



2004 annual report

**Vancity**



VANCOUVER CITY SAVINGS CREDIT UNION  
**CONSOLIDATED FINANCIAL HIGHLIGHTS**

For the year ended December 31, 2004  
*(thousands of dollars)*

<b>Assets</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Cash and Securities	\$ 1,719,136	\$ 1,152,370	\$ 963,862	\$ 644,755	\$ 663,715
Loans	8,535,816	7,691,599	7,071,926	6,706,487	6,054,379
Other Assets	200,513	184,592	186,932	186,947	185,415
<b>Total Assets</b>	<b>\$ 10,455,465</b>	<b>\$ 9,028,561</b>	<b>\$ 8,222,720</b>	<b>\$ 7,538,189</b>	<b>\$ 6,903,509</b>

**Liabilities and Members' Equity**

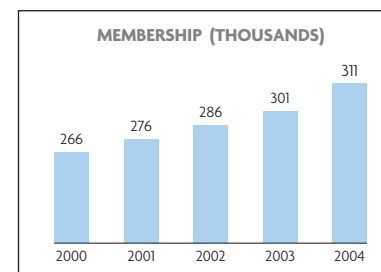
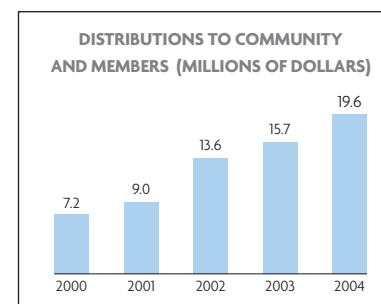
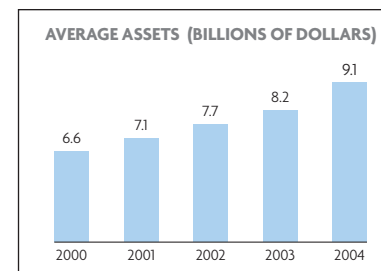
Deposits and Equity Shares	\$ 8,989,048	\$ 8,426,700	\$ 7,611,564	\$ 6,770,787	\$ 6,205,577
Wholesale Borrowings	813,768	2,000	53,000	250,315	221,759
Other Liabilities	212,348	216,747	219,514	218,016	203,029
Retained Earnings	440,301	383,114	338,642	299,071	273,144
<b>Total Liabilities and Members' Equity</b>	<b>\$ 10,455,465</b>	<b>\$ 9,028,561</b>	<b>\$ 8,222,720</b>	<b>\$ 7,538,189</b>	<b>\$ 6,903,509</b>

**Statement of Earnings**

Net Interest Income	\$ 255,076	\$ 249,461	\$ 230,321	\$ 178,837	\$ 157,799
Provision for Credit Losses	(9,968)	(13,324)	(32,220)	(17,141)	(17,742)
Other Income	68,561	57,843	57,788	58,497	59,458
<b>Net Interest and Other Income</b>	<b>313,669</b>	<b>293,980</b>	<b>255,889</b>	<b>220,193</b>	<b>199,515</b>
Salaries and Employee Benefits	133,330	115,803	104,285	92,745	81,141
Other Operating Expenses	105,584	100,207	83,939	85,286	82,483
<b>Total Operating Expenses</b>	<b>238,914</b>	<b>216,010</b>	<b>188,224</b>	<b>178,031</b>	<b>163,624</b>
<b>Earnings from Operations</b>	<b>74,755</b>	<b>77,970</b>	<b>67,665</b>	<b>42,162</b>	<b>35,891</b>
Unusual Item: Change in Accounting Policy	18,848	-	-	-	-
<b>Earnings after Unusual Item</b>	<b>93,603</b>	<b>77,970</b>	<b>67,665</b>	<b>42,162</b>	<b>35,891</b>
Distributions to Community and Members	19,578	15,719	13,625	8,999	7,242
Provision for Income Taxes	16,838	17,779	14,469	7,236	7,648
<b>Net Earnings</b>	<b>\$ 57,187</b>	<b>\$ 44,472</b>	<b>\$ 39,571</b>	<b>\$ 25,927</b>	<b>\$ 21,001</b>

**Statistics**

Average Assets <i>(thousands of dollars)</i>	\$ 9,076,361	\$ 8,183,526	\$ 7,705,178	\$ 7,141,594	\$ 6,569,768
Growth of Total Assets	15.8%	9.8%	9.1%	9.2%	7.5%
Return on Average Assets	0.63%	0.54%	0.51%	0.36%	0.32%
Return on Equity	13.0%	11.6%	11.7%	8.7%	7.7%
Dividends per Equity Share	4.7%	4.8%	5.2%	7.2%	5.0%
Dividends per Investment Share	4.7%	4.8%	5.2%	5.3%	6.5%
Membership	311,224	300,945	286,365	275,721	266,213
Number of Permanent Employees	2,050	1,916	1,706	1,622	1,570
Number of Branches	44	43	41	41	43



# growth in unexpected places



at Vancity, we're getting used to doing things a little differently.

In 2003 we embarked on an ambitious project to write our story. In true Vancity fashion, we undertook a collaborative process called 'envisioning and storytelling' where 2000 employees, members and Directors told us who they thought Vancity really was and what made the organization different.

This annual report is based on the Vancity Story, called "Things Grow Here". This report is not only about growth, but about how things grow in unexpected ways, how a financial institution can play a role in life's many intersections, how being a good banker equals being a good neighbour, and how ultimately, we believe you can.

Vancouver City Savings Credit Union

183 Terminal Avenue

Vancouver, BC V6A 4G2

604.877.7000 toll free: 1.888.Vancity

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

# message from the Chair



*Elain Duvall*  
Chair, Vancity Board of Directors  
and Vancity Member

Hello,

This past year, Vancity was privileged to be named the best place to work in Canada by *Maclean's* magazine. This designation is a badge of honour that Vancity wears proudly.

However, we also know it carries with it an equally awesome responsibility; a responsibility to our members, including our employees, and to our communities.

Our more than 300,000 members are at the heart of our credit union. We had a record number of new members in 2004 – 16,886 (net) to be exact. And of those new members, 4,032 were referred by family or a friend; 26% more than last year. These numbers are a strong indicator that it's our members who continue to both grow and benefit from our success.

We've taken growing our membership to heart and engaged our youngest citizens across Greater Vancouver, the Fraser Valley and Victoria. We ended 2004 with a record 18 youth credit unions engaging 1,500 young people with about \$850,000 in deposits. Our future can only look bright with educated young people like these involved with our credit union and their communities.

Our communities were the beneficiaries of upwards of 150 grants totaling \$7.4 million. And, don't forget about our unique, \$1-million annual Vancity Award presented to Phoenix Society to help construct a drug and alcohol addiction services centre in Surrey. It's a big grant that can make a big difference.

Making a difference – quickly – was on the minds of Vancity members when tragedy struck half a world away on December 26, 2004. Vancity members were eager to offer financial assistance to tsunami victims through our affiliation with Oxfam Canada through Citizens Bank of Canada. Together we raised more than \$335,500, including a \$25,000 donation from the Vancity Group of Companies and a further \$75,000 to match staff and member donations.

Partnering with other leaders in our communities is something we've learned can reap shared rewards. In partnership with the Real Estate Foundation of BC we launched the first Green Building Grant program. It's a new initiative that provides one or more annual grants of up to \$50,000 to non-profit organizations for building renovations, retrofits and regulatory changes to support more environmentally friendly buildings.

The list of reasons for which we were named the top employer in Canada is as long as the list of reasons that Vancity has experienced, yet again, a record year of successes. Let's celebrate our accomplishments with an eye to the future. Together, your Board of Directors, staff and community partners are privileged to work on your behalf for a prosperous 2005.

A handwritten signature in black ink that reads "Elain Duvall". The signature is fluid and cursive.

Elain Duvall  
Chair, Vancity Board of Directors and Vancity Member

## message from the CEO



Dave Mowat  
Chief Executive Officer  
and Vancity Member

At the risk of sounding like a broken record (or in today's lingo, an i-pod that skips), the Vancity Group of Companies has once again posted outstanding member and financial growth which in turn has translated to record contributions back to the many communities we serve. Bolstered by members who are more satisfied with our service, 2,000 employees who are passionate about the work they do every day, and more members than ever being referred by friends and family to bank with us, Vancity continues to build momentum.

Our asset growth alone in 2004 is bigger than the eighth largest credit union in B.C. Financial growth is not a number unto itself – it's how the growth happens that's important. We are sticking to our core business, and the purpose and values on which Vancity was founded. Our members are seeing that and as a result are doing more business with us.

That's where the Vancity Story comes in. Our Story is not a history of Vancity, but the result of an in-depth look at who Vancity really is, how we are different from other financial institutions and what we mean to our members. Authored by our employees, members and community, the Vancity Story clearly articulates what makes this organization different and will be a critical tool in keeping us true to our purpose and values. If you haven't read the Story yet, you can pick up a copy in any of our 42 community branches, contact TeleService at 604-877-7000, visit us at [vancity.com](http://vancity.com) or call me at 604-877-7666 and I will be happy to send a copy to you.

Our consolidated earnings from operations were at \$93.6 million, compared to \$78.0 million in 2003. Net earnings were \$57.2 million. Of this, we're sharing \$17.9 million with our members and community through the Shared Success program – our biggest contribution in Vancity history. (Read more about this program on page 8.) One exceptional item in 2004 was revenue of \$18.8 million from mortgage fee income due to a change in accounting standards by the Canadian Institute of Chartered Accountants. We were required to record this income in 2004, rather than spreading it out over future years.

Central to all of our strategies is to continue to improve member satisfaction scores (see page 15 for 2004's results). We completed the third phase of an error-reduction project designed to identify and eliminate the most common errors members experience. An important focus for us in 2005 is advocating for our members. This includes ensuring members are in the most appropriate and affordable account for their needs, their personal information continues to be protected, and we educate members on potential fraud and identity theft risks.

2004 brought the Vancity Group a number of proud moments. Being named the best place to work in Canada by *Maclean's* magazine; the opening of Pigeon Park Savings at the corner of Hastings and Quebec in Vancouver's Downtown Eastside; winning the Dockside Green project in Victoria with Vancity Enterprises at the forefront; the consistency and sophistication of service to members – community branches, business banking, investments and insurance and our 24/7 TeleService centre; our Commercial Mortgages team funding mortgages across Canada through Citizens Bank; and the introduction of a brand new look and feel that you will begin to see. All this means better service for Vancity members and for those who are not members yet, they are seeing and hearing that they can "Expect Better" from Vancity.

In the coming years we will build on our momentum and as economic conditions are sure to change, we will certainly face challenges. Those challenges create tension in the organization, but they also breed the innovation that we are proud of and that keeps us on the leading edge of delivering value to our members...more than a bank...more than a credit union.

A handwritten signature in black ink, appearing to read "Dave Mowat". The signature is fluid and cursive, written over a light-colored background.

Dave Mowat  
Chief Executive Officer and Vancity Member



## how things grow here

Any astute gardener will tell you that a successful garden needs the right mix of good soil, water, light and nutrition. It's not only about *what's* growing in their garden, but *how* it's growing. In the world of financial services, people grow, money grows, knowledge grows.

Our financial growth in 2004 was driven by a robust economy, low interest rates, and a strong residential housing market. In the spirit of keeping the right things healthy in the garden, we kept loan write-offs down (the payoff of managing lending risk) even with historically high volumes.

Increasing our membership and assets helps fund future expansion and growth. Acquiring other credit unions is one way to gain members, but we also believe in the give-great-service-and-they-will-come philosophy. More than 4,000 new members came to us in 2004 at the suggestion of a family member or friend.

Discover U is an online "university" and a one-stop shop for employees' learning and development, including course registration, curriculum, and career paths for everything from financial services reps to the CEO (although that position is currently filled).

Over the past few years our youth credit union program has exploded. In 2004 we opened nine of these in schools around the region. 1,500 students with about \$850,000 on deposit. By helping young people start early, we believe we can grow a new generation with money in the bank and money smarts in their head. A generation that can grow with Vancity and that can be and have... anything.

- ▶ Earnings from operations: \$93.6 million\*
- ▶ Net earnings: \$57.2 million
- ▶ Total assets: \$10.5 billion
- ▶ New personal members in 2004: 20,972 (gross)
- ▶ New business members in 2004: 3,082 (gross)
- ▶ Number of new employees (FTE) added in 2004: 134
- ▶ Number of Vancity-supported student credit unions operating in B.C.: 18

\* These results included a one-time \$18.8 million boost due to an accounting policy change affecting the financial services industry.

# good banking equals good business

How does a regional, values-oriented financial institution with 42 branches hold its own in the B.C. marketplace with banks 200 times the size? Simple. We turn that weakness into our strength.

By being flexible and responsive, we're faster on our feet and can make decisions locally. This means getting a decision on a small business loan in one business day. Granting a Vancity enviroGold VISA<sup>\*</sup> card with one phone call and designating profits from the cards to projects addressing B.C.-specific environmental issues. Or pulling together a team of experts from the Vancity Group of Companies to create a solution for a novel non-profit. The profits we earn stay local and are distributed to our communities and members through the Shared Success program (see page 8).

Acting in a member's best interest is the mark of good banking. In 2004 we proactively contacted members to move them into the right type of bank account for their lifestyle and to reduce their costs. With financial calculators developed by our Financial Planning team, branch staff can provide members with advice on cash and debt management, mortgage, investment and retirement planning solutions. Members walk away with a report for reference and can opt for more investment advice from one of 32 investment specialists, up from 19 in 2003. We also now have more than 90 business banking specialists working exclusively for business members.

Crooks are getting sneakier. They've got their eye on personal information, so we're watching out for our members and keeping our members up to date on the risks of identity theft and fraud.

Climate change should be on everyone's mind. We're putting our money where it counts with home financing incentives, including low interest loans for renovations that increase a home's energy efficiency.

\* VISA Int./Vancity, Licensed user.



## New products & services launched in 2004

- Easy Save term deposit
- Free online bill payments
- Four new full service packages and five self-service account packages for business members
- Vancity enviro expenseGold VISA for business
- West Edmonton Mall Prepaid VISA Gift card and Save-on-More VISA card
- Shared Success dividend to include investments, not just loans and deposits
- Bright Ideas Home Financing options for energy efficiency
- Self Employed Mortgage for flexible financing
- Shared Growth Chequing Package account
- Shared Growth and Shared World term deposits for community support
- Flex Down Mortgage

# we're all winners with a triple bottom line

Four years of record profits. \$51.6 million to distribute to members and communities with \$17.9 million in 2004 alone. Who says you can't have it all? It depends on what you call success.

