

Come on in.
We'd like you to meet
the owner of VanCity.




**Nana's Kitchen
and Hot Sauces**
www.nanasauce.com

VanCity owners and sisters Nasim Dhanji and Shelina Mawani have turned a spicy idea into a hot business. Their company, which doubled its sales in its second year alone, joined VanCity in October 2001 and worked with Community Business Services on financing to support the rapid growth of the business.

Born and raised in Africa, Nasim and Shelina grew up experiencing the flavours of India, Africa and Arabia. Nasim, a former fashion designer in Kenya, came up with an idea in 1995 for *pili pili* (chili in Swahili) sauce, like the kind that she had enjoyed in East Africa. She developed her own version of *pili pili* — a combination of chili peppers, onions, tomatoes and her own secret ingredients— and soon after, a new business was born.

With Nasim's tangy sauce and Shelina's marketing savvy, the pair launched Nana's Kitchen and Hot Sauces in 1999. "We came to VanCity because they were willing to look at us in a different way," said Shelina, the company's marketing and sales director. "As small business owners and women entrepreneurs, we found that VanCity had the flexibility to give us the kind of financing we need. They put their trust in us."

Today, Nana's employs seven people and sells several hot sauces, spicy wraps, tandoori marinades and samosas at retailers throughout the Lower Mainland.

A woman wearing a white chef's hat and a white apron over a dark suit is sitting in a black office chair at a large wooden desk. She is smiling and looking towards the camera. Her feet, wearing black shoes and patterned socks, are propped up on the desk. The desk has a laptop, a small black cup, and some papers on it. In the foreground, two wooden chairs with dark upholstery are visible. The background is a large window with a view of a city skyline under a clear blue sky.

Nasim Dhanji
Owner since 2001



Attila Pinter may be young, but he knows more about being an owner of a credit union than most adults. At 12 years old, the eighth grader has been a VanCity member for six years and is a veteran of St. Helen's Junior Credit Union in Burnaby. With the support of staff at the school and VanCity's North Burnaby Community Branch, the junior credit union teaches youngsters about saving and managing money.

Attila had an important job at his elementary school's junior credit union. "It was cool," he says. "I was treasurer and sorted all the money, and every month I would make a graph and a chart of how we were doing overall, and how much money we were getting."

While Attila liked a lot of things about the credit union, there was one thing about it he liked the most. "I like helping others," he says. Attila says he'd like to work for VanCity one day. Thanks to his solid experience with St. Helen's Junior Credit Union, the North Burnaby Branch will save a job for Attila — although they're willing to wait a few more years for him.



Attila Pinter
Owner since 1996



The Credit Union Building at Broadway and Quebec, where VanCity operated during its early years.

No one knows more about what it means to be a VanCity owner than Martha Mackie, one of the credit union's founding members.

"I've always been proud to be a member of VanCity," says Mrs. Mackie. "We welcomed people as members, not as depositors."

She recalls vividly the day VanCity was born.

"C.P. Grad came into the office, just before VanCity's charter approval came back from Victoria. He had three \$100 bills in his hand, and he wanted to join the credit union. I had never seen a \$100 bill, never mind three of them. I dashed into the office of Jack Burns, managing director of the B.C. Credit Union League, and said 'Jack! There's a man out there and he's got three \$100 bills, and he wants to join the credit union.' Jack said, 'Sign him up!' 'But I'm not even a member yet,' I said, and Jack said, 'Well, sign yourself up first, then sign him up!' And that's exactly what I did. That's why I'm in book number one, branch number one.

"It's been a matter of pride ever since."



Martha Mackie
Owner since 1946

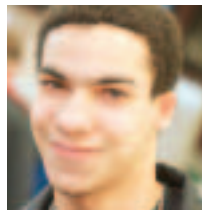
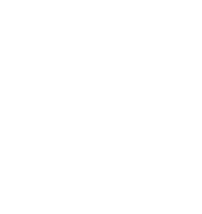
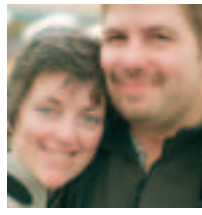
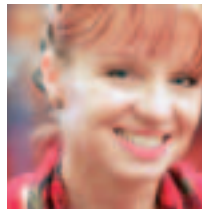
VanCity is a financial institution like no other. Each member is an owner, with a say in how his or her credit union is run. VanCity is a reflection of the values and priorities of our members. That's why our credit union is opening new branches at a time when others are closing theirs down, and why we're investing in our people at a time when others are laying off theirs.

When you are a member of VanCity, we're working for you.

Our owners have many faces. They're kids saving their allowances and paper route money for the perfect skateboard or a cool CD player. They're young professionals hoping to buy their first home or do some online trading. They're parents looking for a better rate on their mortgage, or an RESP for the kids. They're entrepreneurs looking for a financial institution that takes chances and invests in people — not just balance sheets. They're seniors enjoying retirement after a lifetime of building our communities.

This annual report invites you to come on in to VanCity and meet just a few of the members who together own this credit union. We only wish we had space in this report for all 275,000 of them.

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MESSAGE FROM THE CEO AND CHAIR

Building for the future

Thanks to VanCity's 275,000 members, the Board of Directors and CEO are pleased to report that 2001 was a year of more VanCity 'firsts' and momentum that created incredible growth and positive change for the credit union.

VanCity welcomed more than 15,000 new members, was recognized in B.C. Business magazine as one of the 10 most respected companies in British Columbia, and introduced the \$1-million VanCity Award. And, in spite of a difficult year for the financial markets, we enjoyed the largest operating profit in our 56-year history.



CEO Dave Mowat and Board Chair Greg McDade at the site of the new VanCity branch in North Vancouver opening in 2002.

Our five-year strategic business plan, now in its second year, puts member service and satisfaction higher on our priority list than ever before. Our smart approach continues to raise the bar on every service interaction our members experience, and builds on our efforts to make VanCity a great place to work for our employees. We've taken many steps to achieve these goals over the past year and are already seeing positive results for our efforts.

Putting members first

Members are always first at VanCity. They are the reason we are in business, and why VanCity is able to make a positive contribution to the community. Whether they call TeleService, visit us at vancity.com, or stop in to a local Community Branch, we want our members to receive legendary service.

We know that we still have a long way to go. Our growth as a company is also a constant challenge to our service. New technological and service innovations in 2001 required hundreds of hours of training for VanCity staff — hours that took staff away from member service. In 2002 and the years ahead, we'll find ways to balance the demands of growth so that member service always comes first.

In 2001, many members shared concerns about changes to VanCity's service charges, following an incremental increase. We heard their concerns, and we're taking action. We've begun a major review of how we structure service charges, and we'll be reporting those results to members in 2002. We want VanCity to offer the best value in service charges and to make them simple and easier to understand.

The credit union also faced a challenge in November when Canada 3000 announced that it was no longer operating. Many VanCity VISA cardholders were concerned about how this would affect them and their travel points. We reassured them that their points would hold their value, and that any bookings made with Canada 3000

would be fully refunded by VanCity VISA. We would like to thank our cardholders for staying with us, and we'll be launching a dynamic and innovative rewards program in the spring of 2002.

The benefits of ownership

There is something special about being a VanCity member. At VanCity, members are also owners – decision-makers with a say in how their credit union should be run. The Board of Directors that members elect makes sure that member interests are brought to the table. In 2001, we worked to make our financial products simpler, our service better, and to increase member opportunities to participate in the democratic process.

VanCity membership also has financial benefits. Our strong results in 2001 enabled VanCity to make patronage rebates, share dividends and community partnership grants and donations totaling \$7.8 million, or 30 per cent of net earnings.

And finally, the numbers

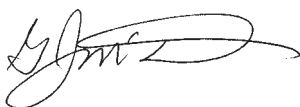
In the midst of our focus on members, service and values, we are equally intent on running an efficient financial institution. The Board of Directors is proud of the performance of the VanCity management team, who delivered our strongest results ever.

At year-end, consolidated assets were \$7.5 billion, a 9 per cent increase from 2000. Consolidated deposits grew in 2001 by \$552.9 million or 8.9 per cent and by year-end, VanCity had 275,721 members, a net increase of 9,508 new members. Consolidated earnings from operations were \$42.2 million, compared with \$35.9 million in 2000. Net earnings for 2001 were \$25.9 million, compared with \$21 million in 2000.

What's ahead in 2002

We're carrying the momentum of the past year into 2002. Our approach is simple and relevant — we want to make members feel valued. We want to continue growing our membership by doing what we do best. And we're looking at ways to provide members with even more input into the direction of VanCity.

Our success over the past year reflects our ongoing commitment to remain true to the values upon which VanCity was founded — integrity, innovation and responsibility. Membership and shared ownership of our credit union set us apart from the banks and explain why more people are choosing VanCity than ever before. We will continue to live our values in everything we do, and want to thank our members for their continued commitment and loyalty.



Greg McDade
Chair, VanCity Board of Directors
Owner since 1990



Dave Mowat
Chief Executive Officer
Owner since 1998

VANCITY'S STATEMENT OF VALUES AND COMMITMENTS

As VanCity grows and changes, there are some things that will never change... our purpose and values. VanCity's Statement of Values and Commitments was created in consultation with our members, staff and communities and provides a framework for how we do business. It will guide our business decisions and strategies ensuring that we stay true to the values that have made us strong, and will be incorporated into every aspect of our business planning.

Our Mission

To be a democratic, ethical, and innovative provider of financial services to our members. Through strong financial performance, we serve as a catalyst for the self-reliance and economic well being of our membership and community.

Our Purpose

Working with people and communities to help them thrive and prosper.

Our Values

Integrity

We act with courage, consistency and respect to do what is honest, fair and trustworthy.

Innovation

We anticipate and respond to challenges and changing needs with creativity, enthusiasm and determination.

Responsibility


We are accountable to our members, employees, colleagues and communities for the results of our decisions and actions.



Our Commitments

We make the following commitments in order to live our purpose and values in how we do business. Our aim is to strengthen VanCity's long-term business while contributing to the well being of our members, staff, communities and the environment.

- We will be responsible and effective financial managers so VanCity remains strong and prospers.
- We will provide you with outstanding service and help you achieve your financial goals.
- We will provide meaningful opportunities for you to have input in setting the direction of the credit union.
- We will ensure that VanCity is a great place to work.
- We will lead by example and use our resources and expertise to effect positive change in our communities.
- We will be accountable for living up to our commitments.

As part of our commitment to be accountable to staff, members and communities, the Annual Report includes key performance indicators that measure how well VanCity is living up to its Statement of Values and Commitments. All key performance indicators will be accompanied by this symbol  found throughout the report. VanCity will release the complete results of its 2000/01 social audit in the summer of 2002.

The full text of the Statement of Values and Commitments can be found at vancity.com. To request a printed copy of the Statement, or to find out more about VanCity's social and environmental performance and reporting, call 604-877-7000 or 1-888-VanCity.

