

# Vancity

Annual Report

# 07



## what's a bike got to do with it?

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Some will recognize the red bike on our cover and in the next few pages as one of the fleet that Vancity shared with the community through our bike share experiment in summer 2007. But that's not why it's here. We see the bike as a symbol of many of the things Vancity is about: forward motion, sustainability, connection to our local community, and a willingness to try new things. Riding a bike and banking with Vancity – two ways you can make a difference in your community.

Tamara Vrooman and Patrice Pratt stop in at Vancity's South Slope Community Branch in Burnaby, one of 10 new locations we added in 2007.



# summary of our performance 2005-2007

key results indicators	organization	performance ▼/▲/■	2007	2006	2005	
<b>Financial</b> (consolidated, millions of dollars)						
Net earnings <sup>(1)</sup>	Vancity Group *	▼	\$28.3	\$45.3	\$47.1	
Efficiency ratio <sup>(1,2)</sup>	Vancity Group	▼	87.2%	79.9%	77%	
Total assets	Vancity Group	▲	\$14,095	\$12,281	\$11,756	
<b>Members</b>						
Total number of members/customers	Vancity Credit Union	▲	388,000	355,000	337,000	
	Citizens Bank	▲	25,200	24,600	24,200	
	Vancity Insurance	▲	36,900	32,700	29,400	
Personal member loyalty	Vancity Credit Union	Loyalty score <sup>(3)</sup>	■	47%	47%	46%
		Service performance score	▼	46%	51%	53%
Member satisfaction with service	Business members	Vancity Credit Union	▼	76%	80%	83%
	Personal members	Citizens Bank	▲	88%	84%	85%
	All clients	Vancity Insurance	▲	58%	54%	55%
<b>Employees</b>						
Employee engagement index - comprises six key questions designed to measure intellectual and emotional involvement in the organization	Vancity Credit Union	▼	68%	75%	76%	
	Citizens Bank	▼	50%	66%	63%	
<b>Community leadership</b>						
Community leadership portfolio (millions of dollars) - includes member/client deposits, loans and investments in products that have social and/or environmental benefits	Vancity Group	▲	\$1,090	\$880	-	
Corporate donations: % of average previous three years' pre-tax consolidated earnings	Vancity Group	▼	5.7%	8.5%	10.0%	
CO <sub>2</sub> equivalent emissions (metric tonnes per employee)	Vancity Group	Premises energy consumption	■	0.63	0.59	0.63
		Paper consumption	■	0.37	0.37	0.4
		Vehicle fleet <sup>(4)</sup>	-	0.02	-	-
		Employee business travel (air and vehicle) <sup>(4)</sup>	-	0.42	-	-
		Employee commuting to/from work by single occupancy vehicles	▲	1.10	1.18	1.31
% agree we use our resources and expertise to benefit the community and environment	Vancity Credit Union	Employees	▼	89%	93%	n/a
		Members	▼	78%	82%	86%

\* The Vancity Group comprises the Credit Union and its subsidiaries.

# we're about more than money

We know that being transparent about our successes and challenges and being accountable for our impacts are important to you. In a recent survey, 79% of members agreed that they are concerned about accountability and transparency in the corporate world.

So we're happy to say we've been measuring and reporting our economic, social and environmental performance in our annual reports since 1992, and producing stand-alone accountability reports since 1998. Why? Because as a member-owned and operated

co-operative, we feel it's important to report on all of our results (not just on our financials). We also believe it's good for business. It helps us understand and keep on top of what matters most to those who influence our long-term success: our members and employees. It provides us with a complete picture of our performance in order to improve. And reporting our performance in a meaningful and credible way builds loyalty and trust.

The table (at left) provides a snapshot of our performance over 2005-2007.

For a fuller picture of our performance, watch for our externally verified accountability report to be released this summer. This report includes data, our key successes and challenges, the views of our members and employees, and our plans to improve our performance. Our award-winning reports are widely recognized for their comprehensiveness and credibility, and we hope our success and the positive impact reporting has on our business inspires other organizations to follow our lead.

