
Balance, beginning of year	\$ 6,899	\$ 3,502	\$ 6,352	\$ 3,347	\$ 20,100	\$ 16,974
Allowance related to acquisition	-	-	-	-	-	1,332
Loans written off	(1,527)	(3,977)	(2,050)	-	(7,554)	(3,495)
Charge for impairment	(649)	4,269	1,193	703	5,516	5,101
Recoveries of amounts written off in prior years	334	-	294	-	628	188
Balance, end of year	\$ 5,057	\$ 3,794	\$ 5,789	\$ 4,050	\$ 18,690	\$ 20,100
Loans with specific allowances for impairment						
Recorded amount	\$ 7,724	\$ 4,091	\$ 90	\$ 3,193	\$ 15,098	\$ 4,653
Related allowance	170	135	30	1,861	2,196	2,641
Carrying amount	\$ 7,554	\$ 3,956	\$ 60	\$ 1,332	\$ 12,902	\$ 2,012
Loans with general allowances for impairment						
Recorded amount	\$ 3,707,837	\$ 531,316	\$ 754,901	\$ 222,452	\$ 5,216,506	\$ 4,962,289
Related allowance	4,887	3,659	5,759	2,189	16,494	17,459
Carrying amount	\$ 3,702,950	\$ 527,657	\$ 749,142	\$ 220,263	\$ 5,200,012	\$ 4,944,830
Loans on which accrual of interest has been discontinued						
	\$ 35,418	\$ 5,842	\$ 8,143	\$ 162	\$ 49,565	\$ 28,562

3. PREMISES AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value	
			1998	1997
<i>(thousands of dollars)</i>				
Land	\$ 6,317	\$ -	\$ 6,317	\$ 6,317
Buildings	38,565	5,171	33,394	34,469
Leasehold improvements	7,381	2,939	4,442	3,413
Computer equipment	12,875	4,495	8,380	4,065
Office equipment	9,036	5,418	3,618	5,591
	\$ 74,174	\$ 18,023	\$ 56,151	\$ 53,855

4. OTHER ASSETS

	1998	1997
	<i>(thousands of dollars)</i>	
Credit Union Central of B.C., shares	\$ 27,953	\$ 27,634
Accounts receivable, prepayments and other	26,452	23,219
Deferred costs, net of amortization	21,243	14,549
	\$ 75,648	\$ 65,402

The investment in the shares of Credit Union Central of B.C. is required under operating agreements.

5. SHARES

Shares include membership shares, investment shares and savings shares.

Members are required to purchase up to \$50 of membership shares and were able to purchase up to \$25,000 of investment shares. The retraction or redemption of these shares may be subject to certain restrictions. Investment shares earn dividends at a quarterly adjusted rate, set at least 1% above the three to five year Government of Canada bond yields.

Monies invested in membership and investment shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

6. DISTRIBUTIONS TO MEMBERS

Included in Distributions to Members is \$3,091,000 (1997 - \$5,329,000) of patronage rebates to members. The rebates are calculated based on loan interest received and deposit interest paid by VanCity. The rebates relating to loan interest received amounted to \$1,592,000 (1997 - \$2,611,000) and to deposit interest paid by VanCity amounted to \$1,499,000 (1997 - \$2,718,000).

7. INTEREST RATE SENSITIVITY

Interest rate risk is the sensitivity of VanCity's financial condition to movements in interest rates. The carrying amounts of interest sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented in the periods in which they next reprice to market rates or mature and are summed to show the interest rate sensitivity gap. Loans are adjusted for prepayment estimates which reflect expected repayments on other than contractual maturity dates. The prepayment rate applied to the portfolio is based on experience and current economic conditions.