REPORT ON OPERATIONS

Momentum, growth and innovation

The year 2001 was one of momentum, growth and innovation for Vancouver City Savings Credit Union. The credit union introduced the \$1-million VanCity Award to support the social, environmental, and economic well being of the communities it serves. VanCity moved a branch to a new and more convenient location and announced that a new branch would open soon in North Vancouver. The company had one of the strongest years for commercial mortgages in the credit union's history, made technological innovations to improve service to our members, and implemented incentive programs to attract new members. VanCity also renewed its focus on making sure that the credit union is a great place to work. It has been a year of hard work, fast-paced change and intensive training for our staff, but the year's results were worth the effort.

While this year has been a strong one for VanCity's financial bottom line, VanCity also knows its staff and members faced a number of challenges. The events of September 11 had a dramatic impact on the Canadian and global economies. A marked decline in the international financial markets in the last quarter of 2001 meant significant losses for many investors. Growing national unemployment, the Canada-U.S. softwood lumber dispute, and changes in government spending have left their mark on many members, who are understandably concerned and cautious about their financial future. VanCity is here to support its members in these uncertain times.

Overview of financial results

In 2001, VanCity enjoyed the strongest operating profit in the credit union's history. Consolidated assets at year-end were \$7.5 billion, a 9 per cent increase from 2000, while consolidated deposits grew in 2001 by \$552.9 million or 8.9 per cent. Consolidated earnings from operations were \$42.2 million, up from \$35.9 million in 2000. At \$25.9 million, net earnings were also up in 2001, compared with \$21 million in 2000.

SHARED SUCCESS

Every year, through the Shared Success program, VanCity shares over a quarter of its net profits with its members and the community. In 2001, VanCity gave back a record 30 per cent of net earnings, a total of more than \$7.8 million.

VanCity owes its strong results in 2001 to a number of key factors. The credit union successfully weathered a volatile interest rate market in 2001. The tragedies of 2001 weakened the global economy and led to significant reductions in interest rates in Canada. During this volatile period, VanCity's financial management strategy — based on Board of Directors-approved interest rate risk parameters — resulted in a sound financial return to the credit union. Low interest rates also supported an increase in personal, business and mortgage lending in 2001.

An outstanding year for commercial mortgages made a significant contribution to VanCity's success.



Shahram Malekyazdi
Owner since 1997

MILLENNIUM GROUP

The Millennium Group (www.millenniumdevelopment.com), an international real estate development company with projects in B.C. and around the world, has worked with VanCity's commercial mortgages team for several years. The award-winning group specializes in developments ranging from multi-family residences, to commercial, retail and office buildings. Millennium chose VanCity to finance the Lumiere project, a residential high-rise at Stanley Park. Director Shahram Malekyazdi says VanCity has made a positive difference for their business.

"VanCity understands our needs and communicates with us well," explains Malekyazdi. "They have a good turnaround once the parameters for our loan are determined, with little red tape."

The credit union posted a substantial increase in new commercial mortgage business in 2001 — over \$240 million — in spite of a lagging provincial economy. And, in spite of the higher risk, VanCity also experienced zero commercial mortgage loan losses in 2001.

VanCity's staff and leadership in 2001 surpassed all expectations and contributed significantly to the company's financial bottom line as well. Staff understood the primary goal of the 2001 business plan — to improve on legendary service — and focused on developing and deepening their relationships with existing members. The credit union's leadership worked tirelessly to implement new technologies and training programs to support staff in all of our service delivery channels. The benefits of this strategy are already beginning to be reflected in the balance sheet.

Members supported growth of the credit union with their participation in the New Member Referral Program, which brought 875 new members to VanCity between August and October 2001. The program gives members bonus rewards for referring their colleagues, friends and families to VanCity. Thanks to the efforts of staff and members, the credit union welcomed a net total of 9,508 new members to VanCity in 2001 — nearly a 100 per cent increase in net new members over 2000. At year-end, VanCity celebrated a record total of 275,721 members.

In 2001, VanCity also introduced a new service recovery process to improve its response to member issues. VanCity takes member feedback and concerns very seriously. The new approach focuses on giving staff the authority to take full ownership and take the action necessary to address member concerns. VanCity's goal is to ensure members are satisfied with how their concerns are resolved, each and every time.

The most crucial factor in VanCity's financial success in 2001 was its unwavering commitment to living its values in how it does business. In challenging economic times, some companies set aside the needs of their customers, employees and communities and make choices they believe are in the best interest of their balance sheet. Often, those choices mean layoffs, downsizing, and service reductions. VanCity has chosen a different path — to put people before profit — and has reaped the rewards in the company's financial results. VanCity is not downsizing — it is growing. VanCity is not reducing services — it is enhancing them

We will be responsible and effective financial managers so VanCity remains strong and prospers.



Key Performance Indicator	2001	1999	1997	Summary of Performance
<i>(thousands of dollars, consolidated)</i>				
Net earnings	\$25,927	\$23,742	\$17,570	Steady increase over time.
Members' equity (retained earnings)	\$299,071	\$254,761	\$206,919	Growing capital base to match asset growth – meets capital adequacy requirements.
Return on equity (ROE) ¹	9.1%	9.8%	8.9%	Stable. Calculated after distributions to members and communities. In 2001, Shared Success distributions equaled 30% of net earnings.
Allowance for loan losses as a % of total loans outstanding	0.4%	0.3%	0.4%	Loan losses have increased over the past few years. Initiatives/procedures are in place to help minimize loan losses. Allowances for loan losses are judged adequate to absorb future losses inherent in the loan portfolio.

¹Numerator = net earnings. Denominator = average retained earnings, excluding member shares.

and adding more and more value every day. VanCity is proving that companies need not sacrifice social and environmental performance to be profitable.

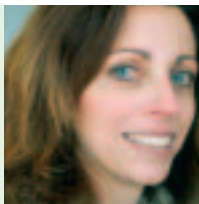
Our people — our future

The two pillars of VanCity's current five-year plan are to improve member service and to ensure that VanCity is a great place to work. As an organization, the credit union works with its employees to make sure their job with VanCity is the best they have ever had, and to make their experience with VanCity such that they will not want to leave.

The latest research on employee engagement and loyalty in companies indicates a compelling link between satisfied employees, solid member loyalty, and successful financial results. The explanation is simple — employees who feel the most positive about VanCity, their work environment and the work they do are also the people most likely to provide top quality service to members. Members who receive this superior service will have a stronger connection to VanCity and will be more likely to bring more of their business to the credit union.

VanCity conducts regular employee engagement surveys to measure overall employee satisfaction. The percentage of employees satisfied with their work at VanCity increased to 77 per cent in 2001, up from 64 per cent in 2000. While the credit union is pleased with the increase, there is plenty of room for improvement. VanCity will focus even more energy and work in the months and years ahead on increasing overall employee satisfaction.

CARMELA BUSTO



Carmela Busto
Owner since 1980

Carmela Busto has worked for VanCity in the North Burnaby Community Branch for over 20 years, and has been an owner for even longer. She looks at VanCity from both sides — and likes what she sees. "As staff and as members, we share in VanCity and its ethical beliefs. I enjoy dealing with members and I think it's the same for all the people I've worked with. I think that everyone who works for VanCity tries to put the member first, and find the best options for them."

THAI AWAY HOME



**Dale Dubberley and
Kit Pangsang**
Owners since 2001

Thai Away Home is a fast-growing chain of Thai food restaurants in Vancouver where customers can eat-in, take-out, or buy ingredients for Thai meals. When owners Dubberley and Pangsang decided to buy a building for their new location on Commercial Drive, they needed secure financing immediately. That's where VanCity's Business Solutions Centre in Burnaby came in, responding quickly to their financing request, offering a number of terms, and then closing the deal fast.

"Our business doesn't fit into a traditional profile," says Dubberley. "We needed a financial institution that was quick, responsive and flexible, and who could offer us a mortgage that fit our needs. That's why we chose VanCity."

We will ensure that VanCity is a great place to work



Key Performance Indicator	2001	1999	Summary of Performance
Employee Engagement Index ¹	77%	n/a	2005 Target: 74% (target achieved) New indicator — has not been tracked over time.
Work/Life Balance Index ²	55%	47%	Has increased since 1999.
Employees who would recommend VanCity as a great place to work	81%	62%	Has increased significantly since 1999.

¹Percentage represents average % employees responding >4.5 on a 6 point scale to 7 key questions.

²Percentage represents average % employees responding "strongly agree," or "agree" to 3 key questions.

VanCity's branch network continues to grow

In a year when other financial institutions cut staff and closed branches, VanCity's focus on improving member service led the credit union in the opposite direction. In 2001, VanCity announced the construction of a new branch — our 40th — in North Vancouver, scheduled to open later in 2002, and hopes to open another branch and more Business Solutions Centres in the near future. To better serve Burnaby members, VanCity moved the Norland Avenue branch to a new home at the corner of Rosser and Lougheed. The relocated branch is conveniently located near Brentwood Mall and transit connections and offers business members better access to one of three VanCity Business Solutions Centres.

Taking technological innovation to the next level

VanCity made technological innovation a strategic priority in 2001. To maximize the credit union's capacity to provide personalized service to members, VanCity launched its new member relationship management (MRM) system, technology that empowers staff to better identify member needs and expectations and, hopefully, to surpass them. VanCity staff will use the new technology as a tool for developing more sophisticated relationships with members.

VanCity VISA became even more convenient with the introduction of myvisaaccount.com, a secure web site where cardholders can view their available credit balance and current posted transactions 24 hours a day, seven days a week. Cardholders can now view up to six months of their previous credit history online,

download statements into money management software, and consolidate more than one VISA account under a single user name and password.

In mid-2001, VanCity created a new web site for members that offers better online banking services on VanCity Direct™Net, and a wide range of new tools and information to give members improved control, flexibility, and convenience. With a click of a mouse, members can now export statement information to personal accounting software, view and print all account and consolidated statements online, and personalize the site to suit their own preferences. Features include customizable market and stock listings, current interest rates, up-to-the-minute financial and community news, and improved mortgage and RRSP calculators.

In another bold move to improve service and technology, VanCity and Surrey Metro Savings joined together their information technology departments in 2001 to create a new B.C.-based company, Inventure Solutions Inc., which provides cost-effective technology support based on industry best practices for both credit unions. The joint venture will lower maintenance, development, and operating costs to both credit unions, freeing up resources for new systems development and state-of-the-art technologies.

More business milestones in 2001

VanCity achieved a number of other significant business milestones in 2001.

In the spring of 2001, VanCity launched Real Assets, Canada's first, full-service investment management firm to focus exclusively on socially responsible investing (SRI). Real Assets provides discretionary investment management, as well as a family of socially screened pooled funds, for clients with a portfolio in excess of \$250,000.