## Legend and Notes

- = performance is stable
- ▲ = performance has improved since 2006
- ▼ = performance has worsened since 2006
- = not available

For more information on our social and environmental performance, visit [vancity.com/accountabilityreport](http://vancity.com/accountabilityreport). Our 2006-07 Accountability Report will be released summer 2008.

(1) In 2007, Vancity held asset-backed commercial paper (ABCP), which experienced a pre-tax write-down of \$13.9 million

(2) Total non-interest expenses (before distributions and donations) divided by total revenue after loan loss provision

(3) Members who rank Vancity a 9 or 10 out of 10 in our loyalty study

(4) 2007 is the first year that we have tracked emissions from our vehicle fleet and business travel for the Vancity Group

# message from the CEO and Chair

The market conditions we're experiencing haven't been seen in a generation. As with 30 years ago, North America's financial markets are grappling with a liquidity crunch, the rising cost of oil, mergers among major investment banks, and flat growth. Of course, 2007 threw us a new twist in the form of asset-backed commercial paper (ABCP), an investment vehicle that was considered high quality until August, when trading ceased and the investment became illiquid. For more on the impact of ABCP, see page 11.

Vancity's response to the continued uncertainty of the marketplace is to focus on what's important to you, our members: being a stable credit union with a healthy capital base. That in turn allows us to support loans to our members and communities in a tightening market, and gives us access to deposits to fund those loans. You also expect us to grow according to plan so we can continue to meet your financial needs.

Vancity did achieve impressive growth in 2007: our assets grew by nearly 15 per cent to \$14.1 billion, while net earnings came in at \$28 million, down from \$45 million for 2006. This is due in part to ABCP, which resulted in a write-down by Vancity of \$13.9 million.

ABCP affected individual investors as well, including a small number of Vancity members who, together, held about \$5 million of ABCP in their portfolios. When the market dried up, Vancity quickly came forward to guarantee the liquidity and value of their investments.

We may not know the full impact of ABCP for some time, but we can take comfort that Vancity's strong capital base has positioned us well, especially when liquidity is constrained as it is now. We are maintaining our capital adequacy ratio at 12 per cent of assets, which is 50 per cent higher than required by our regulators. This "capital cushion" will act as a buffer against the uncertainties of the financial marketplace.

The numbers are not the only example of success. In 2007 we became more accessible to our members with the opening of 10 new locations,\* and we also welcomed more than 33,000 new

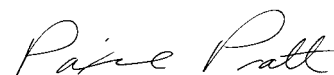
members to Vancity. As part of our work to be a leader in the community, we have just become the first North American-based financial institution to be carbon neutral – a full two years ahead of schedule.

As part of our work to continue to put you, our members, at the heart of everything we do, we are making changes to become more nimble and responsive. We implemented a new organizational structure that allows for streamlined decision-making and moves accountability closer to the folks who do the work. This will continue to be a focus in 2008.

As we move forward, you'll see Vancity use our resources and expertise as a financial co-operative to face poverty and to grow the social economy. That's the type of change Vancity is known for, and that's why now is better than ever to be a member of Vancity. Just watch us go.



**Tamara Vrooman**  
Chief Executive Officer



**Patrice Pratt**  
Chair, Vancity Board of Directors

\* In 2007 Vancity opened three new community branches and another seven locations through our merger with Van Tel/Safeway Credit Union.

## the wheel of carbon

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We grabbed a unique opportunity to support Al Gore's Nobel Peace Prize-winning work, "An Inconvenient Truth." Following an intensive training session, former CEO Dave Mowat led presentations that challenged employees, members and the community to take action. Vancity's Amanda Pitre-Hayes and the Pembina Institute developed a climate change action wheel as a tool for individuals to reduce their personal carbon footprint.

Amanda Pitre-Hayes leads Vancity's Climate Change Solutions Strategy and is responsible for Vancity's carbon neutral, carbon offset, and environmental granting programs.