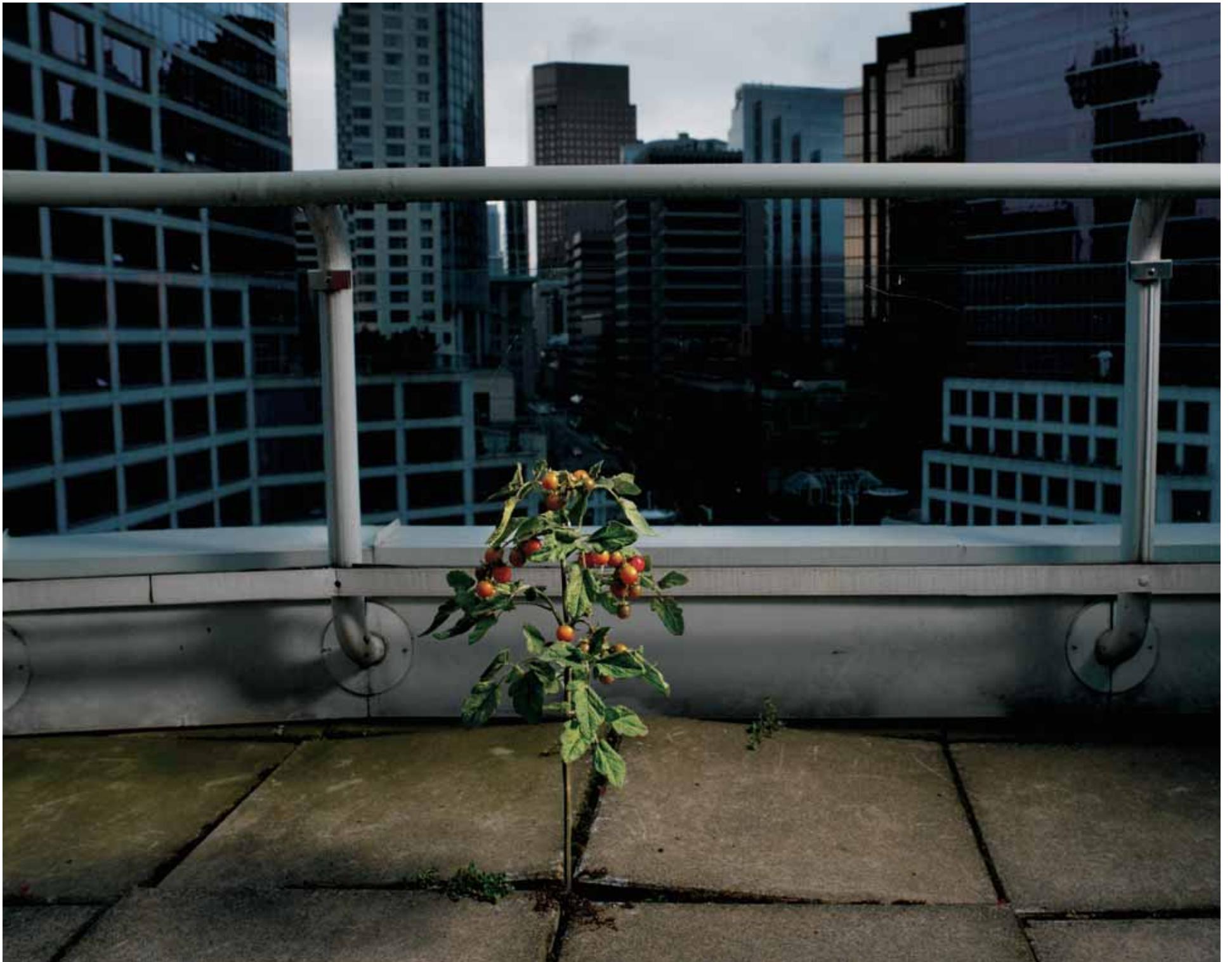
For us, it's our strong "triple bottom line".

Forget the jargon, it's what it means that matters. The triple bottom line is the tightrope we walk every day to deliver great service, invest in the community and share our profits with you. Call it **balanced prosperity**. No sacrifices. (If you need proof, check out page 19 for last year's key social and environmental performance indicators). Every two years, we go through an exhaustive process that, in 2004, resulted in a fully audited, 58-page Accountability Report and another 85 pages on the web. (And one of the best in the world, by the way.)

Take the Vancity Award. It's an award created by our Board of Directors to engage members in the decision-making process. For the fourth time, we gave out a million dollars to an organization chosen by our members. When the Phoenix Centre opens later this year, it will give recovering addicts transitional housing, treatment services, and education and employment services all under one roof. 100 people helped a year. Off the street. On the road to a new life. Members' votes did that.

There are three reasons we have \$1 million to give out on top of the \$6.4 million we already invest in other non-profits: you put your faith in us, our employees are beyond passionate and your Board of Directors keep us all on the straight and narrow toward triple bottom-line success.

- ▶ Shared Success 2004 payout: \$10.5 million to members, \$7.4 million to community initiatives
- ▶ Phoenix Centre: [www.phoenixcentre.ca](http://www.phoenixcentre.ca)
- ▶ Listing of grants: [vancity.com/community](http://vancity.com/community)
- ▶ 2002/03 Accountability Report: [www.vancity.com/accountability03](http://www.vancity.com/accountability03) or call 604 877-4914 for a copy.





## tension is the fuel of creativity

2004 was a busy year. With record loan volumes (again) and employees' determination to keep service levels high, tension, from time to time, is inevitable.

Being named the number one place to work in Canada by *Maclean's* magazine doesn't deter us from searching out new ways to make Vancity an even better place to work. An annual survey helps us uncover what our employees think about working at Vancity. At 77%, our 2004 score reveals that we rank well within the top 50 employers in Canada and mean that most of our employees feel valued and rewarded at work. But we know we're not perfect. We do know satisfied employees leads to satisfied members. We want both. (see the KPIs on page 19 for more on employee satisfaction).

Robberies are a sad reality of the financial services industry, especially in Vancouver, "the bank robbery capital of Canada". Fortunately, most are nothing like the scenarios you see in Hollywood movies. But there's no doubt that they can be frightening and stressful for affected employees. Our employee assistance trauma counsellors are brought in to help employees deal with the normal, but sometimes intense feelings of stress, fear and helplessness that can arise after a robbery. Our post-robbery support program has attracted attention – the good kind. The program received Best Practice Honours from the American Psychological Association, recognizing our efforts to provide a psychologically healthy workplace. We're the first company in Canada to earn this recognition.

There's nothing like a class action lawsuit to get your attention. In 2004 we settled a lawsuit brought forward by a member over our \$10 overdraft fee. This is the fee that we charge when a member draws on an account that doesn't have sufficient funds in it to cover the transaction. While we charge for this service, it is much less than the additional charges our member could face from us, and the merchant, if the cheque were bounced. It's a grey area, and we opted to settle the suit and make refunds to members with a valid claim.

While court action is never viewed favourably, the Vancity Community Foundation is very happy as a number of members who received a refund as a result of the lawsuit opted to donate it to the Foundation. This is in addition to any leftover money we originally set aside to pay out claims – they're getting that too.

- ▶ Money donated to the Vancity Community Foundation in fiscal year 2003/2004:  
\$316,401 to VCF endowment, \$884,663 to 58 Named Funds
- ▶ Training investment per FTE: \$1,222



# crossroads create meaningful moments

A marriage, a birth of a child, a first home purchase. Other crossroads can be less than joyous but equally memorable – a job loss, a divorce, a death of a loved one, financial strife. How we pass through these moments, and how we manage them can be a testament to the people around us and the guidance we receive.

For Leslea Vinet, we made a huge difference. Faced with an unexpected bill for a new roof on her condo and an unsympathetic financial institution, she came to Vancity for a solution. A branch employee helped Leslea create a financial plan, and eased her worries about a financial cave-in. “I feel like I have been given a new chance on life,” says Leslea.

There is no idea too small or passion too big for Vancity’s business banking team. Whatever you need to make your business blossom – money, advice, support – we have it. Loans tailored to your needs. Day-to-day business banking to keep your company running. Peer lending and Self Reliance loans for those who can’t get traditional credit.

Residents of Victoria will have a chance to experience their own significant moments with a new residential and commercial development along the Docksideroads. Vancity Enterprises, our development arm, won the bid over much larger companies to develop the site as a model for sustainability with affordable housing, commercial offices and shopping.

Dockside Green is a \$250 million, multi-year project to redevelop 4.85 hectares of contaminated land in Victoria. The project is led by a partnership between Vancity Enterprises and Windmill Development Group. See [docksidedgreen.ca](http://docksidedgreen.ca)

Financial solutions for every one of life’s intersections:

- ▶ Mortgages for a new or first home
- ▶ First bank account at a youth credit union
- ▶ Planning for retirement with investments through Credential Financial Inc.
- ▶ Business banking for when you’re ready to “go it on your own”
- ▶ Insurance for life, home, disability, critical illness, commercial
- ▶ Emergency lines of credit and “heart” loans for the unexpected
- ▶ Will and estate planning for the inevitable
- ▶ Registered Education Savings Plans for when children grow up
- ▶ That first VISA card to teach appropriate use of credit
- ▶ Start-up loans and venture capital for leading-edge non-profits and businesses through Vancity Capital Corporation
- ▶ A reduced interest loan for a new hybrid car
- ▶ Socially responsible investments from Real Assets to match your social and environmental values.



# more than a bank, more than a credit union

or at least a little of both

As the largest credit union in Canada (and third largest in North America) and with full ownership of Canada's first Internet bank, Citizens Bank of Canada, we're a little of both. In addition to providing a full complement of financial services, the Bank also staffs and operates the telephone contact centre, the key touch point for members of both organizations. We had some servicing issues in 2003, but in the past year the centre (known as TeleService to you, but the National Contact Centre to us) has made great strides in service delivery. The number of members "totally satisfied" has jumped 10 points to 38%, the error rate has dropped by 6%, and 90% of calls are answered within one minute, 4 out of 5 days a month.

Don't be surprised if you get a call or letter asking about your branch or call centre experience. By tracking member feedback, we can monitor service levels and identify trends. Our most important rating is "totally satisfied" which hit an all-time high of 40% in 2004 for personal members and 37% for business members.

One of the great attributes of credit unions is their democratic nature. Members vote for Board Directors, and we take that principle of democracy even further by involving members whenever possible. Use your voice to select the annual Vancity Award recipient, areas of interest for EnviroFund™ dollars, and your Board of Directors. (Meet the Board on page 41)

In 2004, we were the first member-owned credit union in North America to receive an investment grade short-term credit rating from Dominion Bond Rating Service (DBRS), a Canadian based agency known for its objective assessment of corporate and financial entities. The rating of R-1 (low) validates Vancity's financial sustainability, strengthens our industry position and translates us into an eligible investment grade offering for institutional or corporate investors. What all this lingo means is that Vancity is now recognized in the national financial markets as a prime quality investment choice. With this rating, we can issue a form of short-term deposits called commercial paper as a way to raise cash, financing our growth and lending activities at a cheaper cost. Our first launch of \$200 million in commercial paper issuance sold out in 24 hours.

™ EnviroFund is a trademark of Vancity.

- ▶ Number of years Citizens Bank's Commercial Mortgage division took to achieve its aggressive five-year mortgage target: One
- ▶ Number of calls handled in 2004 by TeleService agents: 1,100,000
- ▶ Dominion Bond Rating Service: [dbrs.com](http://dbrs.com)
- ▶ Vancity personal members "totally satisfied:" 40%
- ▶ Average rating: 4.21 out of 5
- ▶ Average number of annual volunteer hours per Board Director: 1,038 hours

# you need more than a good address to be a good neighbour

As a B.C.-based financial institution, being a good neighbour is more than just a market opportunity – it's an obligation. Like making sure that branches are places where people feel comfortable and reflect the community. We moved our Semiahmoo branch to a high-profile corner and outfitted the branch with a nautical bell, kayak, and boardwalk – just like the city itself.

After Four Corners Community Savings announced it was closing on Vancouver's Downside Eastside last year there was concern. What would people in the area do without financial services? How would they cash their cheques and do their basic banking? The Portland Hotel Society approached Vancity. A few months later, with the help of corporate Vancouver, an old pawn shop at the corner of Quebec and Hastings was magically transformed into Pigeon Park Savings. Run for the community, by the community with Vancity offering expertise and support back stage. Pigeon Park Savings. 1,605 members strong. Just one example of what can happen when you believe in your neighbours.

The Vancouver Pride festival is the biggest celebration of the city's lesbian, gay, bi-sexual and transgendered community. We took on the role of Presenting Sponsor of Pride to demonstrate that our commitment to the community is not a one-off. (And the West End Community Branch made a big impact with their "Love Train" entry in the Pride parade.)

'Doing good' usually results in 'feeling good,' so supporting staff's community ambition is part of employee engagement. There's a variety of programs but none bigger than the Annual Staff Fundraiser. For the second year, employees chose the Adoptive Families Association of British Columbia as their recipient. Book sales, car washes, and a few other inventive projects brought in \$144,146 with more to come.

We do big-scale corporate sponsorship, but when it comes to our branch staff, they take on plenty of initiatives on their own. What started as a simple fund raising idea for needy kids at Christmas became a major feel-good project involving hundreds of paper angels with children's wishes in branches in Langley, Abbotsford, Port Coquitlam, Chilliwack, Victoria, Coquitlam, North Burnaby, and Surrey.

Being a good neighbour can mean checking in with an elderly member who hasn't been to the branch in a while or sending over a homemade basket to a recently unemployed couple. Dropping off urgent cheques for an immobile member. In the words of one Vancity employee, neighbourliness means "being honest. Being yourself. Being truthful. It's caring, empathy, compassion."

It doesn't get much simpler than that.

- ▶ Branches involved in angel tree program: 12
- ▶ New branches planned for 2005:  
2, in Westview (opened Jan 2005) and Pitt Meadows
- ▶ Total amount of money raised by employees since the Fundraiser's inception: \$1.7 million





## this is a true story

it's not every day that a financial institution gets to play Cupid.

An employee noticed that one of our long-time Vancity members was not her cheery self. When asked what was wrong, she told a story of unrequited love. Of moving to the Japanese village where her parents were born. Of falling in love with a handsome American soldier, who vowed to marry her after he returned to Hawaii to finish his degree. Of returning to Canada, where she was forced into a marriage by her parents. Of having to cut her ties with her beloved soldier.

Then, more than 65 years after their first meeting, she received a letter from her first love, who wanted to see her one more time. But she couldn't afford the trip to Hawaii, and she didn't qualify for a traditional loan.

That's where a heart loan comes in. It's where we get to look beyond assets and liabilities and consider the intangibles that only come from knowing your members as more than just an account number.

You can just imagine how our member felt the day she learned she could make the trip. She brought us pictures of the couple as youngsters and then, reunited in Hawaii. It was like those 65 years had never happened.

## VANCITY'S KEY PERFORMANCE INDICATORS

In 2000, the Vancity Board of Directors approved the Statement of Values and Commitments to guide business decisions and strategies and ensure we stay true to the values that have made us strong. The Board approves the indicators by which we measure our performance at living up to these commitments.