VanCity recognizes that when it comes to financial services, one size does not fit all. For example, different kinds of professionals have different financial needs, and VanCity is responding to meet those needs. In 2001, VanCity launched two customized financial services packages for professionals. The Teaching Professionals Package has been designed to meet the money management needs of teachers — most of whom don't receive a salary during the summer. The package offers a summer savings plan, a personal insurance package, and unlimited account access for a low monthly fee. The package also gives members the option of making payments on mortgages and loans over 10 months instead of 12, to avoid payments, service and interest charges during the summer months.

We will provide you with outstanding service and help you achieve your financial goals



Key Performance Indicator	2001	1999	1997	Summary of Performance
Retail member satisfaction with VanCity's service (% totally satisfied)	76% (28%)	78% (33%)	82% (43%)	2005 Target (Retail): 85% (40%) 2005 Target (Business): 79% (40%)
Business member satisfaction with VanCity's service (% totally satisfied)	75% (29%)	79% (33%)	n/a	For a more detailed analysis of member satisfaction, see 2000/01 Social Report.
VanCity gives members trustworthy advice about their financial options	55% ¹	n/a	n/a	New indicator — has not been tracked over time.
VanCity offers products and services that meet members' unique needs	61% ²	n/a	n/a	New indicator — has not been tracked over time.
VanCity provides members with access to necessary financial services (responses analyzed by diversity)	75% ³	n/a	n/a	No significant differences in responses by gender, age, income, visible minority or members with disabilities.

¹22%, ²13%, ³8% of members responded "don't know" or skipped this question. Percentages represent % members responding VanCity "performs well" or "performs very well".

The Health Care Professionals Package is designed to meet the practice needs of dentists, physicians, veterinarians, optometrists, chiropractors and other health care professionals. With this package, members have access to business mortgages, fixed asset financing, business accounts, discounts on Merchant VISA service fees, small business insurance and much more.

In 2001, VanCity's Community Business Services provided almost \$1.5 million in micro-credit loans, for small businesses generating economic activity in local communities, but unable to access financing through conventional channels. The department also designed and launched the new Small Business Conservation Finance Program in October to support businesses pursuing environmentally beneficial activities. The program is described in more detail later in this report.

Business Services' Small Business Loan Program continues to be a success. VanCity's new loan approval process simplified loan applications so that they could be approved in 24 hours or less. In fact, the average turnaround time for small business loan approval in 2001 was well below this target, at approximately six hours. Improvements allowed for continued expansion of loans to small business owners. In 2001, the program resulted in 952 funded small business loans totaling \$17,054,000.

CARING COMPANIES AWARD

In May 2001, VanCity won the prestigious Caring Companies Award from Volunteer Vancouver. One of only 12 recipients out of 130 companies nominated, VanCity won the award for its outstanding support of the HIV/AIDS community in the Lower Mainland in the areas of sponsorship and employee volunteerism.

Putting the triple in 'triple bottom line' reporting

VanCity believes in a 'triple bottom line' approach to assessing and evaluating the credit union's success. This requires the company to exercise financial, social and environmental discipline in its daily business activities.

VanCity has a long, successful history as a values-driven organization, and is determined to keep it this way. That is why the credit union publicly launched the Statement of Values and Commitments in 2001, to guide its activities now and in the future. The Statement is the result of a highly consultative process involving a broad cross-section of VanCity's Board of Directors, staff, members and representatives of the communities VanCity serves. The Statement of Values and Commitments isn't new — it's how VanCity has always done business. Those values have now been put in writing, to make sure VanCity stays true to its values as it grows and changes.

Last year, a total of \$80,000 in EnviroFund grants was awarded to five organizations in the communities VanCity serves. The 2001 EnviroFund grants went to the Surrey Water Quality Project, the North Shore Industrial Waste Cleanup Project, the Maple Ridge Watershed Project, the Galiano Island Environmental Education Project, and the Langara College Environmental Wetland Project. All three of VanCity's VISA cards (the VanCity EnviroFund VISA, VanCity Travel VISA and the VanCity Gold VISA) support the EnviroFund, with a minimum of five per cent of VISA card profits donated to the fund each year.

VanCity staff presented First Call – Spotlight on Children and Youth with over \$100,000 to support advocacy on behalf of B.C.'s children and families, raised as part of the VanCity Staff Fundraiser. VanCity staff worked tirelessly to raise money that will help put an end to child and youth poverty in British Columbia.

In 2001, VanCity created a new landmark in corporate social responsibility with the VanCity Award, a \$1-million annual award to support bold and innovative projects in the communities VanCity serves. The first-ever award went to the environmental advocacy group Better Environmentally Sound Transportation (BEST), and will be used to build a leisure path that will stretch like a ribbon of green from New Westminister to Vancouver. The 25-kilometre path, to be called the VanCity Greenway will link New Westminister, Coquitlam, Burnaby and Vancouver.

VanCity launched a new lending program last year in partnership with VanCity Capital Corporation, Ecotrust Canada and Western Economic Diversification to help businesses improve both the environment and the economy. The goal of the B.C.-wide, \$7-million Conservation Finance Program is to create jobs and help small and medium-sized organizations make a significant environmental impact by providing them with the necessary financing for growth and expansion.

In 2001, Business Services provided a dedicated account manager to the non-profit community, supported by dedicated marketing and the development of underwriting criteria. VanCity offers non-profits a range of

CARMELO SORTINO



Carmelo Sortino
Owner since 1980

Carmelo Sortino has been interested in art since he was a 13-year old in Sicily. There, he first learned about the beauty of colour and light, working with his uncle to make marzipan fruit. "That's when I discovered the colours. Colours fascinate me — they give you a different vision of life." In 1992, Sortino — then a pastry chef — decided to paint full-time, but needed money to live on while he built his portfolio. He approached VanCity for a significant line of credit, with few assets to offer as security. VanCity gave the line of credit to him, based on the kind of member — and man — he was.

"Thanks to VanCity, I became a full-time artist," says Sortino. "My name is international now. Being a member of VanCity is a privilege. They give you a chance, like they did with me. That's the way I see VanCity."



**Vera Radyo and
Misha Adibpour**
Owners since 1991

NORTH SHORE MULTICULTURAL SOCIETY

The volunteer-run North Shore Multicultural Society provides settlement services — including ESL classes and family programs — for new immigrants to B.C. Two years ago, the Society was on the verge of bankruptcy and came to VanCity for help. Business Services worked in partnership with the Society and provincial partners to restructure its debt. "VanCity's help made it possible for the Society to turn around, and now we're stable and efficient," said Vera Radyo, president of the Society. "VanCity's support made all the difference in the world."

business products, including mortgages, operating lines, term loans, cash management accounts and other deposit services. Over 100 on-site interviews were conducted, resulting in over \$6 million in new lending and \$8.6 million in new deposits.

We will lead by example and use our resources and expertise to effect positive change in our communities



Key Performance Indicator	2001	1999	1997	Summary of Performance
CO ₂ equivalent emissions from energy use/sq foot ¹	2.3 kgs	n/a	n/a	New indicator — has not been tracked over time.
% of trips to and from work by employees using alternative transportation modes ²	44%	n/a	n/a	New indicator — has not been tracked over time.
Member/client investments in socially responsible investment options as a % of total funds under administration ³	6.8%	n/a	n/a	New indicator — has not been tracked over time.
Community Investment Loans outstanding as a % of assets (unconsolidated) ⁴	0.20%	0.27%	n/a	Community investment loans outstanding have decreased since 1999. For more information, see 2000/01 Social Report.
Distribution to community as a % of average consolidated pre-tax profits.	8.1%	4.8%	4.7%	Significantly higher than Canadian Centre for Philanthropy's Imagine benchmark of 1% of average domestic pre-tax profits (average over three years)
Disclosure and status of VanCity's Ethical Policy	2002 Target: Implement Ethical Policy and apply to all new business relationships. VanCity's Ethical Policy is intended to clarify the types of business VanCity prefers to engage in. By the end of 2001, VanCity's Ethical Policy had been 'Approved in Principle' by the Board of Directors and implementation planning had begun.			

¹CO₂ equivalent energy-related emission factors are per Voluntary Challenge & Registry Inc., 1999.

²Alternative transportation modes are all modes except single occupant vehicles (SOVs), including telecommuting.

³Includes member investments in screened funds, VanCity Investment Management Ltd & Real Assets screened client investments, and member deposits in Community Investments.

⁴Includes micro-credit, ABLED, social housing loans, VanCity Capital Corporation loans to NPOs and cooperatives, CID/CID placements, and conservation financing.

The VanCity Group of Companies — for all your financial and investment needs

VanCity Credit Union and the VanCity Group of Companies had a strong year of growth and development in 2001.

Citizens Bank recorded its third straight year of profitability in 2001, with net earnings of \$768,000. However, the consolidated group experienced higher than anticipated loan losses and a number of initiatives launched to achieve greater economies of scale with VanCity lowered Citizens Bank's earnings for the year. While impacting Citizens Bank's overall financial performance in 2001, management is confident these initiatives position the bank for greater profitability in future years.



**John and Jacqui
MacNeill**
Owners since 2001

ESCENTS AROMATHERAPY

John and Jacqui MacNeill started Escents Aromatherapy (www.escentsaromatherapy.com), a Vancouver-based manufacturer and retailer of aromatherapy-based bath and body products, in 1993 with a small table at Lonsdale Quay. The company now has 12 stores, with a 13th to open in Seattle later this year. Pure-bred entrepreneurs, the owners started on a shoestring and put all their earnings back into their business in order to support revenue growth in excess of 30 per cent per year. While the approach is great for business, it did not help them to secure financing to grow the business. "VanCity Capital Corporation (VCC) gave us the benefit of our success," says John MacNeill. "VCC gets inside the business and takes a chance on entrepreneurs."

VanCity Capital Corporation (VCC) focuses on funding well-managed companies and organizations that have the ability and opportunity to grow. The resulting revenue, profit and employment growth contributes to the long-term well being of the community. In 2001, VCC recorded its strongest financial results ever and provided 20 new loans to businesses with growth capital needs. Revenue increased by 43 per cent over 2000, reflecting continued growth of the company's investment portfolio. Total assets increased to over \$10 million.

Real Assets, Canada's first full-service investment management firm to focus exclusively on socially responsible investing (SRI), launched a family of socially screened pooled funds in 2001, with a mandate to engage in dialogue with companies about issues concerning social justice and environmental sustainability. The firm seeks to influence the social and environmental performance on behalf of investors, and to that end filed three shareholder resolutions with Canadian companies in 2001. Two addressed the issue of sweatshop labour and the third dealt with international human rights. The past year was a challenging one for investment management and as a result, Real Assets got off to a slow start. Optimistic sales targets were not achieved and the company reduced expenses to meet lower revenue targets.

VanCity Investment Management (VCIM), which provides discretionary investment management services to VanCity members, successfully weathered volatile financial markets and achieved a 9.7 per cent growth in assets under administration, for a total growth of 151 per cent over the past five years. VCIM brought in a total of \$15.6 million in new business in 2001, \$4.8 million of which was transferred from other financial institutions. VCIM attributes its ongoing growth to putting the interest of the clients first and buying growth companies at a reasonable price.