### Take it. Ride it. Pass it on.

Vancity imagined what Vancouver would be like if more people travelled by bicycle. We wanted to see what would happen if we gave people a little push, and in this case, some pedals, to take alternative transportation.

We partnered with BEST (Better Environmentally Sound Transportation) and at its annual pancake breakfast during Bike Month, we launched the Vancity Bike Share by giving 45 bikes to the community. Volunteers were given the chance to take a bike, ride it and pass it on. We didn't know how the story would end, but seeing how the community would embrace the program was all part of the experiment.

Vancity's social media site, ChangeEverything.ca, was home to cycling discussions and the bike share was profiled on blogs around the world. After the three-month experiment came to a close, half of the bikes were returned and donated to PEDAL, a local cycling non-profit. Sounds like a happy ending to us.

### Sharing our success

As a financial co-operative, we take pride in sharing our profits with our members and our communities. Each year, we give back 30 per cent of our net profits through our Shared Success program – \$8.85 million for 2007. Of this, \$5.2 million will be shared with members, in the form of dividends and relationship bonuses and rebates, while communities will receive \$3.7 million through grants, sponsorships and partnerships. Since 1994, Vancity has shared \$138 million with members and communities.

### New CEO responds to members and a changed marketplace

Between the time we introduced Tamara Vrooman as our new CEO in July and her first day on the job in September, the disruption to the asset-backed commercial paper market had left an indelible mark on our industry. Tamara quickly stepped in to help Vancity respond to our new market conditions. But she didn't lose sight of our most important stakeholders. Tamara embarked on a "listening tour" with members and former members, employees and community leaders. She learned what drew them to Vancity and in some cases, why they left. She learned about what they like and dislike, what should change,

and what always remains the same. The result? A clear mandate and an organizational structure that puts members and communities at the heart of everything we do, regardless of market cycles.

### Carbon neutral ahead of our time

Back in 2005, we set the lofty goal of making our operations carbon neutral by the year 2010. While it's impossible to produce no greenhouse gas emissions and still stay in business, what we can do is reduce our emissions through our own actions, such as reducing our electricity consumption, encouraging our staff to use alternative transportation, and using less paper. We then offset our remaining emissions by purchasing high-quality, verified, carbon offset credits. These credits invest in emission reduction projects throughout BC and the world. After purchasing the appropriate amount of credits, and having the claim audited, Vancity is carbon neutral two years early. We are proud to be the first North American-based financial institution to be carbon neutral.



### A clear leader in transparency

Vancity's 2004-05 Accountability Report was recognized as the Best Sustainability Report in North America by Ceres-ACCA, showing that a relatively small organization like Vancity can stand out against major multi-national companies and still be a leader in corporate transparency. Look for our 2006-2007 report in summer 2008.

### Members give their two cents

More than 5,000 members have joined my2cents, Vancity's online member forum, which gives participants the opportunity to provide opinions on a wide variety of topics and issues.

About one-third of participants tell us they bank exclusively with Vancity, while the remaining two-thirds do business with other financial institutions



as well. Through my2cents-vancity.ca (visit the site to join), we've learned that these members are changing the way they use Vancity: 66 per cent visit a branch only once every one to three months, more than half visit an ATM once per week, and the vast majority (86 per cent) bank online with Vancity at least once per week. There's an online panel for Citizens Bank as well; to join, visit citizensbuzz.com.

### Leadership at all levels

An organization that makes a difference is an organization that recognizes and cultivates the leadership potential of every employee. This is the commitment that the Vancity Group has made with the introduction of an enterprise-wide leadership strategy. We are implementing a variety of innovative approaches to cultivate leadership talent, including conversational forums designed to engage and inspire employees by working collaboratively to address business challenges and create solutions that ultimately benefit our members.