Note 7 continued

(thousands of dollars)

	Average Rate	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-interest Sensitive	Total
Assets								
Cash		\$ -	\$ -	\$ -	\$ -	\$ -	49,500	\$ 49,500
Securities	5.11%	483,717	5,433	2,072	10,000	-	-	501,222
Loans	6.91%	2,332,736	907,093	843,112	513,853	639,022	(22,902)	5,212,914
Other		-	-	-	-	-	154,514	154,514
		<u>2,816,453</u>	<u>912,526</u>	<u>845,184</u>	<u>523,853</u>	<u>639,022</u>	<u>181,112</u>	<u>5,918,150</u>
Liabilities and members' equity								
Deposits	4.22%	3,450,282	561,715	265,359	139,153	115,825	826,957	5,359,291
Debentures and loans payable	6.34%	87,710	-	100,000	-	-	-	187,710
Other		-	-	-	-	-	371,149	371,149
		<u>3,537,992</u>	<u>561,715</u>	<u>365,359</u>	<u>139,153</u>	<u>115,825</u>	<u>1,198,106</u>	<u>5,918,150</u>
Balance sheet mismatch		(721,539)	350,811	479,825	384,700	523,197	(1,016,994)	-
Derivatives		(90,000)	(10,000)	100,000	-	-	-	-
Net mismatch		<u>\$ (811,539)</u>	<u>\$ 340,811</u>	<u>\$ 579,825</u>	<u>\$ 384,700</u>	<u>\$ 523,197</u>	<u>\$(1,016,994)</u>	<u>\$ -</u>

The average rate represents the weighted average effective yield based on the earlier of repricing or maturity dates.

8. DERIVATIVE FINANCIAL INSTRUMENTS

	Notional Amounts		Total 1998	Total 1997	Fair Values	
	Maturities of 1998	Derivatives 2000-2003			1998	1997
(thousands of dollars)						
Hedging derivatives used to manage interest rate risk						
Receive fixed interest current swaps	\$ 13,937	\$ 25,000	\$ 38,937	\$ 197,366	\$ 885	\$ 3,030
Receive fixed interest forward starting swaps	-	125,000	125,000	150,000	2,891	2,384
Pay fixed interest current swaps	-	100,000	100,000	30,000	(499)	114
Pay fixed interest forward starting swaps	-	75,000	75,000	-	(5)	-
Interest rate swaps	13,937	325,000	338,937	377,366	3,272	5,528
Receive fixed forward rate agreements	70,000	-	70,000	-	(28)	-
Pay fixed swaption purchased	75,000	-	75,000	2,000	254	25
Pay fixed swaption written	10,000	-	10,000	-	(15)	-
	168,937	325,000	493,937	379,366	3,483	5,553
Other hedging derivatives						
Foreign exchange forward and future sell contracts	8,967	-	8,967	12,220	(25)	(87)
Foreign exchange forward and future buy contracts	8,253	-	8,253	10,760	54	272
Precious metal future sell contract	657	-	657	-	10	-
Index-linked call options purchased	11,684	74,095	85,779	48,429	22,459	15,648
Trading derivatives						
Received fixed forward rate agreements	-	-	-	125,000	-	(31)
Pay fixed forward rate agreements	-	-	-	50,000	-	-
Receive fixed interest current swaps	-	-	-	166,000	-	(327)
Pay fixed interest current swaps	-	-	-	40,000	-	(149)
Total derivative contracts	\$ 198,498	\$ 399,095	\$ 597,593	\$ 831,775	\$ 25,981	\$ 20,879

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

The credit risk amount of derivatives, which represents the current replacement cost of all outstanding over-the-counter derivative contracts in a gain position without factoring in the impact of master netting agreements or the value of any collateral, totalled \$26,564,000 as at December 31, 1998 (1997- \$21,468,000).

VanCity manages this credit risk by dealing with a number of creditworthy counterparties and setting specific limits for investments with those counterparties which are reviewed on a regular basis.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following represents the fair values of on and off-balance sheet financial instruments of VanCity. The fair values disclosed exclude the value of assets and liabilities that are not considered financial instruments. In addition, the value of intangibles such as long-term member relationships are not included in the fair value amounts. VanCity considers the value of intangibles to be significant.