By partnering with local organizations to support a community's capacity for development, the VanCity Community Foundation uses grants, lending and technical assistance to support affordable housing, employment development and non-profit enterprise initiatives. In 2001, the foundation celebrated its first decade. Contributions and donations to the foundation's general endowment grew to \$7 million in 2001, and permanent Named Fund endowments grew to more than \$3 million.

Challenges overcome

While 2001 was a very successful year for VanCity, it was not without its challenges. VanCity members and staff, like most people around the world, were deeply moved by the tragic loss of life in the U.S. on September 11, 2001. These events in North America brought the fear of violence and destruction close to home for the first time in modern history. While events of September 11 have left many of us changed forever, VanCity's purpose — to work with people and communities to help them thrive and prosper — remains more important and relevant to the credit union, its staff and members than ever before.

In November 2001, Canada 3000 announced that it was no longer operating, and many VanCity VISA cardholders were concerned about how this would affect them and their travel points. However, VanCity reassured VISA cardholders that their points would hold their value, and that any bookings made with Canada 3000 would be fully refunded by VanCity VISA.

To address cardholder concerns and travel needs during the interim, VanCity introduced a temporary program for members to continue earning and redeeming points. Any new VISA purchases earned cardholders double points, a program that continued until the new rewards program was announced in the spring of 2002. For those cardholders who already planned to travel and wished to redeem their points for an upcoming trip, VanCity redeemed those points and credited them to travel purchases at the rate of \$1 for every 100 points. VanCity would like to thank cardholders for their patience during this transition period.

More benefits of ownership

The benefits of ownership at VanCity go far beyond financial products and legendary service. VanCity is a democratic financial institution that actively encourages its members to get involved in the credit union's decision-making process. Members get involved by:

- Voting in the Board of Directors Election (by mail or in-branch);
- Attending the Annual General Meeting;
- Running for positions on the Board of Directors;
- Voting for the annual recipient of the \$1-million VanCity Award or VanCity VISA EnviroFund grants;
- Completing a Member Satisfaction Survey when it shows up in their mailbox; and,
- E-mailing the Board of Directors at board_directors@vancity.com to tell them how VanCity is doing.

In 2001, for only the second time in the credit union's 56-year history, VanCity offered Investment Shares to members who have been with VanCity for 15 years or more. Investment Shares offer members the opportunity to invest in the future growth of VanCity while earning a rate of return higher than term deposits. Investment Shares provide an ideal opportunity for members looking to diversify their investment portfolio with long-term alternatives.

We will provide meaningful opportunities for you to have input in setting the direction of the credit union



Key Performance Indicator	2001	1999	1997	Summary of Performance
VanCity provides meaningful opportunities for members to have input in setting the direction of the credit union	53% ¹	n/a	n/a	New indicator— has not been tracked over time.
VanCity is open and responsive to member input and concerns	54% ²	71% ³	n/a	Members rate VanCity's performance significantly lower in 2001. This can partly be explained by the high number of members who responded "don't know" in 2001.

¹19%, ²22%, ³8% of members responded "don't know" or skipped this question. Percentages represent % of members responding VanCity "performs well" or "performs very well."

Remembering the past and looking to the future

VanCity is proud of its achievements in 2001 and has carried that momentum into 2002. The credit union is excited about the opportunities for new growth and development, including the opening of a new branch location on Main Street in North Vancouver later in 2002.

In the coming year, VanCity will be taking a closer look at the individual communities it serves, with a view to offering products and services to meet unique and specific community needs. The credit union is also working on new product offerings with local communities and organizations including the B.C. Government and Service Employees' Union (BCGEU) that will benefit VanCity and community members alike. More details will be announced in 2002.

As VanCity grows and changes, it is good to know some things will never change. VanCity has been a different kind of financial institution from the day Martha Mackie signed herself up as a founding member. And like Mrs. Mackie, the "VanCity Difference" continues to shine 56 years later. Every member is an owner at VanCity, with a stake in this financial institution and a chance to be part of something much more. VanCity is living up to its purpose — to work with people and communities to help them thrive and prosper.

VanCity's members built this credit union from a small office at Broadway and Quebec in Vancouver into Canada's largest credit union. VanCity has always belonged to its members — and it always will.

*VanCity would like to acknowledge the many VanCity members (and owners) who participated in the production of the VanCity 2001 Annual Report by giving us permission to use their photographs and tell their stories in these pages. Their generosity is greatly appreciated. **This report is dedicated to them — and to our 275,000 other members.***

Vancouver City Savings Credit Union 2001 Annual Report is published by VanCity Public Affairs and Corporate Communications. Written and produced by Lesli Boldt. Design by Grey Worldwide. Photography by Larry Goldstein.

CONSOLIDATED FINANCIAL HIGHLIGHTS

For the year ended December 31, 2001
(thousands of dollars)

Assets	2001	2000	1999	1998	1997
Cash and Securities	\$ 618,455	\$ 649,715	\$ 604,078	\$ 550,722	\$ 503,940
Loans	6,706,487	6,054,379	5,639,893	5,212,914	4,946,842
Other Assets	186,947	185,415	167,007	161,873	145,460
Total Assets	\$ 7,511,889	\$ 6,889,509	\$ 6,410,978	\$ 5,925,509	\$ 5,596,242

Liabilities and Members' Equity

Deposits and Equity Shares	\$ 6,744,487	\$ 6,191,577	\$ 5,673,801	\$ 5,359,291	\$ 4,687,703
Debentures and Loans Payable	250,315	221,759	309,645	187,710	559,951
Other Liabilities	218,016	203,029	172,771	147,489	141,669
Retained Earnings	299,071	273,144	254,761	231,019	206,919
Total Liabilities and Members' Equity	\$ 7,511,889	\$ 6,889,509	\$ 6,410,978	\$ 5,925,509	\$ 5,596,242

Statement of Earnings

Net Interest Income	\$ 178,837	\$ 157,799	\$ 150,381	\$ 149,751	\$ 140,668
Charge for Impairment of Loans	(17,141)	(17,742)	(7,407)	(5,516)	(5,101)
Other Income	58,497	59,458	55,362	52,282	40,183
Net Interest and Other Income	220,193	199,515	198,336	196,517	175,750
Salaries and Employee Benefits	92,745	81,141	81,161	78,415	68,263
Other Operating Expenses	85,286	82,483	76,996	77,841	75,487
Total Operating Expenses	178,031	163,624	158,157	156,256	143,750
Earnings from Operations	42,162	35,891	40,179	40,261	32,000
Distributions to Community and Members	8,999	7,242	7,927	7,967	10,327
Income Taxes	7,236	7,648	8,510	8,194	4,103
Net Earnings for the Year	\$ 25,927	\$ 21,001	\$ 23,742	\$ 24,100	\$ 17,570

Statistics

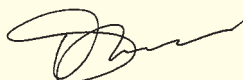
Average Assets (thousands of dollars)	\$ 7,141,594	\$ 6,569,768	\$ 6,157,462	\$ 5,738,457	\$ 5,112,619
Growth of Total Assets	9.03%	7.46%	8.19%	5.88%	16.38%
Return on Assets	0.36%	0.32%	0.39%	0.42%	0.34%
Dividends per Equity Share	7.2%	5.0%	5.0%	5.0%	5.0%
Dividends per Investment Share	5.3%	6.5%	5.7%	5.6%	6.0%
Membership	275,721	266,213	261,398	261,613	252,638
No. of Employees	1,622	1,570	1,597	1,513	1,357
No. of Branches	41	43	43	42	42

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

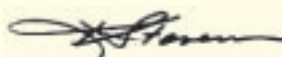
These consolidated financial statements have been prepared by the management of VanCity which is responsible for their reliability, completeness and integrity. They were developed in accordance with requirements of the Financial Institutions Act of British Columbia and conform in all material respects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

Systems of internal control and reporting procedures have been 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 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 six directors who are not officers or employees of VanCity, has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. Grant Thornton LLP and Arthur Andersen 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, and the Audit Committee of the Board. Their report appears herein.



Dave Mowat
Chief Executive Officer and VanCity member
January 23, 2002



Kathy Stevenson
Vice-President, Finance and VanCity member

TABLE 1
(% of average assets)

Earnings Highlights	% 2001	% 2000	% 1999	% 1998	% 1997
Net interest income	2.50	2.40	2.44	2.61	2.75
Charge for impairment of loans	(0.24)	(0.27)	(0.12)	(0.10)	(0.10)
	2.26	2.13	2.32	2.51	2.65
Other income	0.83	0.92	0.90	0.91	0.79
	3.09	3.05	3.22	3.42	3.44
Operating Expenses					
Salaries and employee benefits	1.30	1.24	1.32	1.37	1.34
Occupancy and equipment	0.36	0.37	0.38	0.40	0.44
General operating	0.84	0.89	0.88	0.98	1.06
	2.50	2.50	2.58	2.75	2.84
Earnings from operations	0.59	0.55	0.64	0.67	0.60
Distributions and other items	0.13	0.11	0.11	0.12	0.18
Income taxes	0.10	0.12	0.14	0.13	0.08
Net earnings - return on assets	0.36	0.32	0.39	0.42	0.34
Net earnings (thousands of dollars)	\$ 25,927	\$ 21,001	\$ 23,742	\$ 24,100	\$ 17,570
Average assets (thousands of dollars)	\$ 7,141,594	\$ 6,569,768	\$ 6,157,462	\$ 5,738,457	\$ 5,112,619

TABLE 2
(thousands of dollars)

Net Interest Income	2001	2000	1999	1998	1997
Interest Income					
Residential mortgages	\$ 283,320	\$ 269,163	\$ 253,732	\$ 247,365	\$ 241,718
Commercial mortgages	49,321	51,213	41,307	33,175	23,350
Other loans	110,955	98,852	83,857	84,248	57,385
Cash and securities	26,996	32,016	25,328	22,616	20,451
Other interest income (costs)	(2,168)	577	1,717	(1,147)	(2,706)
	468,424	451,821	405,941	386,257	340,198
Interest Expense					
T-Bill accounts	1,267	1,628	1,645	2,008	1,501
Chequing	898	999	882	937	689
Savings	15,390	16,535	12,781	11,728	6,992
Term deposits	173,350	172,887	143,688	122,313	94,131
Retirement plans	74,599	73,847	71,201	68,508	69,030
Debentures and loans	24,083	28,126	25,363	31,012	27,187
	289,587	294,022	255,560	236,506	199,530
Net interest income	\$ 178,837	\$ 157,799	\$ 150,381	\$ 149,751	\$ 140,668

TABLE 3
(thousands of dollars)