### Basic products get the green treatment

You can get a mortgage, mutual funds and insurance just about anywhere. But Vancity launched three new products in 2007 that have a positive impact on the environment as well as your wallet. Vancity Circadian Mutual Funds take traditional investment wisdom and add a layer of responsibility to find and invest in companies that profit in a sustainable manner. In the event of a loss, Pure Home Insurance provides for environmentally friendly upgrades, making it the first "green" home insurance policy in North America. And Citizens Bank's Green Mortgage helps homeowners in Ontario make their homes greener while donating \$100 to the Conservation Fund of Ontario for every mortgage funded.

### A thriving branch network

With 59 branches in the Lower Mainland, Squamish, the Fraser Valley and Victoria, it's never been easier for our members to do their everyday banking when and where they want to. We opened 10 new branches in 2007, seven through our merger with Van Tel/Safeway Credit Union, including our first-ever branch in New Westminster. And – with 92 per cent approval from Greater Victoria Savings membership – Vancity will add more new branches to our network in 2008.

## not your average high interest savings account

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As the youngest of four children in a single-parent household, Sailesh Amratlal grew up knowing the value of a dollar. Now a technology consultant, he chose the Jumpstart™ High Interest Savings Account because it offers a great rate and makes it easy to manage his funds through online banking. Sailesh says it's a bonus that a portion of revenue from Jumpstart goes to Future Foundations, which helps low-income, primarily one-parent families to purchase homes and secure their financial futures.

Sailesh Amratlal, a Vancity member since 2001, owns a home with his wife Alison, a Vancity employee.



### Facelift for member statements

Members have asked for improvements to account statements, and in 2007 we delivered. After consulting with staff and members, we rebuilt the statements from the ground up – adding new features, taking out old language and making them easier to read. The result is a statement that's easier to understand, and better looking, too.

### Please make it easier to do my job

"I love working here, I love my team, I love the values of this company, but please make it easier to do my job!" Comments like this in the 2007 Employee Engagement Survey led us to focus on process improvements for 2008. Although our overall engagement score fell seven per cent in 2007, Vancity remains a top employer – a fact that was acknowledged by *Maclean's*, *Financial Post* and *Canadian Business*.



### Better security for online banking

Vancity and Citizens Bank introduced new personal access features in 2007 that offer members better online banking security. We've customized the online banking log-in process with a personal image, phrase and security questions selected by – and known only to – our members who bank online. With these improvements, Vancity and Citizens Bank members can bank online with confidence.

### Banking on affordable housing

A five-unit rental building on Bank Street in Victoria was at risk of being re-developed into less affordable strata units. Roots and Roofs, a non-profit development co-op that seeks to build co-operatively owned affordable housing, didn't want to see that happen. They created



a partnership that included BC Housing, the City of Victoria, Coast Capital Savings, the Real Estate Foundation of BC, the Capital Regional District, the United Way, Vancity and Vancity Capital. Thanks to some creative financing and much fundraising, Roots and Roofs was able to purchase the Bank Street building. The co-op has five units and is now home to nine residents. This is the first new housing co-op in the Capital Regional District in 15 years.

### ABCP impact

Asset-backed commercial paper (ABCP) was considered to be a high-quality, highly liquid investment vehicle. That changed in August 2007, when concerns arose that the underlying collateral might include sub-prime US residential mortgage loans. Investors became nervous, refused to renew these short-term investments, and the securities became illiquid. A small number of Vancity members privately held a total of about \$5 million in ABCP through Credential Securities and did not receive their money when their investments matured. Shortly after the August 13 system-wide freeze of trading in ABCP, Vancity chose to guarantee the liquidity and value of those members' ABCP investments. In December, Vancity took a write-down of \$13.9 million based on our ABCP holdings (see page 11 for a full explanation).

A woman with brown hair, wearing a blue sweater over a white collared shirt, is leaning on a red bicycle. She is smiling and looking towards the camera. The bicycle is red with silver handlebars and a black seat. In the background, there is a modern apartment building with large windows and balconies. The scene is outdoors, likely in a residential area.

## part of the solution

Rowena Hart never imagined living in a community so ahead of its time. Rowena purchased a unit in Docksider Green, a Vancity/Windmill West development that is transforming an industrial site in Victoria's inner harbour into one of the most sustainable communities in the world. "It feels like I'm part of a solution," she says.