The tables and charts in this report provide a high level overview of the Vancity Group of Companies' performance at living up to the Statement of Values and Commitments. We have indicated where applicable if the data and information applies to a specific area of business or the group of companies as a whole.

For more information on our social audit process, performance measures, and Accountability Report call us at 604-877-7000 or 1-888-Vancity, email us at info@vancity.com, or visit vancity.com/accountability03. To view Citizens Bank's 2003 Accountability Report, visit citizensbank.ca/ethical.

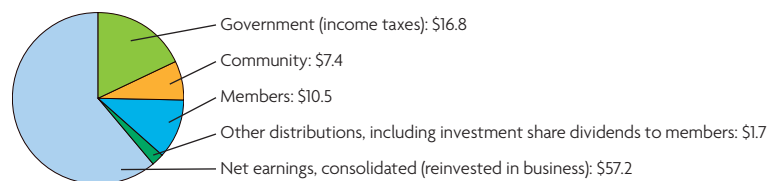
### We will be responsible and effective financial managers so Vancity remains strong and prospers

#### Overall Financial Performance

Vancity Group of Companies	2004	2003	2002	Performance Summary	Comments
Net earnings ( <i>millions of dollars</i> )	\$57.2	\$44.5	\$39.6	↑	Strong increase due to continuing expansion of the economy, low interest rates by historical standards and a strong residential housing market that significantly grew loan volumes. Also due to a one-time earnings increase (\$18.8m before taxes) from an accounting policy change affecting the financial services industry.
Return on equity <sup>1</sup>	13.0%	11.6%	11.7%	↑	
Total assets ( <i>millions of dollars</i> )	\$10,455	\$9,029	\$8,223	↑	Significant increase mainly due to growing volumes from existing members and membership growth.

<sup>1</sup>Net earnings/retained earnings (excluding member shares)

#### 2004 Distribution of Earnings from Operations, consolidated (*millions of dollars*)



### We will provide members with outstanding service and help them achieve their financial goals

#### Overall Service Satisfaction

Vancity Credit Union	2004	2003	2002	Performance Summary	Comments	
Personal members: Overall satisfaction with service (% <i>strongly agree</i> )	85% (40%)	84% (36%)	84% (35%)	↔	2008 Target: 41% totally satisfied. On track to meet target.	
Personal members:						
Overall satisfaction by diversity						
Male	86%	78%	n/a	↑	Members who identified themselves as youth (19-24), seniors (65+), or low income were generally more satisfied than other groups.	
Female	86%	80%	n/a	↑		
Visible minority	79%	82%	n/a	↓		
Disability	86%	83%	n/a	↑		
Low-income	88%	89%	n/a	↔		
Age: youth 19 - 24	90%	82%	n/a	↑		
Age: 25 - 64	85%	78%	n/a	↑		
Age: senior 65 +	90%	85%	n/a	↑		
Business members: Overall satisfaction with service (% <i>strongly agree</i> )	78% (37%)	79% (35%)	72% (31%)	↔		2008 Target: 37% totally satisfied. Includes micro-enterprises, small and medium enterprises, and non-profit organizations.
Business members:						
Overall satisfaction by business type						
Micro-enterprise (1-2 employees)	78%	83%	n/a	↓	Improvements in satisfaction expected in 2005 based on the business error reduction project currently underway.	
Small to medium enterprise (3-30 employees)	69%	77%	n/a	↓		
Non-profit organizations	84%	86%	n/a	↔		

## Overall Service Satisfaction (continued)

Vancity Credit Union	2004	2003	2002	Performance Summary	Comments
Non-profit organization members: overall satisfaction with service ( <i>% strongly agree</i> )	<b>84%</b> <b>(48%)</b>	82% (42%)	82% (40%)	↔	<b>2008 Target: 42% totally satisfied.</b> Target exceeded.
% Personal members agree they can trust Vancity staff to always have their best interests in mind	<b>62%</b>	62%	n/a	↔	Results include 16% of members who responded "don't know" or "not applicable" (16% in 2003).
<b>Helping Members Achieve Their Financial Goals</b>					
% Personal members agree Vancity performs well at providing them with the financial services they need	<b>73%</b>	72%	n/a	↔	
% Business members agree Vancity performs well at providing them with the financial services they need	<b>71%</b>	73%	n/a	↔	

Note: Data from the 2003 survey was collected by telephone. In 2002 and 2004, the data was collected through a mail survey. This difference in methodologies could affect the comparability of results.

Citizens Bank of Canada	2004	2003	2002	Performance Summary	Comments
Member satisfaction with Citizens Bank's service overall ( <i>% totally satisfied</i> )	<b>84%</b> <b>(38%)</b>	79% (28%)	80% (30%)	↑	<b>2008 Target: 45% totally satisfied.</b> On track to meet target. During 2004, the bank focused on improving its performance in the key areas identified by members in satisfaction surveys. As a result, there were significant improvements on multiple fronts that raised service levels overall and led to increased member satisfaction.

Vancity Insurance Services Ltd.	2004	2003	2002	Performance Summary	Comments
Overall client satisfaction with Vancity Insurance Services service ( <i>% totally satisfied</i> )	<b>69%</b> <b>(36%)</b>	71% (34%)	75% (19%)	↔	The decrease in satisfaction over the past year can likely be attributed to two factors: 1) The withdrawal of underwriters from the in-house Saferate program required cancellation of the program. The resulting transition caused longer processing times and negatively affected member service. 2) The implementation of a new broker management software system required significant staff learning, which took time away from member care. It's expected that member service improvements implemented over the past year will positively impact member satisfaction in 2005.

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

### Meaningful Opportunities for Input

Vancity Credit Union	2004	2003	2002	Performance Summary	Comments
% Personal members agree Vancity performs well at providing meaningful opportunities for them to have input in setting the direction of the credit union	<b>51%</b>	48%	52%	↑	Results include 25% of members who responded "don't know" or "not applicable" (26% in 2003). <b>2004-05 Action Plan:</b> Complete research to better understand results in the area of "providing members with meaningful opportunities in setting the direction of the credit union." Develop action plans to improve results.
% Business members agree Vancity performs well at providing meaningful opportunities for them to have input in setting the direction of the credit union	<b>38%</b>	52%	n/a	↓	Results include 42% of members who responded "don't know" or "not applicable" (21% in 2003). <b>2004-05 Action Plan:</b> See above.
Member participation at Board elections: # and % of eligible members, and key reasons why members don't vote in Board elections	<b>11,924</b> <b>5.2%</b>	12,152 5.6%	13,496 6.4%	↔	Results stable. Top three reasons why members don't vote (2003): too busy/not enough time; didn't have any/enough information about the candidates; doesn't affect me/don't care.

Note: Data from the 2003 survey was collected by telephone. In 2002 and 2004, the data was collected through a mail survey. This difference in methodologies could affect the comparability of results.

## Complaint Handling

Vancity Credit Union	2004	2003	2002	Performance Summary	Comments
% Personal members agree Vancity performs well at addressing their concerns in timely manner	69%	60%	n/a	↑	Results include 16% of members who responded "don't know" or "not applicable" (16% in 2003). The introduction of service recovery and complaint handling standards and processes to improve the speed at which complaints are resolved could be a factor in the increase in satisfaction.
% Business members agree Vancity performs well at addressing their concerns in timely manner	62%	70%	n/a	↓	Results include 14% of members who responded "don't know" or "not applicable" (10% in 2003).

Note: Data from the 2003 survey was collected by telephone. In 2002 and 2004, the data was collected through a mail survey. This difference in methodologies could affect the comparability of results.

## We will ensure that Vancity is a great place to work

### Overall Employee Satisfaction

Vancity Group of Companies (excluding Citizens Bank and Inventure Solutions)	2004	2003	2002	Performance Summary	Comments
<b>Overall Employee Satisfaction</b>	<b>77%</b>	75%	66%	↔	<b>2008 Target: 80%</b> . On track to meet target.
Employee Engagement Index (Index based on answers to 6 key questions)					Our employee engagement score is very strong and ranks among the top 50 employers in Canada. Note: 90% of employees participated in Vancity's 2004 employee survey.
Employee Engagement Index by diversity					
Male	74%	75%	n/a	↔	Employees who identified themselves as female, under 25 or over 40 were generally more satisfied than other groups. Note: 19 employees self-identified as persons with a disability.
Female	79%	75%	n/a	↑	
Disability:	68%	68%	n/a	↔	
Visible minority:	76%	75%	n/a	↔	
Age: <25	82%	77%	n/a	↑	
Age: 25-29	71%	71%	n/a	↔	
Age: 30-39	74%	71%	n/a	↑	
Age: 40-49	79%	76%	n/a	↑	
Age: 50+	89%	85%	n/a	↑	
% Employees agree Vancity's Statement of Values and Commitments provides meaningful direction in their work (% <i>strongly agree</i> )	74% (24%)	75% (23%)	54% (12%)	↔	
Staff turnover	8.1%	8.8%	10.0%	↔	Continue to have lower turnover than other B.C. credit unions, which average 11-15%. Data from 2003 Annual Report restated.
<b>Employee Health and Safety</b>	<b>65%</b>	64%	65%	↔	Question altered slightly between 2003 and 2004 surveys. Previous question worded as: % Employees agree they are able to maintain an appropriate and healthy balance between work and personal commitments. We continue to offer new programs such as wellness support to help employees maintain an appropriate and healthy balance between their work and personal commitments.
% Employees agree the balance between their work and personal commitments is right for them (% <i>strongly agree</i> )	(15%)	(14%)	(15%)		

Citizens Bank of Canada	2004	2003	2002	Performance Summary	Comments
Employee Engagement Index (Index based on answers to 6 key questions)	71%	55%	43%	↑	<b>2008 Target: 75%</b> . On track to meet target. Raising the employee engagement score was one of the Bank's top priorities in 2004. Guided by organizational and business unit employee engagement action plans, managers and staff worked together closely to achieve a significant improvement in the score from 2003. As the first year of the five-year strategic plan, 2004 brought the Bank's vision and mission into focus, which increased employees' organizational pride and confidence in the Bank's overall direction.

Inventure Solutions	2004	2003	2002	Performance Summary	Comments
% Employees satisfied or very satisfied with their employment at Inventure	71%	73%	n/a	↔	Performance is stable.

**Vancity's Baseline Ethical Policy**

**Vancity Group of Companies**

Comments

Baseline Ethical Policy: describe and report status of implementation in key business areas

Applies to businesses, non-profit organizations and co-operatives.

**Vancity's Baseline Ethical Policy**

Vancity seeks to do business with organizations that show commitment to:

- Environmental performance
- Workplace conditions
- Human rights

**Implementation status as at December 31, 2004**

**Purchases**

- Integrated Baseline Ethical Policy criteria into requests for proposals for courier service and office supplies
- Of six actions plans for strategic suppliers requiring follow up, one is complete and five are in progress

**Treasury Investments**

- Due to sector-wide compliance issues within the brokerage and investment industry, eight of 17 companies are technically out of compliance with our Baseline Ethical Policy. As these issues are beyond our control and options are limited, we are investigating how best to respond to and reconcile these findings. It is noted that these approved investment dealers, brokers, and counterparties were screened against independent third party criteria and 100% were declared eligible.

Areas we approach with special care include:

- Tobacco
- Alcohol
- Gaming
- Uranium/Nuclear Power
- Weapons
- Adult Entertainment

**Services to Business Members**

- Active implementation in place for new business accounts, loans and additional services
- Internal audit procedures found no major issues or concerns

Vancity may decline to do business with organizations whose revenues from these areas exceed a certain percentage of their annual sales.

**Community Grants**

- Applying Baseline Ethical Policy to potentially sensitive granting requests prior to funding

**Citizens Bank**

- Revised the Bank's Ethical Policy to incorporate the Vancity Group of Companies' Baseline Ethical Policy
- In the process of aligning Citizens Bank and Vancity screening tools

**Commercial Mortgages**

- Screening of existing portfolio underway

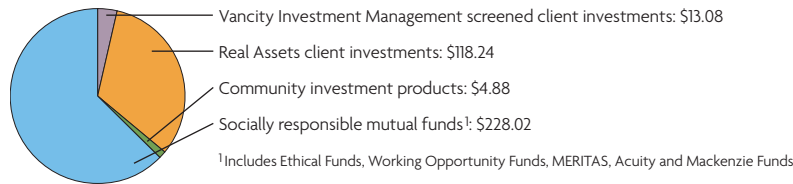
**Promotional Partners**

- Screened three new promotional partners

**Socially Responsible Investing Options**

Vancity Group of Companies	2004	2003	2002	Performance Summary	Comments
Member and client investments in socially responsible investments ( <i>millions of dollars</i> )	\$364.22	\$331.77	\$283.16	↑	Increase due mainly to significant rise in Real Assets client investments. Visit <a href="http://vancity.com/Personal/Investing/SociallyResponsible">vancity.com/Personal/Investing/SociallyResponsible</a> for more information on socially responsible investing options at Vancity. Data from 2003 Annual Report restated.

**2004 Socially Responsible Investments (millions of dollars)**



**Vancity Investment Management Ltd.**

Comments

Description and compliance with ethical screening criteria

Vancity Investment Management provides discretionary investment management services. It incorporates social and environmental criteria in its investment decisions based on the belief that companies following responsible business practices are more likely to achieve superior investment returns, with less risk, for shareholders over the long term. In addition, all clients have the option to have their portfolio screened to their own ethical preferences. For more information on Vancity Investment Management Ltd., visit [vcim.ca](http://vcim.ca).

\*Sources of company information: Michael Jantzi Research Associates Inc. (Canada) and KLD Research & Analytics, Inc. (U.S.).

## Socially Responsible Investing Options (continued)

<b>Real Assets Investment Management Inc.</b>		Comments
Description and compliance with ethical screening criteria		Companies are assessed using qualitative and quantitative analysis based on exclusionary criteria as well as seven key measures of social, environmental and governance performance: employee relations; diversity; environmental commitments; community relations; corporate citizenship; human relations and sustainable products. Those that fail to pass the exclusionary criteria or lag industry norms on one or more performance measures are deemed ineligible for investment purposes. For more detail on Real Assets' screening criteria, visit <a href="http://realassets.ca">realassets.ca</a> .
Involvement in shareholder action campaigns		In 2004 Real Assets filed nine shareholder resolutions, leading all nine, and engaged a further 11 companies in productive exchanges aimed at improving corporate social responsibility. Campaigns focused on the areas of food health, safety and nutrition; climate change; glass ceiling; and HIV/AIDS.
<b>Vancity Insurance Services Ltd.</b>		Comments
Description of insurance policies with positive social and environmental features		Sovereign policy used for group offering contains the following endorsement: Home Accessibility Extension - \$4,000 coverage if an insured should become ill or injured suddenly during the policy period and the recommendation is made from a doctor that the dwelling needs to be renovated to accommodate for these occurrences. For more information on Vancity Insurance Services Ltd., visit <a href="http://vancityinsurance.com">vancityinsurance.com</a> .



