**Analysis of Changes in
Net Interest Income**

	2001 vs 2000			2000 vs 1999		
	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	\$ 33,032	\$ (19,410)	\$ 13,622	\$ 10,644	\$ 4,787	\$ 15,431
Commercial mortgages	14,067	(421)	13,646	7,726	2,180	9,906
Other loans	6,564	(9,746)	(3,182)	7,380	6,860	14,240
Cash and securities	5,518	(10,538)	(5,020)	1,853	4,835	6,688
Total interest income	\$ 59,181	\$ (40,115)	\$ 19,066	\$ 27,603	\$ 18,662	\$ 46,265
Liabilities						
Demand deposits	\$ (2,156)	\$ 3,764	\$ 1,608	\$ (781)	\$ (3,073)	\$ (3,854)
Term deposits	(17,275)	16,812	(463)	(15,886)	(13,313)	(29,199)
Retirement plans	(2,902)	2,150	(752)	(1,392)	(1,255)	(2,647)
Debentures and loans	(1,421)	5,464	4,043	761	(3,523)	(2,762)
Total interest expense	(23,754)	28,190	4,436	(17,298)	(21,164)	(38,462)
	\$ 35,427	\$ (11,925)	\$ 23,502	\$ 10,305	\$ (2,502)	\$ 7,803
Other interest income (costs)			(2,464)			(385)
Change in net interest income			\$ 21,038			\$ 7,418

TABLE 4
(thousands of dollars)

Other Income	2001	2000	1999	1998	1997
Account service fees	\$ 17,131	\$ 16,476	\$ 15,629	\$ 14,700	\$ 12,766
Building rentals	805	812	819	551	475
Credit card fees	7,684	7,000	5,607	3,808	941
Foreign exchange	8,392	10,089	9,506	6,127	4,745
Insurance fees	5,442	4,491	4,059	3,549	3,371
Loan administration fees	4,551	3,569	3,694	3,371	3,349
Loan application fees	2,636	2,815	1,954	2,221	2,659
Safety deposit box rentals	968	935	880	847	775
Trust and wealth management fees	6,495	6,984	5,851	12,497	7,752
Gain (loss) on sale of other assets	–	80	2,599	6	(72)
Other	4,393	6,207	4,764	4,605	3,422
Total other income	\$ 58,497	\$ 59,458	\$ 55,362	\$ 52,282	\$ 40,183

TABLE 5
(thousands of dollars)

Operating Expenses	2001	2000	1999	1998	1997
Salary and employee benefits					
Salaries and wages	\$ 78,450	\$ 67,151	\$ 67,324	\$ 64,289	\$ 57,405
Benefits and training	14,295	13,990	13,837	14,126	10,858
	92,745	81,141	81,161	78,415	68,263
Occupancy and equipment					
Rent	9,682	9,420	8,713	8,005	5,912
Equipment	1,417	1,369	1,597	1,582	1,454
Maintenance and security	3,259	3,270	3,563	4,245	6,312
Amortization	11,264	10,143	9,617	8,976	8,718
	25,622	24,202	23,490	22,808	22,396
General operating					
B.C. Corporation Capital Tax	4,423	4,107	3,901	3,257	3,263
Communications and advertising	6,992	6,248	6,982	10,831	16,061
Computer	4,881	3,793	4,016	7,408	7,027
Credit Union Central of B.C. dues and assessment	1,043	1,025	1,033	1,002	923
Deposit insurance	3,816	3,270	3,261	3,229	2,725
Insurance	658	524	503	803	688
Meetings and travel	1,244	1,131	1,002	1,194	1,113
Postage	2,367	2,003	1,887	1,862	1,692
Professional services	6,665	9,907	8,582	5,152	4,716
Stationery	2,041	1,891	2,085	2,364	2,189
Telephone	2,568	3,145	3,258	3,413	2,966
Member service	8,114	8,090	7,357	7,613	6,137
Credit Card centre	6,578	5,210	4,757	3,443	1,002
Other	8,274	7,937	5,839	4,409	3,500
	59,664	58,281	54,463	55,980	54,002
Total operating expenses	\$ 178,031	\$ 163,624	\$ 159,114	\$ 157,203	\$ 144,661

TABLE 6*(thousands of dollars)*

Income and Other Taxes	2001	2000	1999	1998	1997
Income taxes	\$ 7,236	\$ 7,648	\$ 8,509	\$ 8,194	\$ 4,103
B.C. Corporation Capital Tax	4,423	4,107	3,901	3,257	3,263
Payroll taxes	3,799	3,577	3,582	3,326	2,907
Property taxes	1,664	1,703	1,579	1,484	1,287
Total income and other taxes	\$ 17,122	\$ 17,035	\$ 17,571	\$ 16,261	\$ 11,560

TABLE 7*(thousands of dollars)*

Distributions to Members	2001	2000	1999	1998	1997
Dividends on membership shares	\$ 2,950	\$ 2,174	\$ 2,256	\$ 2,138	\$ 2,043
Dividends on investment shares	1,153	1,356	1,196	1,191	1,269
Patronage rebates	1,850	1,724	2,864	3,091	5,329
	\$ 5,953	\$ 5,254	\$ 6,316	\$ 6,420	\$ 8,641

TABLE 8*(thousands of dollars)*

Capital Ratios	2001	2000	1999	1998	1997
Capital Components					
Membership shares and accrued dividends thereon	\$ 39,315	\$ 38,267	\$ 37,674	\$ 38,605	\$ 33,951
Investment shares	33,697	21,367	21,568	21,861	23,474
Retained earnings	299,071	273,144	254,761	226,826	206,919
Future income taxes	(2,603)	(1,548)	(1,894)	403	(459)
Less: Deductions from Capital	(68,978)	(62,977)	(45,032)	(35,647)	(30,546)
VanCity group capital	300,502	268,253	267,077	252,048	233,339
Proportion of system capital	36,255	32,110	29,784	25,896	23,364
Total capital	\$ 336,757	\$ 300,363	\$ 296,861	\$ 277,944	\$ 256,703
Total risk-adjusted assets	\$ 3,240,087	\$ 2,856,941	\$ 2,609,719	\$ 2,463,868	\$ 2,254,280
Capital ratio	10.4%	10.5%	11.4%	11.3%	11.4%

TABLE 9*(thousands of dollars)*

Employee Loans	2001		2000	
Category	Rate	Number of such loans	Amount	Amount
Mortgages	4% - 8%	415	\$ 44,499	\$ 42,286
Personal loans				
Regular	4% - 5%	646	7,460	5,715
Computer	0%	123	150	174
			\$ 52,109	\$ 48,175

Financial Review

This financial review provides management's commentary on VanCity's consolidated statement of earnings and balance sheet as well as capital and asset liability management, and is intended to supplement the data presented in the audited financial statements. Our discussion will refer to notes to the financial statements and the tables presented in this section. Unless otherwise specified, all information is consolidated data of VanCity and its subsidiaries.

Overview

Consolidated earnings from operations for 2001 were \$42.2 million compared to \$35.9 million in 2000. Strong revenue growth, mainly as a result of member loan and deposit growth combined with the low interest rate environment, resulted in favourable earnings growth. Operating earnings for the credit union were \$40.1 million, up from the \$32 million in 2000. Citizens Bank earnings from operations for 2001 came in at \$2.1 million compared to \$3.9 million the previous year.

Consolidated net earnings for the VanCity Group of Companies were \$25.9 million, \$4.9 million higher than last year. These earnings are after deductions for distributions to community and members of \$9 million, including the new \$1-million VanCity Award. In total, distributions to community and members were 21 per cent of earnings from operations, demonstrating VanCity's ongoing commitment to share its success with the community and members. Return on equity for 2001 was 8.7 per cent while return on assets came in at 36 basis points (2000 – 7.7 per cent and 32bp respectively). Earnings highlights are presented in the five-year summary of consolidated financial highlights while Table 1 provides earnings information as a percentage of average assets and identifies changes in earnings components relative to asset size.

During 2001, VanCity's consolidated assets grew \$622 million to a total of \$7.5 billion. This represents an increase of 9 per cent and compares to 2000 growth of \$479 million or 7.5 per cent. Consolidated deposits of \$6.7 billion at the end of 2001 reflect an increase of 8.9 per cent, which is similar to the growth of 9.1 per cent in 2000.

STATEMENT OF EARNINGS

Net Interest Income

Net interest income is interest and investment income earned on assets, less interest expenses incurred on deposits and other liabilities. Net interest income for VanCity showed an increase of \$21 million or 13.3 per cent over the previous year, a significant increase over the previous year growth of \$7.4 million and 4.9 per cent. The information in Table 2 provides more detail on the net interest income components. The growth in net interest income came in a year when interest rates declined to historic lows. Despite a dampened economic climate, net interest income increased by 10 basis points when measured over the total asset base.

Interest income is sensitive to changes in mix and volumes of assets and liabilities and changes in interest rates. Table 3 provides an analysis of these factors for 2001 and 2000 relative to the preceding year. The table shows a reversal of the trend over the past few years with a decrease in the cost of raising deposit funds. The lower interest costs resulted from the dramatic decline in interest rates in 2001, which also reduced interest income on loans. This decline was more than offset by loan growth, which led to the strong growth in interest income in 2001.

Other Income

VanCity continues to target growth in other income as the consolidated group strives to provide a full array of financial services to members. Other income declined by 1.6 per cent or \$0.96 million even though most service areas' income increased or remained constant. The decline was due to the foreign exchange and other categories, which decreased \$1.7 million and \$1.8 million respectively. Table 4 provides details of the various segments of other income. Account service fees remain a large category, comprising 29 per cent of total other income in 2001 compared to 32 per cent in 1997. Growth remained strong in insurance fee and loan administration fee income. The higher level of trust and wealth management fees in 1997 and 1998 reflects income from mutual fund administration operations, which were sold in 1999. The decline in foreign exchange fees came from reduced foreign exchange volumes at Citizens Bank. Losses on social housing projects contributed to the decline in other fees.

Operating Expenses

Total operating expenses increased by 8.8 per cent or \$14.4 million compared to 2000. Due to the year's strong earnings performance, the earnings growth rate exceeded the operating expense growth resulting in an improved efficiency ratio of 80.8 per cent compared to 82 per cent for the prior year. VanCity is committed to containing costs and increasing operating efficiency as part of its long-term planning process.

Details of operating expenses are in Table 5, which shows that salary and employee benefits costs increased by \$11.6 million in 2001. The increase was due to increased customer service staffing, incentives and commissions, and regular annual salary increases. Other operating expenses increased minimally, with general operating expenses and occupancy and equipment each increasing by \$1.4 million.

Income and Other Taxes

VanCity pays a variety of federal, provincial and municipal taxes. The major taxes payable are reported in Table 6. Sales taxes, including GST, are not recorded separately and are not shown in the table. Income taxes decreased in 2001 despite higher earnings due to reductions in federal and provincial tax rates, changes in future income tax assets, and lower earnings in subsidiaries which are subject to higher tax rates than the credit union. Further information regarding corporate income taxes is provided in note 7 to the financial statements.

Distributions to Members

Distributions to members increased to \$5.9 million in 2001 from \$5.2 million in 2000. Membership share dividends of \$2.95 million represent a 7.2 per cent dividend payment while patronage dividends of \$1.85 million consist of a 0.6 per cent bonus on deposit interest paid by VanCity and a 0.3 per cent rebate on loan interest paid by members.