Rowena Hart bought a unit in Balance, the second phase of Docksider Green. She will move into her new home in 2009.

## consolidated financial highlights

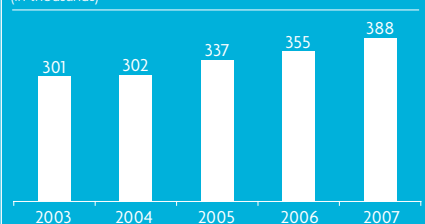
For the year ended December 31,

(thousands of dollars)

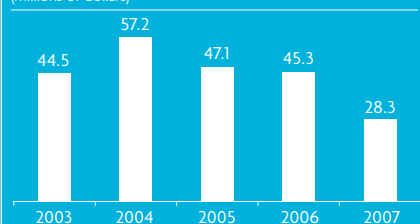
	2007	2006	2005	2004	2003
<b>Assets</b>					
Cash and Securities	\$ 1,153,620	\$ 1,105,139	\$ 1,540,100	\$ 1,714,446	\$ 1,151,335
Loans	12,572,191	10,888,592	9,984,474	8,535,816	7,691,599
Other Assets	369,075	287,356	231,745	203,503	187,127
<b>Total Assets</b>	<b>\$ 14,094,886</b>	<b>\$ 12,281,087</b>	<b>\$ 11,756,319</b>	<b>\$ 10,453,765</b>	<b>\$ 9,030,061</b>
<b>Liabilities and Members' Equity</b>					
Deposits and Equity Shares	\$ 11,208,389	\$ 10,221,195	\$ 10,558,155	\$ 8,950,835	\$ 8,425,665
Wholesale Borrowings	1,909,547	1,176,856	458,419	813,768	2,000
Other Liabilities	397,589	346,123	248,132	248,861	219,282
Members' Equity	579,361	536,913	491,613	440,301	383,114
<b>Total Liabilities and Members' Equity</b>	<b>\$ 14,094,886</b>	<b>\$ 12,281,087</b>	<b>\$ 11,756,319</b>	<b>\$ 10,453,765</b>	<b>\$ 9,030,061</b>
<b>Statement of Earnings</b>					
Net Interest Income	\$ 275,533	\$ 279,432	\$ 272,856	\$ 255,076	\$ 249,461
Provision for Credit Losses	(16,323)	(11,208)	(7,525)	(9,968)	(13,324)
Other Income	93,618	89,211	75,823	68,039	57,483
<b>Net Interest and Other Income</b>	<b>352,828</b>	<b>357,435</b>	<b>341,154</b>	<b>313,147</b>	<b>293,620</b>
Salaries and Employee Benefits	173,746	160,876	146,982	133,330	115,803
Other Operating Expenses	124,760	124,569	115,771	105,062	99,847
	<b>298,506</b>	<b>285,445</b>	<b>262,753</b>	<b>238,392</b>	<b>215,650</b>
Earnings from Operations	54,322	71,990	78,401	74,755	77,970
Unusual Item	(9,035)	-	1,359	18,848	-
Earnings after Unusual Items	45,287	71,990	79,760	93,603	77,970
Distributions to Community and Members	10,822	15,805	16,626	19,578	15,719
Provision for Income Taxes	6,136	10,885	16,012	16,838	17,779
<b>Net Earnings</b>	<b>\$ 28,329</b>	<b>\$ 45,300</b>	<b>\$ 47,122</b>	<b>\$ 57,187</b>	<b>\$ 44,472</b>
<b>Statistics</b>					
Average Assets (thousands of dollars)	\$ 13,352,758	\$ 11,768,550	\$ 10,295,365	\$ 9,081,023	\$ 8,187,034
Growth of Total Assets	14.8%	4.5%	12.5%	15.8%	9.8%
Return on Average Assets	0.21%	0.38%	0.46%	0.63%	0.54%
Return on Equity	4.9%	8.4%	9.6%	13.0%	11.6%
Dividends per Equity Share	1.8%	4.2%	4.5%	4.7%	4.8%
Dividends per Investment Share	5.2%	5.1%	4.5%	4.7%	4.8%
Membership	387,762	354,663	337,107	302,032	300,945
No. of Employees	2,408	2,385	2,340	2,050	1,916
No. of Branches	60	50	50	44	43