## Environmental Operations

	2004	2003	2002	Performance Summary	Comments
CO <sub>2</sub> equivalent emissions from energy consumption	<b>749 tonnes/year</b>	792 tonnes/year	848 tonnes/year	↑	Data for Vancity Centre and branches. Conversion factors from Voluntary Challenge and Registry (fuel) and BC Hydro (electricity) used. Data from 2002 and 2003 recalculated using current emission factors to enable comparison.
CO <sub>2</sub> equivalent emissions from employee single occupancy vehicle commuting	n/a	1,680 tonnes/year	n/a	n/a	Data for Vancity Group of Companies. Emissions calculated by TransLink based on employee commuting as determined by Vancity's Employee Transportation survey. Employee Transportation survey not conducted in 2004.
Total CO <sub>2</sub> equivalent from energy consumption and employee commuting	n/a	2,472 tonnes/year (1.40 tonnes/employee)	n/a	n/a	Data from 2002 and 2003 recalculated using current emission factors.

## Community Financing

<b>Vancity Credit Union</b>	2004	2003	2002	Performance Summary	Comments
High Impact Community Financing: total ( <i>millions of dollars</i> ) and as a % of loans outstanding	<b>\$19.28</b> <b>0.27%</b>	\$12.48 0.20%	\$10.22 0.14%	↑	Significant increase due mainly to introduction of new environmental loan options including the Clean Air Auto Loan and the Bright Ideas Home Financing Loan. Includes micro-credit, social housing loans, and local and international community deposits placed. Data from 2003 Annual Report restated.

## Vancity Capital Corporation

Loans outstanding to social enterprises (SE) and small and medium enterprises (SME): # and total ( <i>millions of dollars</i> )	2004	2003	2002	Performance Summary	Comments											
	<b>87 loans</b> <b>\$18.6</b>	74 loans \$11.9	62 loans \$11.8	↑	Social enterprises are non-profits, co-operatives, and businesses with significant social/environmental objectives. Loan portfolio has continued to grow and become more diversified, including significant new transactions in sectors such as eco-forestry, value-added wood and food businesses, green buildings, entertainment, tourism, manufacturing, and non-profit enterprise. For more information on Vancity Capital Corporation, visit <a href="http://vancitycapital.com">vancitycapital.com</a> .											
	<table border="0"> <tr> <td></td> <td>SE</td> <td>SME</td> </tr> <tr> <td>2004</td> <td></td> <td></td> </tr> <tr> <td>2003</td> <td></td> <td></td> </tr> <tr> <td>2002</td> <td></td> <td></td> </tr> </table>			SE	SME	2004			2003			2002				
	SE	SME														
2004																
2003																
2002																

## Responsible Real Estate Development

<b>Vancity Enterprises Ltd.</b>	2004	2003	2002	Performance Summary	Comments
# Units completed	<b>4</b>	80	64	↓	The cancellation of the BC Government's Homes BC Program (in support of affordable housing) has resulted in fewer projects undertaken by Enterprises. This also resulted in a change in Enterprises' strategic direction. Enterprises' focus has shifted from non-market housing to market housing with a social purpose, integrating sustainability principles in the design where feasible. For more information on Vancity Enterprises Ltd., visit <a href="http://vancity.com/vce">vancity.com/vce</a> .
Units completed by type					Over 2004, Vancity Enterprises completed one major project: a new Vancity branch with associated commercial space. Renovations followed LEED* green building guidelines as much as possible. *LEED = Leadership in Energy and Environmental Design

## Community Contributions

Vancity Credit Union	2004	2003	2002	Performance Summary	Comments
Community donations as a % of average previous three-year pre-tax earnings	<b>13.9%</b>	13.5%	9.8%	↔	Significantly higher than the Imagine Canada benchmark of donating 1% of domestic pre-tax profits to charity. Data from 2003 Annual Report restated.

## Vancity Community Foundation

	2004	2003	2002	Performance Summary	Comments
Total financial assistance disbursed to the community:					
Direct <sup>1</sup>	<b>\$0.37m</b>	\$0.32m	\$0.53m		Results stable. Increase in supported donations attributable to an overall increase in the flow-through contributions by Vancity Credit Union. In addition, a new VISA points donation program was launched whereby the Foundation is the flow-through partner for all charitable gifts of Vancity VISA points. An additional funding partner joined the Enterprising Non-Profits Program. For more information on the Vancity Community Foundation, see <a href="http://vancity.com/vcf">vancity.com/vcf</a> .
Technical Assistance <sup>2</sup>	<b>\$0.06m</b>	\$0.07m	\$0.05m	↔	
Supported <sup>3</sup>	<b>\$2.65m</b>	\$2.21m <sup>4</sup>	\$0.57m		

<sup>1</sup>Disbursements made directly by Vancity Community Foundation.

<sup>2</sup>Indicates the dollar value of the technical assistance provided to various community groups.

<sup>3</sup>Disbursements administered by the Foundation on behalf of Vancity and other partner organizations.

<sup>4</sup>Restated from 2003 Annual Report

## Member and Employee Opinions on our Contributions to the Community and Environment

Vancity Credit Union	2004	2003	2002	Performance Summary	Comments
% Employees agree what Vancity does for the community and environment makes them feel good about working at Vancity	<b>90%</b>	84%	84%	↑	Data from 2003 Annual Report restated.
% Personal members agree what Vancity does for the community and environment makes them feel good about being a member at Vancity (% strongly agree) <sup>1</sup>	<b>67%</b> <b>(40%)</b>	70% (42%)	n/a	↓	Results include 15% of members who responded "don't know" or "not applicable" (12% in 2003).
% Business members agree what Vancity does for the community and environment makes them feel good about being a member at Vancity (% strongly agree) <sup>1</sup>	<b>68%</b> <b>(41%)</b>	76% (50%)	n/a	↓	Results include 8% of members who responded "don't know" or "not applicable" (8% in 2003).

<sup>1</sup>Data from the 2003 survey was collected by telephone. In 2002 and 2004, the data was collected through a mail survey. This difference in methodologies could affect the comparability of results.

## FINANCIAL REVIEW

This section of the Annual Report provides management's discussion and analysis of Vancity's financial condition and results of operations as well as capital and asset liability management. This information will enable the reader to assess material changes in financial condition and operations for the year ended December 31, 2004 compared to the previous year, and is intended to supplement the data presented in the audited financial statements. Our discussion will refer to the notes to the financial statements and the tables presented in this section.

### OVERVIEW

Vancity is Canada's largest credit union, with \$10.5 billion in assets, more than 300,000 members, and 42 branches throughout Greater Vancouver, the Fraser Valley and Victoria. Vancity owns Citizens Bank of Canada, serving members across the country by telephone, ATM, the Internet and two branches. Unless otherwise specified, all information is consolidated data of Vancity and its subsidiaries.

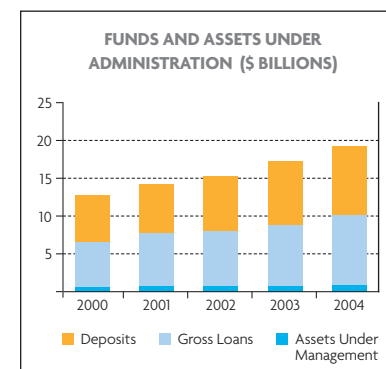
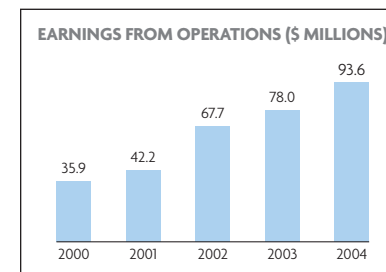
In 2004, Vancity consolidated earnings from operations were \$93.6 million compared to \$78.0 million in 2003. Continued revenue growth, mainly as a result of member loan and deposit growth combined with the ongoing favourable interest rate environment contributed to continued high earnings in 2004. A one-time accounting policy change relating to mortgage prepayment fees added \$18.8 million to earnings in 2004. Operating earnings for the Credit Union itself were \$86.8 million, up from the \$71.0 million in 2003. Citizens Bank earnings from operations for 2004 came in at \$6.2 million, equal to the previous year.

Consolidated net earnings for the Vancity Group of Companies was \$57.2 million, \$12.7 million higher than last year. These earnings are after deductions for distributions to community and members of \$19.6 million which includes the \$1.0 million Vancity Award. In total, distributions to community and members (including investment share dividends) were 34.2% of net earnings, demonstrating Vancity's ongoing commitment to share its success with the community and members. Return on equity for 2004 was 13.0% while return on average assets came in at 63 basis points (2003 – 11.6% and 54 basis points respectively).

The continuing success of Vancity was driven by a growing economy, low interest rates, a continuing strong residential housing market that pushed loan volumes to historic levels and a record number of new members, 16,886 (net), joining Vancity in 2004. Lower loan write offs also helped Vancity maintain its strong margins.

During 2004, Vancity's consolidated assets grew \$1.4 billion to a total of \$10.5 billion. This represents an increase of 15.8% and compares to 2003 growth of \$806 million or 9.8%. Consolidated deposits of \$9.0 billion at the end of 2004 reflect an increase of \$562 million or 6.7%. Gross loans (before mortgage sales for liquidity management) of \$9.2 billion have increased by \$1.1 billion or 13.0%. Assets under management of \$960 million have grown by \$260 million or 36.7%. These assets are beneficially owned by clients and are, therefore, not reported on the consolidated balance sheet.

Key earnings and financial position measures are presented in the five-year summary of consolidated financial highlights (at the beginning of the Annual Report) while Table 1 (page 27) provides earnings information as a percentage of average assets and identifies changes in earnings components relative to asset size.



### STATEMENT OF EARNINGS

#### NET INTEREST INCOME

Net interest income is interest and investment income earned on assets less interest expense incurred on deposits and other liabilities. Net interest income for Vancity showed an increase of \$5.6 million or 2.2% over the previous year, less than last year's large increase of \$19.1 million and 8.3%. This growth in net interest income came in a year when interest rates continued to hover at historic lows. Hence, measured over the average asset base, net interest income decreased by 24 basis points as seen in Table 1. The information in Table 2 provides more detail on the net interest income components. In general, the gross interest income remained at the same level as the prior year while the related interest expense decreased.

Interest income is sensitive to changes in mix and volumes of assets and liabilities, and to changes in interest rates. Table 3 provides an analysis of these factors for 2004 and 2003 relative to the preceding year. The table shows that the 2004 net interest income was relatively unchanged from the prior year, as higher loan volumes were offset by lower rates. Conversely, for term deposits, the lower volumes were offset by favourable rates.

#### OTHER INCOME

Vancity continues to target growth in other income as the consolidated group strives to provide a full array of financial services to our members. Table 4 provides details of the various components of other income. Total other income grew by \$10.7 million or 18.5% for the year. The two largest changes in 2004 were increased trust and wealth management fee income of \$3.1 million and increased credit card fee income of \$2.9 million. Although account service fees remain a large category, comprising 23.9% of total other income in 2004, they have decreased from 28.2% of total other income in 2003.

#### OPERATING EXPENSES

Total operating expenses increased by 10.6% or \$22.9 million compared to 2003. The increased operating costs in 2004 exceeded the revenue growth, resulting in an efficiency ratio of 76.2% compared to 73.5% for the prior year. However, Vancity remains committed to containing costs and monitoring 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 \$17.5 million, occupancy and equipment increased by \$5.4 million and general operating remained stable. Salaries and employee benefits grew due to increased customer service staffing, project work and regular annual salary increases. Occupancy and equipment expenses increased

due to additional premises costs consistent with increased staffing and the write-down of obsolete computer system software. General operating expenses remained stable as higher overall expenses consistent with the growth in business was offset by lower professional services as a provision for non-recurring legal costs was recorded in 2003.

#### **INCOME AND OTHER TAXES**

Vancity pays a variety of federal, provincial and municipal taxes. The major taxes payable are reported in Table 6, which shows the overall level of taxes to remain stable from the prior year. Income taxes decreased slightly in 2004 due to the effect of a lower effective tax rate which was partially offset by the effect of higher earnings for the year. Further information regarding corporate income taxes is provided in note 8 to the financial statements.

#### **DISTRIBUTIONS TO COMMUNITY AND MEMBERS**

Distributions to community and members increased to \$19.6 million in 2004 from \$15.7 million in 2003. Table 7 shows distributions by major categories. Membership share dividends of \$2.6 million represent a 4.8% dividend payment while patronage rebates of \$8.0 million consist of a bonus on deposit interest paid by Vancity, a rebate on loan interest paid by members, and a dividend on investments held by members with Credential Group.

#### **EMPLOYEE LOANS**

Outstanding loans to directors, officers and employees of the Credit Union amounted to \$211 million at year end (2003 - \$175 million) as shown in Table 8. These loans are all within normal lending terms except those noted in Table 8 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**

Total loan volumes increased by 11.0% in 2004. The increase was driven by growth in residential mortgages of 5.6%, consumer loans of 27.4%, business loans of 20.7%, and commercial mortgages of 14.0%. Preference for variable rate mortgages has outpaced the very strong five-year fixed terms, as members take advantage of the low rates currently available. The growth in business loans and commercial mortgages reflect Vancity's objective of diversifying revenue to rely more on other lines of businesses.

Loan losses due to normal credit factors improved from last year with loans written off totaling \$9.1 million (2003 - \$9.7 million). As described in note 2 to the financial statements, Vancity continues to maintain an allowance for the exposure related to the 2002 mortgage fraud due to the ongoing uncertainty of recoverability of affected loans. The allowance balance related to the mortgage fraud is \$12.6 million at the end of 2004 (2003 - \$14.8 million). In total, Vancity's allowance for impairment consists of \$17.2 million of specific allowances and \$41.5 million of general allowances. Total impaired loans, as defined in note 1(f) are \$38.6 million at the end of 2004, a decrease of \$32.8 million from 2003. Most of the improvement came from residential loans (\$14.3 million decrease), commercial mortgages (\$9.5 million decrease) and business loans (\$7.8 million). The lower write-offs and reduction in impaired loans combined to result in a \$10 million 2004 provision for credit losses in the 2004 Statement of Earnings, lower than the prior year provision of \$13.3 million. The total of the specific and general allowances provide adequately for future credit losses inherent in the loan portfolio from impaired loans as well as general economic and business conditions.

##### **LIABILITIES**

Deposit growth for 2004 continued to be strong with overall growth of 6.7%. Preference continues to be in shorter term and cashable products, providing added flexibility to members. In 2004, Vancity received an investment grade short-term debt rating from Dominion Bond Rating Service (DBRS), which validates our financial sustainability, strengthens our industry position and allows us to be an eligible investment partner for institutional or corporate investors. The rating of R-1 (low) also allows Vancity to issue commercial paper (short term debt) which is categorized on the consolidated balance sheet as bearer deposit notes.