Employee Loans

Outstanding loans to directors, officers and employees of the credit union amounted to \$73 million at year-end (2000 - \$86.8). These loans are all within normal lending terms except those noted in Table 9, which shows total loan amounts and interest rates of low-rate employee loans that form part of the compensation of employees and officers of the credit union. There are no loans to directors of the credit union at interest rates or terms different from those available to other members.

BALANCE SHEET

Lending and Credit Risk

Loan volumes increased by 10.8 per cent in 2001. Commercial mortgage and business lending grew by 37.8 per cent and 9.7 per cent respectively, as the VanCity Group moves to diversify lending from the large residential mortgage component. Preference for home prime mortgages remained strong, but there was some movement back to traditional five-year terms as members took the opportunity to lock into rates at historical lows. Low interest rates supported residential mortgage growth, especially late in the year.

Loan losses continued to be high in 2001 with loans written off totalling \$13.6 million (\$11.7 million in 2000). Personal bankruptcies continued to be the single largest cause of loan losses. As per note 2 to the financial statements, VanCity's allowance for impairment consists of \$10.2 million of specific provisions and \$18.8 million of general provisions. Total impaired loans, as defined in note 1(d) are \$56.4 million at the end of 2001, an improvement over the \$64.0 million at the end of 2000. The total of the specific and general allowance provides adequately for future credit losses inherent in the loan portfolio.

Liabilities

Deposit growth for 2001 continued to be strong and exceeded targets set in the planning process. Preference continues to be in shorter term and cashable products, providing added flexibility to members. The strong deposit growth was not sufficient to fully fund the year's loan growth, resulting in a \$28.6 million increase in borrowing.

Capital Management

Capital requirements are set by financial institution regulatory bodies and are defined by a risk adjusted capital ratio. The ratio compares the credit union's capital to its risk weighted assets, which are calculated by applying specified weighting factors to balance sheet assets and off balance sheet items. The major components of VanCity's capital and its capital ratio are detailed in table 8. The capital ratio was almost unchanged at 10.4 per cent (2000 - 10.5 per cent) despite a 13.4 per cent growth in risk-weighted assets. Risk-weighted asset growth resulted from overall loan growth and the continuing change in asset mix as commercial loans and personal loans, which have a higher risk rating than residential mortgages, make up a greater portion of the loan portfolio. To maintain the capital ratio it was necessary to increase capital to match the growth in risk-weighted assets, which was achieved through earnings growth and an investment share issue.

Asset Liability Management

Assets, liabilities and off balance sheet financial instruments mature or re-price at various times, largely due to members' differing term preferences. This is commonly referred to as the mismatch or gap and gives rise to interest rate risk exposure. Analysis of this interest rate sensitivity is necessary so that VanCity can manage its sensitivity to changing interest rates within established risk limits. Financial instruments such as derivatives are used to manage interest rate risk exposure, to provide member products, such as stock market index-linked deposits, and for investment purposes. VanCity manages its interest rate exposure and use of derivatives through defined policies set by the Board and managed by an asset/liability committee. Note 9 to the financial statements analyzes the balance sheet by the earlier of re-pricing or maturity dates while note 10 summarizes the derivative financial instruments by notional amount, maturity and fair market value. When a derivative contract has a positive fair market value, the counter party has a liability to VanCity, which creates credit risk. VanCity manages this credit risk by dealing with creditworthy counter parties, which are reviewed regularly.

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, 2001 and the consolidated statements of earnings and retained earnings and cash flows 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 Canadian 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, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian 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.

Grant Thornton LLP
Chartered Accountants

Vancouver, Canada
January 23, 2002

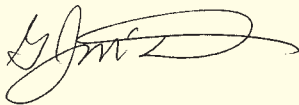
Arthur Andersen LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEET

As at December 31, 2001
(thousands of dollars)


	Note	2001	2000
Assets			
Cash and Securities			
Cash		\$ 48,178	\$ 46,016
Deposits with financial institutions		447,176	446,239
Government and corporate securities		123,101	157,460
		618,455	649,715
Loans			
Residential mortgages		4,484,725	4,158,008
Commercial mortgages		802,666	582,284
Consumer loans		855,148	798,176
Business loans		592,950	540,284
Allowance for impairment	2	(29,002)	(24,373)
		6,706,487	6,054,379
Other			
Accrued interest receivable		25,971	29,851
Premises and equipment	3	71,317	68,740
Other assets	4	89,659	86,824
		186,947	185,415
		\$ 7,511,889	\$ 6,889,509
Liabilities			
Deposits			
Demand		\$ 1,148,679	\$ 964,441
Term		5,520,753	5,164,327
Shares	5	75,055	62,809
		6,744,487	6,191,577
Debentures and Loans Payable			
Demand loan with Credit Union Central of B.C.	13	250,315	105,000
Short-term loans payable and debentures		-	116,759
		250,315	221,759
Other Liabilities			
Accrued interest and dividends payable		119,512	132,801
Accounts payable and other accrued liabilities		94,451	70,228
		213,963	203,029
Non-controlling shareholders' interest		4,053	-
Members' Equity			
Retained Earnings		299,071	273,144
		\$ 7,511,889	\$ 6,889,509

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



Greg McDade

Chair, VanCity Board of Directors and VanCity Member



Reva Dexter

Vice-Chair, VanCity Board of Directors and VanCity Member

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the year ended December 31, 2001
(thousands of dollars)

	Note	2001	2000
Interest Income			
Loans		\$ 443,596	\$ 419,228
Cash and securities		26,996	32,016
Other		–	577
		470,592	451,821
Interest Expense			
Deposits		265,504	265,896
Debentures and loans payable		24,083	28,126
Other		2,168	–
		291,755	294,022
Net Interest Income			
		178,837	157,799
Charge for Impairment of Loans	2	17,141	17,742
		161,696	140,057
Other Income		58,497	59,458
Net Interest and Other Income			
		220,193	199,515
Operating Expenses			
Salaries and employee benefits		92,745	81,141
Occupancy and equipment		25,622	24,202
General operating		59,664	58,281
		178,031	163,624
Earnings from Operations			
		42,162	35,891
Distributions to Community and Members	6	8,999	7,242
Earnings Before Income Taxes			
		33,163	28,649
Provision for Income Taxes	7	7,236	7,648
Net Earnings			
		25,927	21,001
Retained Earnings, beginning of year		273,144	252,143
Retained Earnings, end of year		\$ 299,071	\$ 273,144

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2001
(thousands of dollars)

	2001	2000
Cash Flows from Operating Activities		
Net Earnings	\$ 25,927	\$ 21,001
Adjustments for:		
Charge for impairment of loans	17,141	17,742
Amortization of premises and equipment	11,264	10,143
Change in net future income tax assets	(548)	1,377
Change in accrued interest receivable	3,881	(5,911)
Change in other assets	(1,107)	(7,067)
Change in accrued interest and dividends payable	(13,288)	24,539
Change in accounts payable and other accrued liabilities	24,223	2,225
Non controlling shareholders' share of income (loss)	(664)	-
	66,829	64,049
Cash Flows from Investing Activities		
Deposits with financial institutions	(938)	3,433
Government and corporate securities	34,359	(64,986)
Loans	(712,323)	(511,887)
Sale of mortgage backed securities	43,074	79,659
Premises and equipment	(13,841)	(14,658)
Other assets	(1,181)	(1,416)
Investment in subsidiary funded by non controlling shareholders	4,717	-
	(646,133)	(509,855)
Cash Flows from Financing Activities		
Demand and term deposits	540,664	519,036
Shares	12,246	(1,260)
Loans payable	128,556	(87,886)
Debenture repayment	(100,000)	-
	581,466	429,890
Net Change in Cash	2,162	(15,916)
Cash, beginning of year	46,016	61,932
Cash, end of year	\$ 48,178	\$ 46,016
Supplementary Information		
Interest received	\$ 474,473	\$ 445,910
Interest paid	305,043	269,483
Income taxes paid	6,711	9,073

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2001

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. The Credit Union is an integrated financial institution that provides a wide range of financial products and services that comprise one business operating segment.

1. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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 except for Venture Solutions Inc. and Real Assets Investment Management Inc. which are owned 70% and 50% respectively. The wholly owned active subsidiaries are Citizens Bank of Canada, Citizens Trust Company, VanCity Capital Corporation, VanCity Enterprises Ltd., VanCity Insurance Services Ltd. and VanCity Investment Management Ltd. The Credit Union and its subsidiaries are collectively referred to as "VanCity." The proportionate consolidation method is used to account for joint ventures.

(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 less any impairment provisions for other than temporary declines in value. 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, in respect of the general allowance, by the judgment 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. Impairment provisions are made for other than temporary declines in value. Deferred costs include premiums and charges related to derivative financial instruments and commissions paid to agents for raising deposits. Deferred costs are amortized over the remaining life of the underlying instruments.

(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) Employee Future Benefits

VanCity accrues obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

(i) Distributions to Members

Patronage rebates and dividends are charged to earnings.

(j) Income Taxes

VanCity follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are computed based on differences between the carrying amount of assets or liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates at each balance sheet date. Future income tax assets also result from the carry forward of unused tax losses and other deductions.

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

(k) Comparative Figures

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

(l) Translation of foreign currencies

Cash resources and deposits denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the balance sheet date. Realized gains and losses are recorded at the rates prevailing at the time of the transaction. Unrealized gains and losses are recorded at the rates prevailing on the balance sheet date.

2. Allowance for Impairment of Loans

(thousands of dollars)

	Residential	Commercial	Consumer	Business	2001 Total	2000 Total
Balance, beginning of year	\$ 5,302	\$ 6,329	\$ 6,141	\$ 6,601	\$ 24,373	\$ 17,611
Loans written off	(2,591)	(639)	(8,589)	(1,774)	(13,593)	(11,677)
Charge for impairment	3,434	1,284	8,710	3,713	17,141	17,742
Recoveries of loans written off	549	11	520	1	1,081	697
Balance, end of year	\$ 6,694	\$ 6,985	\$ 6,782	\$ 8,541	\$ 29,002	\$ 24,373
Loans with specific allowances						
Recorded amount	\$ 5,467	\$ 6,276	\$ 22	\$ 17,616	\$ 29,381	\$ 26,205
Related allowance	830	3,794	1	5,586	10,211	7,839
Carrying amount	\$ 4,637	\$ 2,482	\$ 21	\$ 12,030	\$ 19,170	\$ 18,366
Loans with general allowances						
Recorded amount	\$ 4,479,258	\$ 796,390	\$ 855,126	\$ 575,334	\$ 6,706,108	\$ 6,052,547
Related allowance	5,864	3,191	6,782	2,954	18,791	16,534
Carrying amount	\$ 4,473,394	\$ 793,199	\$ 848,344	\$ 572,380	\$ 6,687,317	\$ 6,036,013
Loans on which the accrual of interest has been discontinued	\$ 29,707	\$ 6,276	\$ 6,460	\$ 13,982	\$ 56,425	\$ 63,981

3. Premises and Equipment

(thousands of dollars)

	Cost	Accumulated Amortization	2001 Net Book Value	2000 Net Book Value
Land	\$ 6,317	\$ -	\$ 6,317	\$ 6,317
Buildings	38,792	8,574	30,218	31,375
Leasehold improvements	9,837	3,663	6,174	6,137
Computer equipment and software	42,316	16,011	26,305	22,490
Office equipment	4,629	2,326	2,303	2,421
	\$ 101,891	\$ 30,574	\$ 71,317	\$ 68,740

4. Other Assets

(thousands of dollars)

	2001	2000
Credit Union Central of B.C., shares	\$ 29,687	\$ 29,209
Accounts receivable, prepayments and other	42,425	39,463
Deferred costs, net of amortization	13,605	14,758
Net future income tax assets (Note 7)	3,942	3,394
	\$ 89,659	\$ 86,824

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

5. Shares

(thousands of dollars)

	2001	2000
Membership shares	\$ 35,892	\$ 35,268
Investment shares	33,697	21,367
Savings shares	5,466	6,174
	\$ 75,055	\$ 62,809

In December 2001 VanCity issued \$12,030,000 of \$1.00 par value Investment Shares.