**Membership**

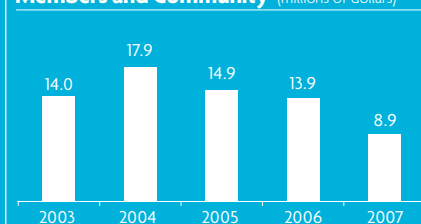
(in thousands)

**Net Earnings**

(millions of dollars)

**Shared Success Distributions to Members and Community**

(millions of dollars)



excludes investment share dividends

## Financial Review

This section of the Annual Report provides management's overview of Vancity's financial condition and results of operations. This information enables the reader to be aware of significant changes in financial condition and operations for the year ended December 31, 2007 compared to the previous year, and is intended to summarize the information presented in the audited financial statements. Our discussion refers to the tables and financial statements presented later in this section.

### OVERVIEW

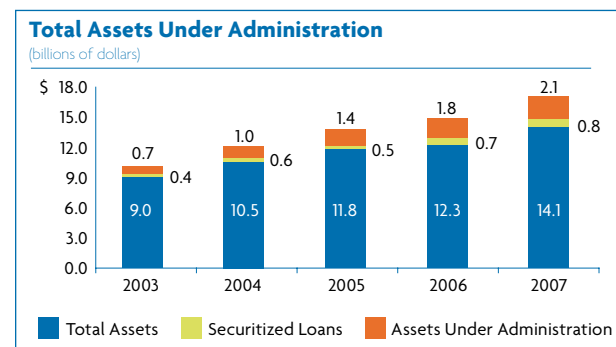
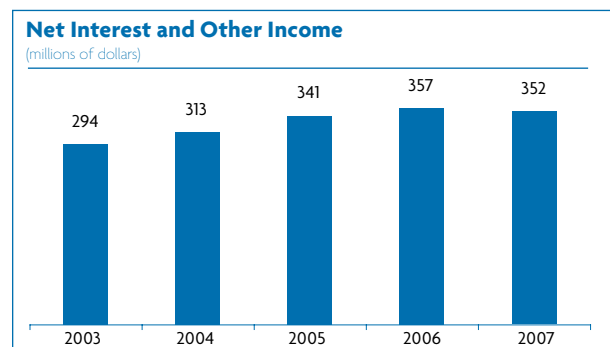
Vancity is Canada's largest credit union, with \$14.1 billion in assets, more than 387,000 members and 60\* branches throughout Greater Vancouver, the Fraser Valley, Squamish and Victoria. The Vancity Group comprises the Credit Union and its subsidiaries, all of which are wholly owned except for Inhance Investment Management Inc. The Credit Union owns 97% of Inhance Investment Management Inc. The wholly owned active subsidiaries include Citizens Bank of Canada and Citizens Trust Company, which serve members across the country by telephone, ATM and the Internet. Other wholly owned active subsidiaries include Inventure Solutions Inc., Vancity Capital Corporation, Vancity Enterprises Ltd., Vancity Insurance Services Ltd., SCU Insurance Services Ltd., Squamish Insurance Agencies Ltd., and Vancity Investment Management Ltd. The Credit Union and its subsidiaries are collectively referred to as "Vancity". Unless otherwise specified, the information represents the consolidated data of the Credit Union and its subsidiaries.

In 2007, Vancity's consolidated earnings from operations before unusual items were \$54.3 million compared to \$72 million in 2006. Revenues, comprised of Net Interest Income and Other Income, decreased by 1% to \$353 million mainly due to the compression in margins on our portfolio of loans and deposits. These decreases in net interest income were partially offset by an increase in fees from

non-interest based services including Visa cards, insurance, foreign exchange and investment products. However, the competitive pricing of our loan and deposit products, along with investments in additional infrastructure and staffing to serve our growing membership and a less favourable interest rate environment, resulted in lower earnings for 2007.