##### **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 adjusted 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 9. In addition to the regulatory capital requirements, Vancity management has a more stringent target for capital. Both the regulatory and management targets were exceeded in 2004. The capital ratio was improved at 12.1% (2003 - 11.6%) despite a 10.4% growth in risk adjusted assets. Risk adjusted asset growth resulted from growth of residential mortgages. The increase in capital was achieved primarily through retained earnings growth.

##### **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, as well as to provide member products, such as stock market index-linked deposits. Vancity manages its interest rate exposure and use of derivatives through defined policies set by the Board of Directors. These policies are in turn managed by an asset liability management committee. In 2004, Vancity has maintained a relatively stable interest rate risk profile that is well within its policy limits. Note 10 to the financial statements analyzes the balance sheet by the earlier of re-pricing or maturity dates while note 11 summarizes the derivative financial instruments by notional amount, maturity and fair market value. When a derivative contract has a positive fair market value, the counterparty has a liability to Vancity, which creates credit risk. Vancity manages this credit risk by dealing with credit worthy counterparties which are reviewed regularly.

**TABLE 1**

<b>Earnings Highlights</b> ( <i>% of average assets</i> )	<b>% 2004</b>	<b>% 2003</b>	<b>% 2002</b>	<b>% 2001</b>	<b>% 2000</b>
Net interest income	<b>2.81</b>	3.05	2.99	2.50	2.40
Provision for credit losses	<b>(0.11)</b>	(0.16)	(0.42)	(0.24)	(0.27)
Other income	<b>0.76</b>	0.71	0.75	0.83	0.92
	<b>3.46</b>	3.60	3.32	3.09	3.05
Operating expenses					
Salaries and employee benefits	<b>1.47</b>	1.42	1.35	1.30	1.24
Occupancy and equipment	<b>0.34</b>	0.32	0.35	0.36	0.37
General operating	<b>0.82</b>	0.91	0.74	0.84	0.89
	<b>2.63</b>	2.65	2.44	2.50	2.50
Earnings from operations	<b>0.83</b>	0.95	0.88	0.59	0.55
Unusual Item: Change in accounting policy	<b>0.21</b>	–	–	–	–
Earnings after unusual item	<b>1.03</b>	0.95	0.88	0.59	0.55
Distributions and other items	<b>0.21</b>	0.19	0.18	0.13	0.11
Provision for income taxes	<b>0.19</b>	0.22	0.19	0.10	0.12
Net earnings – return on assets	<b>0.63</b>	0.54	0.51	0.36	0.32
Net earnings ( <i>thousands of dollars</i> )	<b>\$ 57,187</b>	\$ 44,472	\$ 39,571	\$ 25,927	\$ 21,001
Average assets ( <i>thousands of dollars</i> )	<b>\$ 9,076,361</b>	\$ 8,183,526	\$ 7,705,178	\$ 7,141,594	\$ 6,569,768

**TABLE 2**

<b>Net Interest Income</b> ( <i>thousands of dollars</i> )	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Interest Income</b>					
Residential mortgages	<b>\$ 252,034</b>	\$ 259,324	\$ 259,314	\$ 283,320	\$ 269,163
Commercial mortgages	<b>50,381</b>	53,888	55,939	49,321	51,213
Other loans	<b>125,064</b>	123,095	105,693	110,955	98,852
Cash and securities	<b>24,769</b>	23,273	19,819	26,996	32,016
Other interest income	<b>14,244</b>	7,402	291	(1,417)	(1,447)
	<b>466,492</b>	466,982	441,056	469,175	449,797
<b>Interest Expense</b>					
Chequing / saving	<b>9,677</b>	12,036	8,899	15,074	16,210
Other demand accounts	<b>1,328</b>	1,474	1,253	2,481	2,952
Term deposits	<b>123,592</b>	125,541	119,986	173,350	172,887
Retirement plans	<b>57,824</b>	59,945	61,782	74,599	73,847
Wholesale borrowings	<b>16,314</b>	14,860	16,958	24,083	28,126
Other interest costs	<b>2,681</b>	3,665	1,857	751	(2,024)
	<b>211,416</b>	217,521	210,735	290,338	291,998
Net interest income	<b>\$ 255,076</b>	\$ 249,461	\$ 230,321	\$ 178,837	\$ 157,799

**TABLE 3****Analysis of Changes in****Net Interest Income** (thousands of dollars)

	2004 vs 2003			2003 vs 2002		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
<b>Assets</b>						
Residential mortgages	\$ 15,061	\$ (26,725)	\$ (11,664)	\$ 20,563	\$ (17,264)	\$ 3,299
Commercial mortgages	4,596	(6,250)	(1,654)	(1,608)	17,478	15,870
Other loans	14,984	(10,493)	4,491	9,971	(13,779)	(3,808)
Cash and securities	1,151	344	1,495	6,101	(2,646)	3,455
Total interest income	\$ 35,792	\$ (43,124)	\$ (7,332)	\$ 35,027	\$ (16,211)	\$ 18,816
<b>Liabilities</b>						
Demand deposits	\$ (1,367)	\$ 3,872	\$ 2,505	\$ (926)	\$ (2,432)	\$ (3,358)
Term deposits	(9,277)	11,225	1,948	(12,376)	6,821	(5,555)
Retirement plans	(1,738)	3,859	2,121	(2,916)	4,753	1,837
Debentures and loans	(6,065)	4,611	(1,454)	6,366	(4,269)	2,097
Total interest expense	(18,447)	23,567	5,120	(9,852)	4,873	(4,979)
	\$ 17,345	\$ (19,557)	\$ (2,212)	\$ 25,175	\$ (11,338)	\$ 13,837
Other interest income (costs)			7,827			5,303
Change in net interest income			\$ 5,615			\$ 19,140

**TABLE 4****Other Income** (thousands of dollars)

	2004	2003	2002	2001	2000
Account service fees	\$ 16,365	\$ 16,302	\$ 17,094	\$ 17,131	\$ 16,476
Building rentals	896	864	813	805	812
Credit card fees	12,245	9,392	7,922	7,684	7,000
Foreign exchange	6,941	5,152	5,731	8,392	10,089
Insurance fees	5,727	5,676	5,696	5,442	4,491
Loan fees	6,976	5,590	5,536	7,187	6,384
Safety deposit box rentals	1,108	1,101	1,085	968	935
Trust and wealth management fees	9,675	6,552	6,958	6,495	6,984
Other	8,628	7,214	6,953	4,393	6,287
Total other income	\$ 68,561	\$ 57,843	\$ 57,788	\$ 58,497	\$ 59,458

**TABLE 5**

<b>Operating Expenses</b> (thousands of dollars)	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Salary and employee benefits</b>					
Salaries and wages	\$ 110,569	\$ 96,469	\$ 87,785	\$ 78,450	\$ 67,151
Benefits and training	22,761	19,334	16,500	14,295	13,990
	<b>133,330</b>	<b>115,803</b>	<b>104,285</b>	<b>92,745</b>	<b>81,141</b>
<b>Occupancy and equipment</b>					
Rent	10,660	9,891	9,968	9,682	9,420
Equipment	1,292	1,302	1,360	1,417	1,369
Maintenance and security	3,541	3,496	3,113	3,259	3,270
Amortization	15,734	11,096	12,832	11,264	10,143
	<b>31,227</b>	<b>25,785</b>	<b>27,273</b>	<b>25,622</b>	<b>24,202</b>
<b>General operating</b>					
B.C. Corporation Capital Tax	5,963	5,415	5,101	4,423	4,107
Communications and advertising	12,445	11,128	8,522	6,463	5,742
Computer	5,802	4,383	5,896	4,881	3,793
Credit Union Central of B.C. dues and assessment	1,177	1,121	1,084	1,043	1,025
Deposit insurance	458	2,731	3,185	3,816	3,270
Insurance	1,817	880	795	658	524
Meetings and travel	1,751	1,330	1,333	1,244	1,131
Postage	2,426	2,330	2,210	2,367	2,003
Professional services	6,894	15,145	6,800	6,665	9,907
Stationery	2,101	2,157	2,320	2,041	1,891
Telephone	3,315	3,318	4,315	2,568	3,145
Member service	12,205	10,150	9,377	8,643	8,596
Credit Card centre	8,337	6,505	6,669	6,578	5,210
Other	9,666	7,895	7,387	8,274	7,937
Recovery of data processing and other expenses	–	(66)	(8,328)	–	–
	<b>74,357</b>	<b>74,422</b>	<b>56,666</b>	<b>59,664</b>	<b>58,281</b>
Total operating expenses	<b>\$ 238,914</b>	<b>\$ 216,010</b>	<b>\$ 188,224</b>	<b>\$ 178,031</b>	<b>\$ 163,624</b>

**TABLE 6**

<b>Income and Other Taxes</b> (thousands of dollars)	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Income taxes	\$ 16,838	\$ 17,779	\$ 14,469	\$ 7,236	\$ 7,648
B.C. Corporation Capital Tax	5,963	5,415	5,101	4,423	4,107
Payroll taxes	5,284	4,901	4,434	3,799	3,577
Property taxes	1,851	1,726	1,639	1,664	1,703
Goods and services and provincial sales tax	6,612	6,261	5,158	6,115	5,864
Total income and other taxes	<b>\$ 36,548</b>	<b>\$ 36,082</b>	<b>\$ 30,801</b>	<b>\$ 23,237</b>	<b>\$ 22,899</b>

**TABLE 7**

<b>Distributions to Community and Members</b> (thousands of dollars)	2004	2003	2002	2001	2000
Donations to community and Vancity Community Foundation	\$ 6,415	\$ 4,898	\$ 3,745	\$ 2,046	\$ 1,988
Vancity Award	1,000	1,000	1,000	1,000	—
Membership shares dividends	2,551	1,969	2,350	2,950	2,174
Patronage rebates	7,966	6,157	4,827	1,850	1,724
Total shared success	17,932	14,024	11,922	7,846	5,886
Investment share dividends	1,646	1,695	1,703	1,153	1,356
Total distributions to community and members	\$ 19,578	\$ 15,719	\$ 13,625	\$ 8,999	\$ 7,242

**TABLE 8**

<b>Employee Loans</b> (thousands of dollars)			2004	2003
Category	Rate	Number of such loans	Amount	Amount
<b>Loans at Preferred Staff Rates</b>				
Mortgages	3% - 5%	703	\$ 104,453	\$ 81,289
Personal loans:				
Regular	3% - 5%	946	11,687	12,544
Computer	0%	183	239	269
Total preferred rate loans		1,832	116,379	94,102
<b>Loans at Market Rates</b>				
Mortgages	market	502	73,123	68,534
Personal loans	market	224	2,305	2,099
Lines of credit	market	1,216	18,836	10,306
Total market rate loans		1,942	94,264	80,939
Total employee loans		3,774	\$ 210,643	\$ 175,041

**TABLE 9**

<b>Capital Ratios</b> (thousands of dollars)	2004	2003	2002	2001	2000
<b>Capital Components</b>					
Membership shares and accrued dividends thereon	\$ 57,440	\$ 52,200	\$ 45,802	\$ 39,315	\$ 38,267
Investment shares	36,243	35,809	34,964	33,697	21,367
Retained earnings	440,301	383,114	338,642	299,071	273,144
Future income taxes	(14,939)	(15,189)	(7,508)	(2,603)	(1,548)
Less: Deductions from Capital	(87,801)	(81,787)	(77,310)	(68,978)	(62,977)
Vancity group capital	431,244	3	34,590	300,502	268,253
Proportion of system capital	48,345	44,659	38,866	36,255	32,110
Total capital	\$ 479,589	\$ 418,806	\$ 373,456	\$ 336,757	\$ 300,363
Total risk-adjusted assets	\$ 3,978,379	\$ 3,602,918	\$ 3,424,532	\$ 3,240,087	\$ 2,856,941
Capital ratio	12.1%	11.6%	10.9%	10.4%	10.5%

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These consolidated financial statements were prepared by the management of Vancity who are responsible for their accuracy, completeness and integrity. They were developed in accordance with the requirements of the Financial Institutions Act of British Columbia and conform in all material respects with the Canadian generally accepted accounting principles.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that the financial records are complete and accurate so as to safeguard the assets of the Credit Union. These systems include establishment and communication of standards of business conduct throughout all levels of the organization to provide assurance that all transactions are authorized and proper records are maintained. Internal audit provides management with the ability to assess the adequacy of these controls. Further, they are reviewed by the Credit Union's external auditors.

The Board of Directors has approved the consolidated financial statements. The Audit Committee of the Board, comprising four directors who are not officers or employees of Vancity, has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. Grant Thornton LLP, the external auditors appointed by the membership, have examined the consolidated financial statements of the Credit Union in accordance with Canadian general accepted auditing standards. They have had full and free access to the internal audit staff, other management staff, and the Audit Committee of the Board. Their report appears herein.



**Dave Mowat**  
Chief Executive Officer  
January 31, 2005



**Johan Lemmer**  
Vice-President, Finance

## 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, 2004 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, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**Grant Thornton LLP**  
Chartered Accountants

Vancouver, Canada  
January 31, 2005

VANCOUVER CITY SAVINGS CREDIT UNION

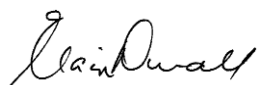
**CONSOLIDATED BALANCE SHEET**

As at December 31, 2004

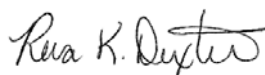
(thousands of dollars)

	Note	2004	2003
<b>Assets</b>			
<b>Cash and Securities</b>			
Cash and cash equivalents		\$ 156,458	\$ 83,992
Deposits with financial institutions		480,062	935,646
Government and corporate securities		1,082,616	132,732
		<b>1,719,136</b>	<b>1,152,370</b>
<b>Loans</b>			
Residential mortgages	3	5,481,782	5,191,410
Commercial mortgages	3	837,636	734,498
Consumer loans		1,448,789	1,136,808
Business loans		826,305	684,725
Allowance for credit losses	2	(58,696)	(55,842)
		<b>8,535,816</b>	<b>7,691,599</b>
<b>Other</b>			
Accrued interest receivable		37,858	32,372
Premises and equipment	4	65,493	66,773
Other assets	5	97,162	85,447
		<b>200,513</b>	<b>184,592</b>
		<b>\$ 10,455,465</b>	<b>\$ 9,028,561</b>
<b>Liabilities</b>			
<b>Deposits</b>			
Demand		\$ 1,630,604	\$ 1,459,015
Term		7,270,739	6,882,849
Shares	6	87,705	84,836
		<b>8,989,048</b>	<b>8,426,700</b>
<b>Wholesale Borrowings</b>			
Demand loans and banker's acceptances	14	614,395	2,000
Bearer deposit notes		199,373	–
		<b>813,768</b>	<b>2,000</b>
<b>Other Liabilities</b>			
Accrued interest and dividends payable		106,784	103,348
Accounts payable and other accrued liabilities		105,564	113,399
		<b>212,348</b>	<b>216,747</b>
<b>Members' Equity</b>			
Retained Earnings		440,301	383,114
		<b>\$ 10,455,465</b>	<b>\$ 9,028,561</b>