Note 9 continued

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of VanCity's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

Due to the judgement used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

(thousands of dollars)	1998			1997		
	Book Value	Fair Value	Fair Value Over (Under) Book Value	Book Value	Fair Value	Fair Value Over (Under) Book Value
Assets						
Cash	\$ 49,500	\$ 49,500	\$ -	\$ 38,098	\$ 38,098	\$ -
Securities	501,222	506,743	5,521	465,842	466,211	369
Loans	5,212,914	5,264,282	51,368	4,946,842	4,975,885	29,043
Other assets	60,731	60,731	-	57,158	57,158	-
Liabilities						
Deposits	5,359,291	5,421,002	61,711	4,687,703	4,752,726	65,023
Debentures and loans payable	187,710	192,688	4,978	559,951	559,888	(63)
Accounts payable and accrued liabilities	111,181	111,181	-	91,410	91,410	-
Off balance sheet derivative financial instruments		25,981	25,981		21,386	21,386
Total fair value adjustment			<u>\$ 16,181</u>			<u>\$ (14,162)</u>

Interest rate sensitivity is the main cause of changes in the fair values of VanCity's financial instruments. The book values are generally not adjusted to reflect the fair value, as it is VanCity's intention to realize their value over time by holding them to maturity.

10. CONCENTRATIONS OF CREDIT RISK

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

Geographic credit risk exists in that VanCity's service area is limited generally to the Lower Mainland of British Columbia and surrounding areas. To reduce the impact of the geographic credit risk, VanCity has insured approximately 32% of its residential mortgages.

11. OTHER INFORMATION

1998 1997

Credit Instruments

(thousands of dollars)

The amounts shown as credit related arrangements 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 will expire or terminate without being drawn upon.

Lines of Credit	\$518,990	\$ 535,437
Documentary letters of credit	12,432	13,798
Commitments to extend credit	122,153	126,281
	\$653,575	\$ 675,516

Lease Commitments

Certain branch premises are leased for terms extending to 2016. There are \$29,536,000 of commitments for minimum rental payments in future years with a maximum of \$5,728,000 in any one year.

Pledged Assets

In the normal course of business, the credit union and certain subsidiaries pledge their assets as security for liabilities incurred. As at December 31, 1998 certain demand and term deposits with Credit Union Central of B.C. have been pledged as security for a demand loan. The debentures and a standby credit facility, when utilized, are secured by mortgages with a carrying value in excess of the outstanding amount of the debt.

12. YEAR 2000

The year 2000 issue arises because many computer systems use only two digits rather than four to identify a year. This may result in errors when these systems process data with dates subsequent to 1999. The effects of the year 2000 issue may be experienced before, on or after January 1, 2000. If not addressed, the impact on operations and financial reporting may range from minor errors to significant system failures which could affect an entity's ability to conduct normal business operations. Management is addressing this issue. However, given the nature of the risk, it is not possible to be certain that all aspects of the year 2000 issue affecting the Credit Union and those with whom it deals such as members, suppliers and other third parties, will be fully resolved.

Still have more questions? Here's how to reach us:

E-mail: feedback@vancity.com

Visit us on the world wide web: www.vancity.com

TeleService™: 877-7000

TeleService Toll-Free in Canada and the USA:

1-888-VanCity

Mon-Fri 8 am to 8 pm, Sat 8 am to 4 pm PST

24-Hour Service Line, 7 days a week: 877-7001

24-Hour Service Line, Toll-Free in Canada and the USA:

1-800-310-8777

Telephone Service for the Deaf: 871-5408



Here, doing business in the right way means we'll help you to find financial solutions that are right for you through every stage of your life – from Accounts, Loans, Term Deposits and Mutual Funds, to Investment Planning, RRSPs, Retirement Advice and Insurance. And here, doing business in the right way also means being respectful of the environment and supportive of the communities in which we all work and live.