Consolidated net earnings for the Vancity Group were \$28.3 million, \$17 million lower than last year. The decrease from 2006 was due in part to the market disruption caused by asset-backed commercial paper that resulted in a \$13.9 million loss in the year. This is recorded as an Unusual Item in the Consolidated Statement of Earnings. The 2007 net earnings are \$30.3 million after distributions (excluding investment share dividends) to community and members of \$8.9 million. In total, distributions to community and members (excluding investment share dividends) were 31.2% of net earnings, demonstrating Vancity's ongoing commitment to share its success. Return on equity for 2007 was 4.9% while return on average assets came in at 21 basis points (2006: 8.4% and 38 basis points respectively).

Vancity's growth was assisted by the economic environment in which it operates. The strong employment levels in British Columbia, coupled with reasonable core inflation in Canada, has allowed the Bank of Canada to keep interest rate increases to a minimum and, in turn, helped to maintain the housing sector in British Columbia. Liquidity and credit concerns arose in the latter part of the year due to the stress in the US sub-prime housing market spreading up to Canada. This combination of reasonably strong employment and historically low interest levels also helped Vancity to maintain low loan delinquency levels and relatively low loan write-offs over the course of the year. Net membership grew by more than 33,100 in 2007 with almost 14,000 arising from our merger with Van Tel/ Safeway Credit Union.



\* Includes Citizens Bank branches in Vancouver and Calgary.

During 2007, Vancity's consolidated assets grew by \$1.8 billion to a total of \$14.1 billion. This increase arose from organic loan growth of \$1.8 billion and merger activity of \$291 million, partially offset by mortgage sales. The overall 2007 growth represents an increase of 14.8% and compares to 2006 growth of \$0.5 billion or 4.4%. Consolidated deposits of \$11.2 billion at the end of 2007 reflect an increase of \$1.0 billion or 9.7%. Consolidated loans (after mortgage sales for liquidity and capital management) of \$12.6 billion have increased by \$1.7 billion or 15.5%. Assets under administration of \$2.1 billion have grown by \$273 million or 15%. 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 on page 8.

### CHANGES IN ACCOUNTING POLICIES

Vancity's significant accounting policies are set out in Note 1 to the financial statements. Note 2 provides a description of the changes in accounting policies implemented due to new accounting standards issued for 2007.

On January 1, 2007, Vancity adopted four new accounting standards: (i) Financial Instruments – Recognition and Measurement; (ii) Financial Instruments – Disclosure and Presentation; (iii) Hedges; and (iv) Comprehensive Income. The new standards require all financial assets and financial liabilities be carried at fair value, except for those classified upon initial recognition as loans and receivables, held to maturity financial assets or other non-trading financial liabilities. These exceptions are carried at amortized cost. As well, the standards require that all derivatives be measured at fair value.

A new Statement of Comprehensive Income now forms part of Vancity's consolidated financial statements and displays current period net income and Other Comprehensive Income. Accumulated Other Comprehensive Income (AOCI) is a separate component of members' equity. The Consolidated Statement of Comprehensive Income reflects changes in AOCI, comprised of changes in unrealized gains and losses on available for sale assets, as well as changes in the fair value of derivatives designated as cash flow hedges, to the extent they are effective.

As required, the implementation of these standards has been applied as an adjustment to opening retained earnings, AOCI and the related financial asset or financial liability balances. The impact of adopting these standards resulted in a \$0.08 million increase in retained earnings and a \$9.3 million decrease in AOCI to reflect expected

future losses. Prior period balances have not been restated. The adoption of these new accounting policies did not have a material impact on Vancity's net earnings for 2007.

For further details, see Note 2 to the financial statements.