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



Elain Duvall  
Director



Reva Dexter  
Director

VANCOUVER CITY SAVINGS CREDIT UNION

**CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS**

For the Year Ended December 31, 2004

(thousands of dollars)

	Note	2004	2003
<b>Interest Income</b>			
Loans		\$ 427,479	\$ 436,307
Cash and securities		24,769	23,273
Other		14,244	7,402
		<b>466,492</b>	<b>466,982</b>
<b>Interest Expense</b>			
Deposits		192,421	198,996
Wholesale borrowings		16,314	14,860
Other		2,681	3,665
		<b>211,416</b>	<b>217,521</b>
<b>Net Interest Income</b>		<b>255,076</b>	<b>249,461</b>
<b>Provision for Credit Losses</b>	2	<b>9,968</b>	<b>13,324</b>
		<b>245,108</b>	<b>236,137</b>
<b>Other Income</b>		<b>68,561</b>	<b>57,843</b>
<b>Net Interest and Other Income</b>		<b>313,669</b>	<b>293,980</b>
<b>Operating Expenses</b>			
Salaries and employee benefits		133,330	115,803
Occupancy and equipment		31,227	25,785
General operating		74,357	74,422
		<b>238,914</b>	<b>216,010</b>
<b>Earnings from Operations</b>		<b>74,755</b>	<b>77,970</b>
<b>Unusual Item</b>			
Change in accounting policy	1b	18,848	–
<b>Earnings after Unusual Item</b>		<b>93,603</b>	<b>77,970</b>
<b>Distributions to Community and Members</b>	7	<b>19,578</b>	<b>15,719</b>
<b>Earnings Before Income Taxes</b>		<b>74,025</b>	<b>62,251</b>
<b>Provision for Income Taxes</b>	8	<b>16,838</b>	<b>17,779</b>
<b>Net Earnings</b>		<b>57,187</b>	<b>44,472</b>
<b>Retained Earnings, beginning of year</b>		<b>383,114</b>	<b>338,642</b>
<b>Retained Earnings, end of year</b>		<b>\$ 440,301</b>	<b>\$ 383,114</b>

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

VANCOUVER CITY SAVINGS CREDIT UNION  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2004

(thousands of dollars)

	2004	2003
<b>Cash Flows from Operating Activities</b>		
<b>Net Earnings</b>	\$ 57,187	\$ 44,472
Adjustments for:		
Provision for credit losses	9,968	13,324
Amortization of premises and equipment	15,734	11,096
Changes in operating assets and liabilities		
Net future income tax assets	(69)	(8,825)
Accrued interest receivable	(5,486)	(4,852)
Other assets	8,669	7,098
Accrued interest and dividends payable	3,436	13,505
Accounts payable and other accrued liabilities	(8,247)	(16,272)
	<u>81,192</u>	<u>59,546</u>
<b>Cash Flows from Investing Activities</b>		
Deposits with financial institutions	455,583	(194,975)
Government and corporate securities	(949,885)	8,260
Loans	(1,248,888)	(680,628)
Sale of mortgage backed securities	386,614	47,633
Premises and equipment	(14,455)	(9,954)
Other assets	(11,811)	7,774
	<u>(1,382,842)</u>	<u>(821,890)</u>
<b>Cash Flows from Financing Activities</b>		
Demand and term deposits	559,479	829,035
Shares	2,869	6,001
Loans payable	811,768	(51,000)
	<u>1,374,116</u>	<u>784,036</u>
<b>Net Change in Cash and Cash Equivalents</b>	<u>72,466</u>	<u>21,692</u>
<b>Cash and Cash Equivalents, beginning of year</b>	<u>83,992</u>	<u>62,300</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 156,458</u>	<u>\$ 83,992</u>
<b>Supplementary Information</b>		
Interest paid	\$ 200,607	\$ 243,457
Income taxes paid	32,958	32,370

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

## VANCOUVER CITY SAVINGS CREDIT UNION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

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 Lower Mainland of British Columbia and Victoria. Citizens Bank of Canada, the principal subsidiary of the Credit Union, is federally incorporated and its operations are regulated by the Office of Superintendent of Financial Institutions (OSFI). Citizens Bank serves customers across Canada with its main operations in British Columbia and Ontario. 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 revenue and expenses during the reporting period. Actual results may differ from those estimates. Citizens Bank must also adhere to accounting requirements of OSFI, which conform, in all material respects to Canadian generally accepted accounting principles. The significant accounting policies used in these consolidated financial statements are as follows:

##### (a) Principles of Consolidation

The consolidated financial statements include the assets, liabilities and the results of operations and cash flows of the Credit Union and its subsidiaries, all of which are wholly owned except for Real Assets Investment Management Inc. The Credit Union holds 38.4% of the common shares in Real Assets Investment Management Inc. The wholly-owned active subsidiaries are Citizens Bank of Canada, Citizens Trust Company, Inventure Solutions Inc., 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". All intercompany transactions and balances have been eliminated.

##### (b) Changes in Accounting Policies

Vancity prospectively adopted new Canadian Institute of Chartered Accountants (CICA) standards as of January 1, 2004. One of these standards establishes guidelines for financial reporting in accordance with Canadian Generally Accepted Accounting Principles (GAAP). This standard provides sources to consult when selecting accounting policies on matters not dealt with explicitly in the primary sources of GAAP. As a result of this new requirement, the accounting policy for mortgage prepayment fees was changed.

For 2004, Vancity adopted new accounting guidelines for derivative financial instruments.

**Mortgage Prepayment Fees** – Mortgage prepayment fees are fees charged for early repayment of residential mortgages. Prior to January 1, 2004, Vancity deferred and amortized prepayment fees over the average remaining term of the related mortgages. In adopting the new standard, prepayment fees are recognized in other interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized over the average remaining term of the original mortgage. Consequently, deferred prepayment fees at December 31, 2003 of \$18.8 million were recognized in 2004 income as an unusual item on the consolidated statement of earnings and retained earnings.

**Hedging** – As of January 1, 2004, Vancity adopted a new accounting guideline issued by the CICA for hedging relationships. This guideline establishes more stringent and formalized qualifying conditions for the use of hedge accounting than prior guidelines. As a result, gains and losses of derivative financial instruments that do not qualify for deferral and amortization accounting treatment under the revised standards will be recorded in the statement of earnings in the period that they are incurred. For 2004, there is no impact on earnings.

**Equity-linked Deposit Contracts** – As of January 1, 2004, Vancity prospectively adopted a new CICA accounting guideline on equity-linked deposit contracts. As a result, Vancity accounts for these deposit obligations and the equity-linked derivatives used to hedge these obligations at fair value with changes in fair value reflected in income as they arise. This new policy results in no material impact to earnings.

##### (c) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash held as well as deposits with the Credit Union Central of B.C., amounts due from other banks, and cheques and other items in transit.

##### (d) Deposits with Financial Institutions

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

##### (e) 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.

##### (f) 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 collectibility of the principal amount.

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 or principal is 90 days past due. Loans considered uncollectible are written-off. 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 identified credit related losses in the portfolio as well as losses that may be incurred but are not yet identifiable. Specific allowances are provided for specifically identified loans that are impaired. The general allowance is comprised of allocated and unallocated amounts. The general allocated allowance represents the best estimate of probable losses within the portion of the portfolio that is not specifically identified as impaired. The amount is established through the application of expected loss factors to outstanding balances. The general unallocated allowance is based on management's assessment of probable, unidentified losses in the portfolio not captured by the other allowances. This assessment includes consideration of general economic and business conditions, recent loan loss experience, trends in credit quality and concentrations in specific geographic areas and in segments of borrowers.

**Loan Fees** – The accounting treatment for loan fees varies depending on the transaction. Retail loan fees are recognized to other income when the transaction is complete. Mortgage prepayment fees are recognized in other interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized over the average remaining term of the original mortgage. Loan origination, restructuring and renegotiation fees for commercial and business loans are recorded to other income over the average term of the loan. Commitment fees are recorded to other income over the average term of the loan, unless the loan commitment will not be used. Loan discharge, draw and administration fees are recorded directly to loan fee income when the loan transaction is complete. Loan syndication fees are included in other interest income when the syndication is completed.

**Transfers of Loans** – Vancity periodically sells loans to special purpose entities or other unrelated third parties. These transactions are accounted for as sales and the related loans are removed from the balance sheet when control over the loans is surrendered and consideration other than beneficial interests in the transferred loans is received in exchange.

The fair values of loans sold and retained interests are determined using pricing models based on key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved. Gains or losses on these transactions are recorded in other interest income and are based on the carrying value of the loans transferred, allocated between the assets sold and the retained interests in proportion to their fair values at the date of transfer. The carrying value of retained interests is reviewed annually for impairment and adjusted as required.

Vancity may retain interests in the transferred loans, such as interest only strips, servicing rights and cash reserve accounts. Revenue from servicing the loans is recorded as the services are provided.

##### (g) Premises and Equipment

Land is carried at cost. Buildings, equipment and leasehold improvements are recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets as indicated below:

Buildings	20 years
Leasehold improvements	10 years
Computer equipment and software	3-5 years
Furniture and equipment	3-5 years

##### (h) Other Assets

Investments in shares are recorded at cost. Properties acquired for investment purposes are recorded at cost and impairment provisions are made for permanent declines in value. Deferred costs include premiums and charges related to derivative financial instruments and commissions paid to agents for raising deposits. These costs are amortized over the remaining life of the underlying instruments.

## VANCOUVER CITY SAVINGS CREDIT UNION

### (i) Derivative Financial Instruments

Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. Derivative financial instruments are used to manage financial risks, such as movements in interest rates, foreign exchange rates, and other financial indices.

A derivative qualifies for hedge accounting if the hedging relationship is designated and formally documented at inception. This documentation involves outlining the particular risk management objective and strategy for the hedging relationship, the specific asset, liability or cash flow being hedged, and how effectiveness is assessed. Hedging relationships, between the hedged and hedging items, are designated as a fair value hedge or a cash flow hedge. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. Effectiveness is assessed by determining whether derivatives used in hedging relationships are highly effective in offsetting changes in fair values or cash flows attributable to the risk being hedged. This assessment is performed both at inception and over the term of the hedging relationship.

Derivatives that do not qualify for hedge accounting are marked-to-market and stated at fair value. These derivatives are reported as assets or liabilities with changes in fair value recorded in income. In the event that a hedged item is sold or matures prior to the termination of the related derivative, any realized or unrealized gain or loss on the derivative is recognized in income. Subsequent changes in fair values of derivatives found to be ineffective are recorded in income. Realized and unrealized gains and losses associated with derivatives, which have been terminated or cease to be effective prior to maturity are deferred and recognized in income in the period in which the underlying hedged item is recognized.

Interest rate swaps are used to manage the interest rate exposure from specific assets, liabilities, and firm commitments or anticipated transactions. Swaps that qualify for hedge accounting are recorded on the accrual basis. Interest income and interest expense is recognized, over the term of the hedging relationship, as an adjustment to the yield of the item being hedged.

Options are used to manage the risk of changes in fair value of equity-linked deposit contracts with members. Premiums on these options are amortized over the term of the option contract. Both index linked options and index linked obligations are carried at fair value. Changes in these fair values are recorded in other interest income.

Foreign currency derivatives are used to manage the foreign exchange rate exposure from foreign currency denominated assets and liabilities. These derivatives are recorded at market value; changes in the market values are recorded in other income.

### (j) Employee Future Benefits

Vancity accrues obligations under employee benefits. 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. The accrued benefit asset or liability represents the cumulative difference between the expense and funding contributions and is included in other liabilities on the balance sheet.

### (k) Distributions to Members

Patronage rebates and dividends are charged to earnings when declared.

### (l) 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.

### (m) Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. Realized gains and losses are translated at the rates prevailing at the time of the transaction and are recorded in "other income" in the statement of earnings.

### (n) Comparative Figures

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

## 2. ALLOWANCE FOR CREDIT LOSSES

<i>(thousands of dollars)</i>	Residential	Commercial	Consumer	Business	2004 Total	2003 Total
Balance, beginning of year	\$ 20,965	\$ 8,727	\$ 15,583	\$ 10,566	\$ 55,841	\$ 50,586
Loans written-off	(195)	(115)	(6,575)	(2,222)	(9,107)	(9,690)
Provision for credit losses						
Normal credit factors	1,326	1,149	7,005	2,612	12,092	13,974
Mortgage fraud recovery	(2,124)	—	—	—	(2,124)	(650)
Recoveries of loans written-off	47	42	1,513	392	1,994	1,622
Balance, end of year	\$ 20,019	\$ 9,803	\$ 17,526	\$ 11,348	\$ 58,696	\$ 55,842
Loans with specific allowances						
Loan balance	\$ 17,086	\$ 5,170	\$ 860	\$ 7,508	\$ 30,624	\$ 47,498
Related allowance	13,212	630	795	2,554	17,191	23,319
Carrying amount	\$ 3,874	\$ 4,540	\$ 65	\$ 4,954	\$ 13,433	\$ 24,179
Loans with general allowances						
Loan balance	\$ 5,464,694	\$ 832,467	\$ 1,455,315	\$ 811,412	\$ 8,563,888	\$ 7,699,943
Related allowance	6,806	9,173	16,732	8,794	41,505	32,523
Carrying amount	\$ 5,457,888	\$ 823,294	\$ 1,438,583	\$ 802,618	\$ 8,522,383	\$ 7,667,420
Loans on which the accrual of interest has been discontinued	\$ 17,151	\$ 5,283	\$ 5,954	\$ 10,228	\$ 38,616	\$ 71,376

During 2002, Vancity and other financial institutions experienced a residential mortgage fraud. Management has quantified the exposure related to the fraud and has submitted a claim to the Law Society of British Columbia. Due to the ongoing uncertainty of recoverability, management has continued to maintain an allowance for the outstanding impairment which is adjusted as partial recoveries are received.

## VANCOUVER CITY SAVINGS CREDIT UNION

### 3. TRANSFERS OF LOANS

The total outstanding loans sold and removed from the balance sheet at December 31, 2004, were \$563 million (2003: \$359 million). Of this amount, \$522 million (2003: \$311 million) were residential mortgages and \$41 million (2003: \$48 million) were commercial mortgages.