Members are required to purchase up to \$50 of membership shares and were allowed 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 Community and Members

(thousands of dollars)

	2001	2000
Donations to VanCity Community Foundation and community donations	\$ 2,046	\$ 1,988
VanCity Award	1,000	–
Membership share dividend	2,950	2,173
Patronage rebates	1,850	1,725
Total Shared Success	7,846	5,886
Investment share dividends	1,153	1,356
Total distributions to community and members	\$ 8,999	\$ 7,242

Patronage rebates are calculated based on loan interest received by VanCity and deposit interest paid by VanCity. The rebates relating to loan interest received by VanCity amounted to \$962,000 (2000 - \$846,000) and to deposit interest paid by VanCity amounted to \$888,000 (2000 - \$879,000).

7. Income Taxes

Components of the provision for income taxes

(thousands of dollars)

	2001	2000
Current income tax expense	\$ 7,784	\$ 6,271
Future income tax expense (recoveries)	(548)	1,377
	\$ 7,236	\$ 7,648

The total provision for income taxes in the Consolidated Statement of Earnings and Retained Earnings is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

(per cent)

	2001	2000
Combined federal and provincial statutory income tax rates	44.6%	45.6%
Credit Union rate reduction	(27.0)	(23.2)
Non deductible and other items	4.2	4.3
	21.8%	26.7%

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

(thousands of dollars)

	2001	2000
Future income tax assets:		
Allowance for impairment of loans	\$ 3,200	\$ 2,944
Deferred revenue	2,382	1,449
Accrued employee future benefits	1,194	1,204
Other accrued expenses	1,949	1,020
Other temporary differences	102	237
	8,827	6,854
Future income tax liabilities:		
Deferred expenses	(4,885)	(3,460)
Net future income tax assets (Note 4)	\$ 3,942	\$ 3,394

8. Pensions and Other Retirement Benefits

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

The total expense for VanCity's retirement benefit plans is as follows:

<i>(thousands of dollars)</i>	Pension Plans	Other Benefit Plans	Total 2001	Total 2000
Total retirement benefit plan expense				
Defined benefit plans				
Accrual for services	\$ 376	\$ 587	\$ 963	\$ 935
Interest on accrued benefits	442	458	900	797
Interest on fund assets	(446)	–	(446)	(389)
Amortization of actuarial loss (gain)	(14)	–	(14)	–
	358	1,045	1,403	1,343
Defined contribution plans	3,178	–	3,178	2,997
	\$ 3,536	\$ 1,045	\$ 4,581	\$ 4,340

Information regarding VanCity's defined benefit plans as at December 31 is as follows:

<i>(thousands of dollars)</i>	Pension Plans	Other Benefit Plans	Total 2001	Total 2000
Accrued retirement benefit plan obligations				
Actuarial benefit liabilities at January 1	\$ 6,422	\$ 6,362	\$ 12,784	\$ 10,669
Benefits paid	(636)	(218)	(854)	(315)
Current service cost	376	587	963	935
Interest cost on accrued benefit obligation	442	458	900	787
Net transfer in	38	–	38	51
Actuarial losses (gains)	(108)	332	224	657
Actuarial benefit liabilities at December 31	6,534	7,521	14,055	12,784
Fair value of retirement benefit plan assets				
Fair value of plan assets at January 1	6,037	–	6,037	5,137
Employer contributions	1,253	218	1,471	433
Employee contributions	38	–	38	38
Benefits paid	(636)	(218)	(854)	(32)
Actual return on plan assets	(126)	–	(126)	461
Fair value of plan assets at December 31	6,566	–	6,566	6,037
Plan deficits (surplus)	\$ (32)	\$ 7,521	\$ 7,489	\$ 6,747
Balance of unamortized amounts				
Funded status - plan deficits (surplus)	\$ (32)	\$ 7,521	\$ 7,489	\$ 6,747
Unamortized net actuarial losses	(701)	(697)	(1,398)	(588)
Accrued benefit liabilities (assets)	\$ (733)	\$ 6,824	\$ 6,091	\$ 6,159

The weighted average assumptions used in the measurement of the accrued benefit obligations are as follows:

	2001	2000
Discount rate	7.00%	7.00%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%

9. 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 below 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.

<i>(thousands of dollars)</i>	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		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,178	\$ 48,178
Deposits & securities	3.77%	547,675	16,055	875	781	4,891	-	570,277
Loans	6.26%	3,477,810	1,270,418	971,046	474,223	541,992	(29,002)	6,706,487
Other		-	-	-	-	-	186,947	186,947
		4,025,485	1,286,473	971,921	475,004	546,883	206,123	7,511,889
Liabilities and equity								
Deposits	3.74%	4,788,092	609,174	299,188	175,454	76,518	796,061	6,744,487
Debentures & loans	2.54%	250,315	-	-	-	-	-	250,315
Other		-	-	-	-	-	517,087	517,087
		5,038,407	609,174	299,188	175,454	76,518	1,313,148	7,511,889
Balance sheet mismatch		(1,012,922)	677,299	672,733	299,550	470,365	(1,107,025)	-
Derivatives		35,000	(240,000)	(85,000)	(25,000)	315,000	-	-
Net mismatch		\$ (977,922)	\$ 437,299	\$ 587,733	\$ 274,550	\$ 785,365	\$ (1,107,025)	\$ -

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

10. Derivative Financial Instruments

<i>(thousands of dollars)</i>	<i>Notional Amounts</i>		Total 2001	Total 2000	Fair Values		
	Maturities of Derivatives 2002	2003-2006			2001	2000	
Hedging derivatives used to manage interest rate risk							
Receive fixed interest current swaps	\$ -	\$ 10,000	\$ 10,000	\$ 10,000	\$ 681	\$ 275	
Receive fixed interest forward starting swaps	-	365,000	365,000	65,000	5,358	597	
Pay fixed interest current swaps	20,000	290,000	310,000	170,000	(8,803)	(259)	
Pay fixed interest forward starting swaps	-	-	-	100,000	-	(1,931)	
Total Interest rate swaps	20,000	665,000	685,000	345,000	(2,764)	(1,318)	
Receive fixed forward rate agreements	-	345,000	345,000	175,000	3,320	(136)	
Interest rate options	-	20,000	20,000	-	33	-	
	20,000	1,030,000	1,050,000	520,000	589	(1,454)	
Other hedging derivatives							
Foreign exchange future sell contracts	31,920	-	31,920	28,660	(215)	678	
Foreign exchange future buy contracts	33,391	-	33,391	28,073	415	(360)	
Precious metal future sell contracts	-	-	-	3,388	-	-	
Precious metal future buy contracts	-	-	-	1,551	-	-	
Index-linked call options purchased	26,234	84,395	110,629	105,548	13,899	36,493	
Trading derivatives							
Receive fixed interest current swaps	-	-	-	20,000	-	44	
	91,545	84,395	175,940	187,220	14,099	36,855	
Total derivative contracts	\$ 111,545	\$ 1,114,395	\$ 1,225,940	\$ 707,220	\$ 14,688	\$ 35,401	

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, totaled \$23,614,000 as at December 31, 2001 (2000 - \$38,087,000). 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.

11. Fair Value of Financial Instruments

The following represents the fair values of on and off-balance sheet financial instruments of VanCity. 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.

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.

	2001			2000		
	Book Value	Fair Value	Fair Value Excess (Deficiency)	Book Value	Fair Value	Fair Value Excess (Deficiency)
Assets						
Cash	\$ 48,178	\$ 48,178	\$ -	\$ 46,016	\$ 46,016	\$ -
Deposits and securities	570,277	572,637	2,360	603,699	605,368	1,669
Loans	6,706,487	6,955,536	249,049	6,054,379	6,077,629	23,250
Other assets	186,947	186,947	-	185,415	185,415	-
Liabilities						
Deposits	6,744,486	6,870,452	(125,966)	6,191,577	6,251,734	(60,157)
Debentures and loans payable	250,315	250,369	(54)	221,759	222,224	(465)
Other liabilities	213,963	213,963	-	203,029	203,029	-
Off balance sheet derivative financial instruments		14,688	14,688		35,401	35,401
Total fair value adjustment			\$ 140,077			\$ (302)

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.

12. 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 29% of its residential mortgages.

13. Other Information

Credit Instruments

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.

	2001	2000
Lines of credit	\$ 729,597	\$ 917,374
Documentary letters of credit	9,348	5,212
Commitments to extend credit	229,580	148,159
	\$ 968,525	\$ 1,070,745

Lease Commitments

Certain branch premises are leased for terms extending to 2016. There are \$26,622,000 of commitments for minimum rental payments in future years with a maximum of \$5,910,000 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, 2001 certain demand and term deposits with Credit Union Central of B.C. have been pledged as security for a demand loan. Standby credit facilities of \$646,000,000 of which \$250,000,000 has been utilized, are secured by mortgages with a carrying value of \$831,000,000.