New securitization activity during the year:

(thousands of dollars)	2004			2003		
	Residential Mortgages	Commercial Mortgages	Total	Residential Mortgages	Commercial Mortgages	Total
Loans sold	\$ 394,705	\$ –	\$ 394,705	\$ –	\$ 50,405	\$ 50,405
Net cash proceeds received	386,614	–	386,614	–	47,633	47,633
Retained rights to cash reserves	8,091	–	8,091	–	2,772	2,772
Retained rights to future excess interest	47	–	47	–	178	178
Pre-tax gain on sale	47	–	47	–	178	178

Key assumptions at date of sale:

	2004		2003	
	Residential Mortgages	Commercial Mortgages	Residential Mortgages	Commercial Mortgages
Average life	3.9 years			2.7 years
Prepayment rate (%/year)	5%	–	–	5%
Excess spread	.005%	–	–	.19%
Discount rate	2.99% - 4.07%	–	–	4.07%

### 4. PREMISES AND EQUIPMENT

(thousands of dollars)	Cost	Accumulated Amortization	2004	2003
			Net Book Value	Net Book Value
Land	\$ 7,908	\$ –	\$ 7,908	\$ 7,908
Buildings	41,456	12,287	29,169	30,774
Leasehold improvements	16,308	6,601	9,707	7,894
Computer equipment and software	52,410	39,115	13,295	16,553
Furniture and equipment	10,956	5,542	5,414	3,644
	\$ 129,038	\$ 63,545	\$ 65,493	\$ 66,773

### 5. OTHER ASSETS

(thousands of dollars)	2004	2003
Credit Union Central of B.C., shares	\$ 33,770	\$ 31,052
Accounts receivable, prepayments and other	39,103	29,702
Deferred costs, net of amortization	5,315	5,788
Net future income tax assets (Note 8)	18,974	18,905
	\$ 97,162	\$ 85,447

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

### 6. SHARES

(thousands of dollars)	2004	2003
Membership shares	\$ 46,642	\$ 43,947
Investment shares	36,243	35,809
Savings shares	4,820	5,080
	\$ 87,705	\$ 84,836

### 6. SHARES (CONTINUED)

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

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

### 7. DISTRIBUTIONS TO COMMUNITY AND MEMBERS

(thousands of dollars)	2004	2003
Donations to community and Vancity Community Foundation	\$ 6,415	\$ 4,898
Vancity Award	1,000	1,000
Membership share dividends	2,551	1,969
Patronage rebates	7,966	6,157
Total shared success	17,932	14,024
Investment share dividends	1,646	1,695
Total distributions to community and members	\$ 19,578	\$ 15,719

Patronage rebates are calculated based on loan interest received by Vancity, deposit interest paid by Vancity and member funds under administration with Credential Asset Management (CAM). The rebates relating to loan interest received amounted to \$1.7 million (2003: \$1.8 million) and to deposit interest paid amounted to \$5.4 million (2003: \$3.8 million) and to member funds under administration with CAM amounted to \$0.8 million (2003: \$0.6 million).

### 8. INCOME TAXES

(thousands of dollars)	2004	2003
Components of the provision for income taxes		
Current income tax expense	\$ 16,907	\$ 26,604
Future income tax recoveries	(69)	(8,825)
	\$ 16,838	\$ 17,779

The provision for income taxes is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

	2004	2003
Combined federal and provincial statutory income tax rates	35.6%	37.6%
Credit union rate reduction	(14.8)	(11.1)
Non deductible and other items	1.9	2.0
	22.7%	28.5%

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)	2004	2003
Future income tax assets:		
Allowance for impairment of loans	\$ 10,604	\$ 8,767
Deferred revenue	2,003	6,863
Accrued employee future benefits	2,157	1,747
Other accrued expenses	5,550	4,786
Premises, equipment	356	–
	20,670	22,163
Future income tax liabilities:		
Deferred expenses	(1,696)	(1,844)
Premises, equipment	–	(1,414)
	(1,696)	(3,258)
Net future income tax assets (Note 5)	\$ 18,974	\$ 18,905

## VANCOUVER CITY SAVINGS CREDIT UNION

### 9. PENSIONS AND OTHER RETIREMENT BENEFITS

Vancity provides pension benefits to employees through defined contribution, defined benefit, supplemental retirement and multi-employer 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.

Vancity funds the defined benefit plans and multi-employer defined benefits plans based on actuarially prescribed amounts. The unfunded supplemental retirement and non-pension benefit plans are paid directly by Vancity at the time of entitlement. Retirement benefits for the defined contribution plan are paid by Vancity on an annual basis.

The accrued benefit obligation and plan assets were actuarially measured for accounting purposes as of October 31, 2004 (2003: October 31, 2003). The effective date of the last actuarial valuation report for funding purposes was on January 1, 2003 and the effective date of the next required actuarial valuation report will be on January 1, 2006.

	2004	2003	2004	2003
	Pension Plans		Other Benefit Plans	
<i>(thousands of dollars)</i>				
<b>Accrued retirement plan obligations</b>				
Opening balance, actuarial benefit liabilities	\$ 10,170	\$ 8,152	\$ 9,116	\$ 7,774
Benefits paid	(186)	(131)	(389)	(475)
Current service paid	1,086	897	867	757
Interest cost on accrued benefit obligation	664	556	585	515
Plan amendments	-	502	-	-
Actuarial losses (gains)	590	194	(384)	545
Actuarial benefit liabilities at measurement date	<u>\$ 12,324</u>	<u>\$10,170</u>	<u>\$ 9,795</u>	<u>\$ 9,116</u>
<b>Fair value of retirement benefit plan assets</b>				
Opening balance, fair value of plan assets	\$ 7,188	\$ 6,354	\$ -	\$ -
Employer contributions	2,008	447	389	475
Employee contributions	42	31	-	-
Benefits paid	(186)	(131)	(389)	(475)
Actual return on plan assets	908	487	-	-
Fair value of plan assets at measurement date	<u>\$ 9,960</u>	<u>\$ 7,188</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Funded status - plan deficits</b>				
Contributions between November 1 and December 31	\$ 2,364	\$ 2,982	\$ 9,795	\$ 9,116
Unamortized net actuarial losses	(61)	(1,515)	(3)	-
Unamortized past service cost	(2,449)	(2,356)	(153)	(575)
Accrued benefit (assets) liabilities at December 31 <sup>1</sup>	(714)	(796)	-	-
	<u>\$ (860)</u>	<u>\$ (1,685)</u>	<u>\$ 9,639</u>	<u>\$ 8,541</u>
<b>Total retirement benefit plan expense</b>				
Defined benefit plans	\$ 1,380	\$ 1,158	\$ 1,490	\$ 1,311
Multi-employer defined benefit plans	1,023	725	-	-
Defined contribution plans	3,361	2,943	-	-
Retirement benefit plan expenses	<u>\$ 5,764</u>	<u>\$ 4,826</u>	<u>\$ 1,490</u>	<u>\$ 1,311</u>

Vancity uses a variety of assumptions in the measurement of the accrued benefit obligations, benefit costs and health care costs. These assumptions include: discount rates for future cash flows, rates for compensation increases, expected long-term rates of return on plan assets and health care costs trend rates.

<sup>1</sup>The net accrued benefit liabilities is recorded in accounts payable and other accrued liabilities on the balance sheet.

# VANCOUVER CITY SAVINGS CREDIT UNION

## 10. INTEREST RATE SENSITIVITY

Interest rate risk is a measure of how sensitive Vancity's financial position is to movements in interest rates. To manage interest rate risk, Vancity uses swaps and other derivative financial instruments. The carrying amounts of interest sensitive assets and liabilities are matched to these derivative instruments in the periods they mature or reprice to current market rates. These amounts 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.

(thousands of dollars)	Average Rate	Within 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-Interest Sensitive	Total
<b>December 31, 2004</b>									
<b>Assets</b>									
Cash		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 156,458	\$ 156,458
Deposits and securities	2.98%	1,055,331	77,314	137,139	94,048	58,303	140,543	-	1,562,678
Loans	5.12%	2,783,020	1,447,882	1,527,400	1,172,865	929,708	721,868	(46,927)	8,535,816
Other		-	-	-	-	-	-	200,513	200,513
		<b>3,838,351</b>	<b>1,525,196</b>	<b>1,664,539</b>	<b>1,266,913</b>	<b>988,011</b>	<b>862,411</b>	<b>310,044</b>	<b>10,455,465</b>
<b>Liabilities and Equity</b>									
Deposits	2.50%	3,136,248	2,818,608	740,132	747,187	173,257	166,907	1,206,709	8,989,048
Loans	2.68%	768,829	-	-	-	-	-	44,939	813,768
Other		-	-	-	-	-	-	652,649	652,649
		<b>3,905,077</b>	<b>2,818,608</b>	<b>740,132</b>	<b>747,187</b>	<b>173,257</b>	<b>166,907</b>	<b>1,904,297</b>	<b>10,455,465</b>
<b>Balance sheet mismatch</b>		<b>(66,726)</b>	<b>(1,293,412)</b>	<b>924,407</b>	<b>519,726</b>	<b>814,754</b>	<b>695,504</b>	<b>(1,594,253)</b>	<b>-</b>
<b>Derivatives</b>		<b>345,000</b>	<b>(195,000)</b>	<b>(148,000)</b>	<b>23,000</b>	<b>(50,000)</b>	<b>25,000</b>	<b>-</b>	<b>-</b>
<b>Net mismatch</b>		<b>\$ 278,274</b>	<b>\$ (1,488,412)</b>	<b>\$ 776,407</b>	<b>\$ 542,726</b>	<b>\$ 764,754</b>	<b>\$ 720,504</b>	<b>\$ (1,594,253)</b>	<b>\$ -</b>
<b>December 31, 2003</b>									
<b>Assets</b>									
Cash		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83,992	\$ 83,992
Deposits and securities	3.25%	721,272	176,435	18,329	66,597	98	85,647	-	1,068,378
Loans	5.54%	2,256,049	1,432,038	1,351,128	1,213,700	698,712	790,679	(50,707)	7,691,599
Other		-	-	-	-	-	-	184,592	184,592
		<b>2,977,321</b>	<b>1,608,473</b>	<b>1,369,457</b>	<b>1,280,297</b>	<b>698,810</b>	<b>876,326</b>	<b>217,877</b>	<b>9,028,561</b>
<b>Liabilities and Equity</b>									
Deposits	2.73%	3,227,769	2,408,735	678,914	556,518	370,497	130,703	1,053,564	8,426,700
Loans	3.25%	2,000	-	-	-	-	-	-	2,000
Other		-	-	-	-	-	-	599,861	599,861
		<b>3,229,769</b>	<b>2,408,735</b>	<b>678,914</b>	<b>556,518</b>	<b>370,497</b>	<b>130,703</b>	<b>1,653,425</b>	<b>9,028,561</b>
<b>Balance sheet mismatch</b>		<b>(252,448)</b>	<b>(800,262)</b>	<b>690,543</b>	<b>723,779</b>	<b>328,313</b>	<b>745,623</b>	<b>(1,435,548)</b>	<b>-</b>
<b>Derivatives</b>		<b>390,000</b>	<b>(510,000)</b>	<b>(30,000)</b>	<b>57,000</b>	<b>83,000</b>	<b>10,000</b>	<b>-</b>	<b>-</b>
<b>Net mismatch</b>		<b>\$ 137,552</b>	<b>\$ (1,310,262)</b>	<b>\$ 660,543</b>	<b>\$ 780,779</b>	<b>\$ 411,313</b>	<b>\$ 755,623</b>	<b>\$ (1,435,548)</b>	<b>\$ -</b>

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

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

(thousands of dollars)	Notional Amounts				Fair Values	
	Maturities of Derivatives		Total	Total		
	Within 1 Year	1 to 5 Years	2004	2003	2004	2003
<b>Hedging derivatives used to manage interest rate risk</b>						
Receive fixed interest current swaps	\$ 25,000	\$ 55,000	\$ 80,000	\$ 200,000	\$ 1,416	\$ 7,938
Receive fixed interest forward starting swaps	-	318,000	318,000	243,000	5,115	5,740
Pay fixed interest current swaps	285,000	415,000	700,000	705,000	(3,389)	(1,911)
	<b>310,000</b>	<b>788,000</b>	<b>1,098,000</b>	<b>1,148,000</b>	<b>3,142</b>	<b>11,767</b>
<b>Other hedging derivatives</b>						
Foreign exchange future sell contracts	33,996	-	33,996	33,276	822	835
Foreign exchange future buy contracts	30,907	-	30,907	29,192	(1,083)	(621)
Index-linked call options purchased	16,269	18,025	34,294	45,098	3,350	2,389
	<b>81,172</b>	<b>18,025</b>	<b>99,197</b>	<b>107,566</b>	<b>3,089</b>	<b>2,603</b>
<b>Total derivative contracts</b>	<b>\$ 391,172</b>	<b>\$ 806,025</b>	<b>\$ 1,197,197</b>	<b>\$ 1,255,566</b>	<b>\$ 6,231</b>	<b>\$ 14,370</b>

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### 11. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

The credit risk amount of derivatives, which represents the current replacement cost of all outstanding over-the-counter derivative contracts in a gain position without factoring in the impact of master netting agreements or the value of any collateral, totalled \$11.5 million as at December 31, 2004 (2003: \$16.9 million). Vancity manages this credit risk by dealing with creditworthy counterparties and setting specific limits for investments with those counterparties, which are reviewed on a regular basis.

### 12. 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.

	2004			2003		
	Book Value	Fair Value	Fair Value Excess (Deficiency)	Book Value	Fair Value	Fair Value Excess (Deficiency)
<b>Assets</b>						
Cash	\$ 156,458	\$ 156,458	\$ —	\$ 83,992	\$ 83,992	\$ —
Deposits and securities	1,562,678	1,571,128	8,450	1,068,378	1,074,589	6,211
Loans	8,535,816	8,621,917	86,101	7,691,599	7,808,896	117,297
Other assets	99,604	99,618	14	72,942	72,942	—
<b>Liabilities</b>						
Deposits	8,989,048	9,021,546	(32,498)	8,426,700	8,507,791	(81,091)
Loans payable	813,768	813,728	40	2,000	1,967	33
Other liabilities	201,094	201,094	—	217,256	217,256	—
Derivative financial instruments	2,750	6,231	3,481	—	14,370	14,370
<b>Total fair value adjustment</b>		<b>\$ 65,588</b>			<b>\$ 56,820</b>	

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.

### 13. 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 for the Credit Union due to its primary service area being generally in the Lower Mainland of British Columbia and surrounding areas. As well, Vancity's principal subsidiary, Citizens Bank of Canada, operates primarily in British Columbia and Ontario. To reduce the impact of the geographic credit risk, Vancity has insured approximately 30% of its residential mortgages.

### 14. COMMITMENTS AND CONTINGENCIES

#### Credit Commitments

The following amounts represent the maximum amount of additional credit that Vancity could be obligated to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements will expire or terminate without being utilized.

(thousands of dollars)	2004	2003
Undrawn lines of credit	\$ 1,771,594	\$ 1,438,231
Commitments to extend credit	398,825	283,383
Undrawn credit on credit cards issued	483,842	436,282
Documentary letters of credit	8,630	6,853
	<b>\$ 2,662,891</b>	<b>\$ 2,164,749</b>

#### Deposit Commitments

Under governing legislation, Vancity maintains, for liquidity purposes, deposits with Credit Union Central of B.C. (CUCBC). As at December 31, 2004, Vancity has made Canadian dollar deposit commitments of approximately \$444 million with CUCBC. These commitments are at fixed rates ranging from 3.01% to 5.94% with terms of six months to four years and maturity dates extending to 2009. Vancity has also made US dollar deposit commitments of approximately US\$39.5 million with CUCBC. These commitments are at fixed rates ranging from 2.77% to 4.83% with terms of one to three years and maturity dates extending to 2008.

#### Lease Commitments

Vancity has leases on certain branch premises for terms extending to 2016. The future minimum lease payments for each of the next five fiscal years and thereafter are as follows:

2005	\$ 5,988,000
2006	5,501,000
2007	4,912,000
2008	4,432,000
2009	2,326,000
2010 and thereafter	5,657,000
	<b>\$ 28,816,000</b>

#### Pledged Assets

In the normal course of business, Vancity pledges its assets as security for liabilities. Standby credit facilities of \$1,107 million of which \$614 million in demand loans and banker's acceptances have been utilized, are secured by mortgages and securities with a carrying value of \$889 million. Vancity also holds \$31 million in clearing facilities and \$8.4 million in committed capital market loan facilities.

Vancity is also required to hold a credit facility with Credit Union Central of B.C. as security for issuing bearer deposit notes (BDNs). At December 31, 2004, Vancity held a credit facility of \$200 million to be used for BDN liquidity purposes only.

#### Contingencies

In the ordinary course of business, Vancity has legal proceedings brought against it and provisions have been included in liabilities where appropriate. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the earnings of Vancity.



From left to right:  
 Reva Dexter  
 Shauna Sylvester  
 Cheeying Ho  
 Doreen Braverman  
 Bruce Ralston  
 Elain Duvall  
 Catherine McCreary  
 Sandy Watson  
 Rhonda Zabinsky

## VANCOUVER CITY SAVINGS CREDIT UNION BOARD OF DIRECTORS

Elain Duvall, *Chair*  
 Reva Dexter, *Vice-Chair*  
 Bruce Ralston  
 Doreen Braverman  
 Cheeying Ho  
 Catherine McCreary  
 Shauna Sylvester  
 Sandy Watson  
 Rhonda Zabinsky

The eight standing committees of the Board of Directors of Vancity and their responsibilities are listed below.

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

As at December 31, 2004  
 Reva Dexter, *Chair*  
 Catherine McCreary, *Vice-Chair*  
 Doreen Braverman, Cheeying Ho, Rhonda Zabinsky

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

As at December 31, 2004  
 Catherine McCreary, *Chair*  
 Shauna Sylvester, *Vice-Chair*  
 Cheeying Ho, Sandy Watson

The CEO Compensation Committee manages the review process of the CEO and recommends compensation and benefit levels to the Board of Directors. It is also their responsibility to ensure that a relevant CEO contract is in place. In addition, they ensure that a philosophy statement on compensation is in place to guide senior management remuneration.

As at December 31, 2004  
 Elain Duvall, *Chair*  
 Reva Dexter, *Vice-Chair*  
 Bruce Ralston

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

As at December 31, 2004  
 Catherine McCreary, *Chair*  
 Reva Dexter, *Vice-Chair*  
 Elain Duvall

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.

As at December 31, 2004  
 Shauna Sylvester, *Chair*  
 Reva Dexter, *Vice-Chair*  
 Elain Duvall

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.

As at December 31, 2004  
 Bruce Ralston, *Chair*  
 Shauna Sylvester, *Vice-Chair*  
 Doreen Braverman, Elain Duvall, Sandy Watson

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

As at December 31, 2004  
 Elain Duvall, *Chair*  
 Sandy Watson, *Vice-Chair*  
 Bruce Ralston

The Social Audit Committee recommends to the Board policies and practices relating to Vancity's social audit process, including external verification and external reporting.

As at December 31, 2004  
 Elain Duvall, *Chair*  
 Catherine McCreary, Sandy Watson, Rhonda Zabinsky, Dave Mowat (Mgmt), George Scott (Mgmt), Johan Lemmer (Mgmt)

*For more information on Board committees or activities, please call the Corporate Affairs department at 604-877-7665 or e-mail [board\\_directors@vancity.com](mailto:board_directors@vancity.com)*

## VANCITY GROUP OF COMPANIES MANAGEMENT

### VANCITY CREDIT UNION

Vancity Centre  
183 Terminal Avenue  
Vancouver, BC V6A 4G2  
604-877-7000 or 1-888-Vancity  
vancity.com

### SENIOR MANAGEMENT

Dave Mowat  
*Chief Executive Officer*

Fay Booker  
*Senior Vice-President, Governance and  
Corporate Risk Management*

Chris Dobrzanski  
*Senior Vice-President, Risk Management  
and Operations*

George Scott  
*Senior Vice-President, Marketing and  
Strategic Planning*

Ian Warner  
*President and Chief Executive Officer,  
Citizens Bank  
Senior Vice-President, Vancity Visa*

Karen Hoffmann  
*Vice-President, Investments & Insurance*

John Iseli  
*Vice-President, Credit & Operations*

Lydia Johnson  
*Vice-President, Sales & Service*

Johan Lemmer  
*Vice-President, Finance*

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

Kevin Zakus  
*Vice-President, Business Banking*

Vacant  
*Vice-President, Human Resources*

Rolf Baumbusch  
*Vice-President, VISA*

Neil Brown  
*Vice-President, Products and Services*

Drew Collier  
*Senior Vice-President, Operations,  
Citizens Bank*

Barry Fenton  
*Senior Vice-President & Chief Credit Officer,  
Citizens Bank*

Kari Grist  
*Vice-President, Marketing*

Paula Martin  
*Vice-President, Public Affairs & Corporate  
Communications*

Alexandra Paproski  
*Director, Corporate Affairs & Corporate  
Secretary*

### SUBSIDIARIES

#### CITIZENS BANK OF CANADA

Suite 401, 815 West Hastings Street  
Vancouver, BC V6C 1B4  
604 682-7171  
National Contact Centre:  
604 708-7800  
toll-free 1-888-708-7800  
citizensbank.ca

Toronto Office  
Suite 700, 184 Front Street East  
Toronto, ON M5A 3N3

Calgary Retail Office  
506 6th Street S.W.  
Calgary, AB T2P 0M9

Waterfront Retail Office  
815 West Hastings Street  
Vancouver, BC V6C 1B4

#### BOARD OF DIRECTORS

Dave Mowat, *Chair*  
Chris Dobrzanski  
Elain Duvall  
Senator Mobina Jaffer  
Essop Mia  
Ian Warner  
Alexandra Wilson  
Roger Woodward

#### SENIOR MANAGEMENT

Ian Warner  
*President & Chief Executive Officer*

Drew Collier  
*Senior Vice-President, Operations*

Barry Fenton  
*Senior Vice-President & Chief Credit Officer*

Susan Alley  
*Vice-President, Human Relations*

Bill Jamieson  
*Vice-President, Marketing & CSR*

Keith Tongue  
*Vice-President, Residential Mortgages &  
Strategic Alliances*

Terry Wong  
*Vice-President, Treasury & Finance*

Rita Westfal-MacDonald  
*Director, Corporate Affairs &  
Corporate Secretary*

#### INVENTURE SOLUTIONS INC.

##### BOARD OF DIRECTORS

Dave Mowat  
*CEO, Vancity Credit Union*

Rowena Liang  
*CIO and Vice-President, Information  
Technology, Vancity Credit Union*

##### SENIOR MANAGEMENT

Rowena Liang  
*Chief Executive Officer*

Tony Fernandes  
*Vice-President, IT Operations*

Andy Jones-Cox  
*Vice-President, Business Systems*

Garry Smith  
*Vice-President, Technology Services*

#### REAL ASSETS INVESTMENT MANAGEMENT INC.

Suite 801, 1166 Alberni Street  
Vancouver, BC V6E 3Z3  
604-646-5850  
realassets.ca

##### BOARD OF DIRECTORS

Dave Mowat, *Chair*  
Deb Abbey  
David Levi  
George Noroian  
Paul Savage  
Joel Solomon  
Brian Worth

##### SENIOR MANAGEMENT

Deb Abbey  
*Chief Executive Officer*

#### VANCITY CAPITAL CORPORATION

Suite 700, 815 West Hastings  
Vancouver BC V6C 1B4  
604-877-6565  
vancitycapital.com

#### BOARD OF DIRECTORS

David Jiles, *Chair*  
John Delf  
Chris Dobrzanski  
James Hughes  
Essop Mia  
Jonathon Rhone  
Coro Strandberg  
Shauna Sylvester  
David Valpy

##### SENIOR MANAGEMENT

Lee Davis  
*President & Chief Executive Officer*

#### VANCITY ENTERPRISES LTD.

Suite 510, 815 West Hastings Street  
Vancouver, BC V6C 1B4  
604-877-7610  
vancity.com

#### BOARD OF DIRECTORS

Bruce Ralston, *Chair*  
Cheeying Ho  
Jack Allard  
Barry Fenton  
Glenn Haddrell  
Linda Ross  
Greg McDade  
Bev Nielsen  
Ron Yuen

##### SENIOR MANAGEMENT

Jacques Khouri  
*President & Chief Executive Officer*

#### VANCITY INSURANCE SERVICES LTD.

183 Terminal Avenue  
Vancouver, BC V6A 4G2  
604-877-7400  
vancityinsurance.com

##### SENIOR MANAGEMENT

Vacant  
*Director*

#### VANCITY INVESTMENT MANAGEMENT LTD.

Suite 300, 900 West Hastings Street  
Vancouver, BC V6C 1E5  
604-871-5355  
vcim.ca

##### SENIOR MANAGEMENT

Alan Pankratz  
*Vice-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.

Suite 510, 815 W. Hastings Street  
Vancouver, BC V6C 1B4  
604-877-7647

### BOARD OF DIRECTORS

Tim Louis, *Chair*  
Lisa Barrett, *Vice-Chair*  
Lucy Alderson  
Neil Brown  
Ivan Gasoi  
Monica Hay  
Mohamed Ladak  
Paula Martin  
Brian Nasu  
Bruce Ralston

### SENIOR MANAGEMENT

Ian Mass  
*Executive Director*

## COMMUNITY BRANCHES

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

**BURNABY**  
Brentwood  
106-1901 Rosser Avenue V5C 6R6  
*Maria Michayluk, Manager*  
North Burnaby  
4302 Hastings Street V5C 2J9  
*John DeRose, Senior Branch Manager*  
*Josie Romeo, Manager*

North Road & Gatineau  
3977 North Road V3J 1S2  
*Margaret Gardiner, Manager*

South Burnaby  
5064 Kingsway Avenue V5H 2E7  
*Peter Unadkat, Manager*

Station Square  
120A - 6100 McKay Avenue  
Station Square V5H 2W7  
*Harjit Chima, Manager*

**CHILLIWACK**  
45617 Luckakuck Way V2R 1A3  
*Ben Letkeman, Senior Branch Manager*

**COQUITLAM**  
20 - 2991 Lougheed Highway V3W 6J6  
*Tom Hancock, Senior Branch Manager*

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

**MAPLE RIDGE**  
22824 Lougheed Highway V2X 2V7  
*Vanita Dennis, Manager*

**MISSION**  
32555 London Avenue V2V 6V9  
*Michael Spuls, Manager*  
*Lucienne Lehman, Senior Manager,*  
*Community Development*  
*Neighbourhood Strategy*

**NORTH DELTA**  
7211 - 120 Street V4C 6P5  
*Mohamed Ladak, Senior Branch Manager*

**NORTH VANCOUVER**  
1290 Marine Drive V7P 1T2  
*Greg Letham, Manager*

Lynn Creek  
1370 Main Street V7J 1C6  
*Arlene Urlacher, Senior Branch Manager*

Westview  
712, 2601 Westview Drive V7N 3X4  
*Greg Letham, Manager*  
(opened January 2005)

**PORT COQUITLAM**  
7100 - 2850 Shaughnessy Street V3C 6K5  
*Sonny Neilson, Manager*

**RICHMOND**  
5900 No 3. Road V6X 3P7  
*Mike Matsuo, Manager*

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

Guildford  
108 - 15175 101 Avenue V3R 7Z1  
*Jayne Perrault, Manager*

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

Cedar Hills  
12820 96 Avenue V3V 6V9  
*Nalini Bhagat, Manager*

**VANCOUVER**  
Vancity Centre  
183 Terminal Avenue V6A 4G2  
*Karm Sedhu, Manager*

Victoria Drive  
5590 Victoria Drive V5P 3W1  
*Elaine Kennedy, Senior Branch Manager*

Hastings  
2510 East Hastings Street V5K 1Z3  
*Gerry Collins, Manager*

Kitsilano  
3395 West Broadway V6R 2B1  
*Ross Lambert, Senior Branch Manager*

Fraser Street  
6288 Fraser Street V5W 3A9  
*Harbans Kandola, Manager*

Fairview  
501 West 10 Avenue V5T 2A3  
*Peter Reale, Senior Branch Manager*

Main Street  
4205 Main Street V5V 3P9  
*Pretti Grewalson, Manager*

Downtown  
898 West Pender Street V6C 1J8  
*Jan Dean, Manager*

4th Avenue  
2233 West 4 Avenue V6K 1N9  
*Sarah Shellard, Manager*

Commercial Drive  
1675 Commercial Drive V5L 3Y3  
*Bob Craig, Manager*

Collingwood  
3305 Kingsway V5R 5K6  
*Patricia Sonier, Manager*

Marpole  
8615 Granville Street V6P 5A2  
*Phelan Jung, Manager*

Kerrisdale  
2380 West 41 Avenue V6M 2A4  
*Kirstin Yakumo, Manager*

Point Grey  
4545 West 10 Avenue V6R 4N2  
*Tony Ciulla, Manager*

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

Oakridge  
5594 Cambie Street V5Z 3Y5  
*Lily Wong, Manager*

Dunbar  
4445 Dunbar Street V6S 2G4  
*Franko Zaurrini, Manager*

West End  
1680 Robson Street V6G 1C7  
*Kathryn Fitzgerald, Manager*  
*Janine Davies, Community Business*  
*Development Manager*

**VICTORIA**  
3075 Douglas Street V8G 1S6  
*Holly Harding, Manager*

**WEST VANCOUVER**  
1402 Marine Drive V7T 1B7  
*Cherie Devisser, Manager*

**WHITE ROCK/SOUTH SURREY**  
Semiahmoo  
104 - 1790 152 St V4A 7Z7  
*Angela Lam, Manager*

**NATIONAL CONTACT CENTRE/TELESERVICE**  
Jean-Marc Handfield, Director

**REGIONAL MANAGERS**  
Debbie Bywater  
Ken Fuller  
David Perri  
Caroline Wedge

**DIRECTOR, FINANCE & CONTROLLER**  
Samson Lim

**LEGAL ADVISORS**  
McCarthy Tetrault  
Boughton Peterson Yang Anderson  
Fasken Martineau DuMoulin

**AUDITORS**  
Grant Thornton LLP