VANCITY STAFF & BRANCH LOCATIONS

Head Office

183 Terminal Avenue
Vancouver, B.C. V6A 4G2
604-877-7000 or 1-888-VanCity
vancity.com

Senior Management

Dave Mowat
Chief Executive Officer

Chris Dobrzanski
Senior Vice-President,
Treasury and Credit

George Scott
Senior Vice-President, Corporate
Strategy and Marketing

Tazeem Nathoo
Senior Vice-President, Operations

Kathy Stevenson
Vice-President, Finance

Rowena Liang
Vice-President, Information
Technology and Chief
Information Officer

Donna Wilson
Vice-President, Human Resources

Neil Brown
Vice-President, Products
and Services

Barry Fenton
Vice-President, Commercial
Mortgages and Real Estate

Kari Grist
Vice-President, Marketing

Karen Hoffmann
Vice-President, Wealth
Management

John Iseli
Vice-President, Credit & Operations

Lydia Johnson
Vice-President, Branch Sales
& Service

Paula Martin
Vice-President, Public Affairs &
Corporate Communications

Alan Wong
Vice-President, VISA

Alexandra Paproski
Manager, Corporate Affairs and
Corporate Secretary

Trish Collins
Manager, Financial Planning

Brian Elgood
Manager, Trust Services

Johan Lemmer
Controller

John Meyer
Manager, Estates and Trusts

Bev Sklar
Manager, Investment, Retirement
and Tax Planning

Regional Managers

Debbie Bywater
Joyce Chong

John DeRose
Lela Grierson

Keith Tongue
Caroline Wedge

Kevin Zakus

Community Branches

ABBOTSFORD
32675 South Fraser Way V2T 1X9
Charleen Dunn, Manager

BURNABY
Brentwood
106-1901 Rosser Avenue V5C 6R6
Cherie Devisser, Manager

North Burnaby
4302 Hastings Street V5C 2J9
Josie Romeo & Ross Lambert,
Managers

North Road
3977 North Road V3J 1S2
Margaret Gardiner, Manager

South Burnaby
5064 Kingsway V5H 2E7
Peter Unadkat, Manager

In-Store Financial
Services Centre
120A - 6100 McKay Avenue
Station Square V5H 2W7
Pretti Grewalson, Manager

COQUITLAM
20 - 2991 Lougheed Hwy V3W 6J6
Sarah Shellard, Manager

LANGLEY
100 - 20055 Willowbrook Drive
V2Y 2T5
Mary Pattison, Manager

MAPLE RIDGE
22824 Lougheed Hwy V2X 2V7
Tom Hancock, Manager

MISSION
32555 London Avenue V2V 6V9
Lucienne Lehmann, Manager

NORTH DELTA
7211 - 120 Street V4C 6P5
Ken Fuller, Manager

NORTH VANCOUVER
1290 Marine Drive V7P 1T2
Mike Matsuo, Manager

PORT COQUITLAM
7100 - 2850 Shaughnessy Street
V3C 6K5
Holly Harding, Manager

RICHMOND
5900 No 3. Road V6X 3P7
Greg Letham, Manager

CHILLIWACK
45617 Luckakuck Way V2R 1A3
Ben Letkeman, Manager

SURREY
Newton
7555 King George Highway
V3W 5A5
Jodh Dhaliwal, Manager

Guildford
108 - 15175 101 Avenue V3R 7Z1
Vanita Dennis, Manager

Surrey City Centre
10293 King George Highway
V3T 2W6
Graham McCready, Manager

Surrey
12820 - 96 Avenue V3V 6V9
Nalini Bhagat, Manager

VANCOUVER
Quebec & Terminal
183 Terminal Avenue V6A 4G2
Praveen Sidhu, Manager

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5590 Victoria Drive V5P 3W1
Arlene Urlacher, Manager

Hastings & Kamloops
2510 East Hastings Street V5K 1Z3
Gerry Freeman, Manager

Kitsilano
3395 West Broadway V6R 2B1
Jan Dean, Manager

Fraser & 47th
6288 Fraser Street V5W 3A9
Harbans Kandola, Manager

10th & Cambie
501 West 10 Avenue V5T 2A3
Patricia Sonier, Manager

Main & 26th
4205 Main Street V5V 3P9
Peter Reale, Manager

Pender & Hornby
898 West Pender Street V6C 1J8
David Perri, Manager

4th Avenue
2233 West 4 Avenue V6K 1N9
Michael Atkinson, Manager

Commercial & 1st
1675 Commercial Drive V5L 3Y3
Bob Craig, Manager

Kingsway & Joyce
3305 Kingsway V5R 5K6
Gerry Collins, Manager

Marpole
8615 Granville Street V6P 5A2
Phelan Jung, Manager

Kerrisdale
2380 West 41 Avenue V6M 2A4
Maria Michayluk, Manager
Duncan McGuffie, Acting Manager

Point Grey
4545 West 10 Avenue V6R 4N2
Brenda Monk, Manager

Chinatown
188 East Pender Street V6A 1T3
Grace Wong, Manager

Oakridge
5594 Cambie Street V5Z 3Y5
Mark MacKillop, Manager

Dunbar
4445 Dunbar Street V6S 2G4
Franko Zaurrini, Manager

VICTORIA
3055A Scott Street V8G 1S6
Greg Duncan, Manager
Shannon Edgar, Acting Manager

WEST VANCOUVER
1402 Marine Drive V7T 1B7
Mohamed Ladak, Manager

WHITE ROCK
110 - 1656 Martin Drive V4A 6E7
Maureen Stone, Manager

TELESERVICE
Carlos Calao, Manager

FINANCIAL RENEWAL CENTRE
Ana Sawatzky, Manager

Legal Advisors
McCarthy Tetrault
Farris, Vaughn, Wills & Murphy
Harris & Company

Auditors
Arthur Andersen LLP
Grant Thornton LLP

SUBSIDIARIES

Citizens Bank of Canada

401-815 West Hastings Street
Vancouver, B.C. V6C 1B4
604-682-7171
Service Centre: 604-708-7800

Toronto Office
500 – 8 Market Street
Toronto, Ontario
M5E 1M6

BOARD OF DIRECTORS

Dave Mowat, *Chair*
Ian Warner
Ron Longstaffe
Greg McDade
Honourable Ray Perrault, *P.C.*
Bob Quart
Kathy Stevenson
Roger Woodward

SENIOR MANAGEMENT

Ian Warner
President and Chief Executive Officer

Rolf Baumbusch
Senior Vice-President, Strategic Alliances

Guy Bantleman
Vice-President, Regional Development

Drew Collier
Vice-President, National Contact Centre

Christina Mazzone
Vice-President, Finance

Cyndi Poynter
Director, Human Relations

Terry Wong
Director, Treasury Management

Tommy Wong
Director, Information Technology

Rita Westfal-MacDonald
Executive Assistant to the CEO and Corporate Secretary

Citizens Trust Branches

Calgary
506 - 6 Street S.W.
Calgary, Alberta
T2P 0M9

Waterfront
815 West Hastings Street
Vancouver, B.C.
V6C 1B4

Inventure Solutions Inc.

BOARD OF DIRECTORS

Lloyd Craig
President and Chief Executive Officer, Surrey Metro Savings Credit Union

Dave Mowat
Chief Executive Officer, VanCity Credit Union

SENIOR MANAGEMENT

Rowena Liang
Chief Executive Officer

Tony Fernandes
Vice-President, IT Infrastructure and Operations

Andy Jones-Cox
Vice-President, Product Development

Garry Smith
Vice-President, Finance and Administration

Real Assets Investment Management Inc.

801 – 1166 Alberni Street
Vancouver, B.C. V6E 3Z3
604-646-5850

BOARD OF DIRECTORS

Dave Mowat, *Chair*
Deb Abbey
Deb Elliott
Karen Hoffmann
Bev Sklar
Joel Solomon

SENIOR MANAGEMENT

Deb Abbey
Chief Executive Officer

VanCity Capital Corporation

BOARD OF DIRECTORS

Bob Williams, *Chair*
Reva Dexter
John Delf
Elain Duvall
Michelle Gahagan
James Hughes
David Jiles
Essop Mia
Dave Mowat
Jonathon Rhone
Coro Strandberg
David Valpy

SENIOR MANAGEMENT

Lee Davis
President and Chief Executive Officer

VanCity Enterprises Ltd.

950 - 1050 West Pender Street
Vancouver, B.C. V6E 3S7
604-877-7610

BOARD OF DIRECTORS

Jack Allard, *Chair*
Shirley Chan, *Vice-Chair*
Barry Fenton
David Jiles
Sylvia Pritchard
Bruce Ralston
Bob Williams
Ron Yuen

SENIOR MANAGEMENT

Jacques Khouri
Chief Operating Officer

VanCity Insurance Services Ltd.

SENIOR MANAGEMENT

Joyce Jackson
Director

VanCity Investment Management Ltd.

183 Terminal Avenue
Vancouver, B.C. V6A 4G2
604-871-5355

SENIOR MANAGEMENT

Jeffrey Moore
President

ASSOCIATED ORGANIZATIONS

VanCity Community Foundation

Established in 1989 by VanCity, the VanCity Community Foundation is guided by its own Board of Directors and operates at arm's-length from the credit union.

950 - 1050 West Pender Street
Vancouver, B.C. V6E 3S7
604-877-7647

BOARD OF DIRECTORS

Tim Louis, *Chair*
Essop Mia, *Vice-Chair*
Lucy Alderson
Doreen Braverman
Carlos Calao
Allison Felker
Monica Hay
Mohamed Ladak
Ross Lambert
Paula Martin
Margaret Mitchell

SENIOR MANAGEMENT

David Driscoll
Executive Director

VANCOUVER CITY SAVINGS CREDIT UNION BOARD OF DIRECTORS



Greg McDade, *Chair*



Reva Dexter, *Vice-Chair*



Jack Allard



Kay Leong



Doreen Braverman



Elaine Duvall



Catherine McCreary



Sylvia Pritchard



Bruce Ralston

The six standing committees of the Board of Directors of VanCity and their responsibilities are listed below. All members are as at December 31, 2001.

The Administration Committee acts on all matters specifically delegated to it by the Board and may also initiate matters for approval by the Board.

Elaine Duvall, *Chair*
Catherine McCreary, *Vice-Chair*
Members: Reva Dexter, Greg McDade, Sylvia Pritchard

The Audit Committee is ultimately responsible for the policies and practices relating to internal controls, financial reporting and social audit reporting.

Catherine McCreary, *Chair*
Elaine Duvall, *Vice-Chair*
Members: Jack Allard, Doreen Braverman, Kay Leong, Bruce Ralston

The Community Partnership Committee reviews funding applications from non-profit community organizations and makes funding decisions, where appropriate.

Kay Leong, *Chair*
Members: Doreen Braverman, Reva Dexter, Catherine McCreary, Greg McDade

The Conduct Review Committee approves or declines transactions between the credit union and related parties, establishes procedures to prevent conflicts of interest, resolving them if they occur, and establishes procedures regarding disclosure to members and customers.

Catherine McCreary, *Chair*
Bruce Ralston, *Vice-Chair*
Members: Jack Allard, Kay Leong

The Financial Policy Committee reviews and recommends to the Board matters of a financial policy nature and carries out those responsibilities duly delegated by the Board.

Bruce Ralston, *Chair*
Kay Leong, *Vice-Chair*
Members: Jack Allard, Doreen Braverman, Elaine Duvall, Greg McDade

The Governance Committee is an advisory committee responsible for supervising the corporate governance system for the Board, allowing the Board of Directors to fulfil its duty to meet the applicable legal, regulatory and (self-regulatory) business principles and 'codes of best practice' of corporate behaviour and conduct.

Reva Dexter, *Chair*
Sylvia Pritchard, *Vice-Chair*
Members: Jack Allard, Catherine McCreary