### 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 showed a decrease of \$3.9 million or 1.4% over the previous year compared to last year's increase of \$6.6 million and 2.4%.

Although interest rates gradually rose during the year, they were still reasonable by historical standards. Coupled with the high employment levels, the consumer spending and housing markets were strong, driving up volumes on consumer-related financing and residential mortgages. The information in Table 1 provides more details on the net interest income components, particularly the growth in Other Loans and Residential Mortgages. The decline in Other Interest Income compared to 2006 is due to the prospective adoption of the new accounting standards discussed above and relates primarily to the restatement of loan fees under the effective interest rate method and reclassification of loan fee income and direct transaction costs from Other Income and General Operating Expense to Net Interest Income.

Gross interest income and gross interest expense grew at 15% and 27%, respectively. The smaller growth in our interest income percentage relative to interest expense reflects the impact of retail competition faced by our loan products, which is further discussed below.

Interest income is sensitive to changes in mix and volumes of assets and liabilities, and to changes in interest rates. Table 2 provides an analysis of these factors for 2007 and 2006 relative to the preceding year. The table also shows that the 2007 net interest income decreased compared to the prior year due to increased retail competition.

The 2007 provision for credit losses increased to \$16.3 million from \$11.2 million in 2006. Note 4 to the Financial Statements indicates that the provision related to normal credit factors has significantly increased consistent with the growth and mix of the loan portfolio. The lending and credit risk factors that have a direct bearing on the provision for credit losses are discussed in the balance sheet section below.

### Other Income

Other income continues to grow at Vancity as the consolidated group provides an increasing array of financial services to our members. Table 3 provides details of the various components of other income. Total other income grew by \$4.4 million or 5% for the year. The areas of largest growth were credit card fees, trust fees, and investment fees. Our *Visa* card base and purchase volumes continue to grow, while the increase in assets under administration generates steady investment fee income. Although account service fees comprise 24% of total other income in 2007, they have been generally decreasing over the last five years and currently remain at 2005 levels as a percent of total other income. The decline in Loan Fee income is caused by the reclassification of certain loan fees from Other Income to Net Interest Income, due to the prospective adoption of financial instrument standards as discussed above.

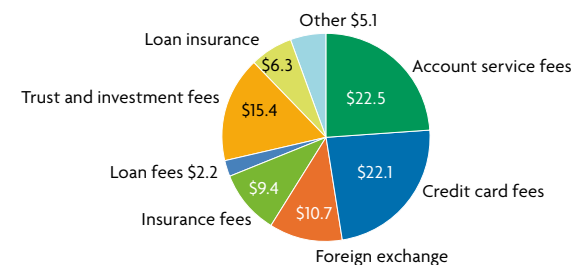
### Operating Expenses

Total operating expenses increased by 4.6% or \$13.1 million compared to 2006. The increased operating costs in 2007 exceeded the revenue growth, resulting in an efficiency ratio of 87.2% compared to 79.9% for the prior year. The largest increases in expenses were to salaries and benefits, professional services, rent and *Visa* card expenses.

Details of operating expenses in Table 4 show that salary and employee benefits costs increased by \$12.9 million, occupancy and equipment increased by \$3.4 million and general operating decreased by \$3.2 million. Salaries and employee benefits grew due to increased staff pension expenses, annual salary increases and restructuring costs. Occupancy and equipment grew primarily due to increased rent relating to our expanded branch network. General operating decreased mainly due to the reclassification of certain commission and appraisal fees from General operating to net interest income. This decrease has been partially offset by increases in professional services and volume-related *Visa* card expenses.

### Other Income

(millions of dollars)



### Unusual Items

Revenues and expenses that result from transactions and events that do not typify normal business activities of Vancity are distinguished separately from Earnings from Operations and reported in this category. In 2007, two items met this criterion.

Vancity held \$76.9 million in Canadian non-bank asset-backed commercial paper (ABCP) investments. The full balance of this investment was held by Citizens Bank. ABCPs are typically short-term investment vehicles maturities ranging between 90 and 180 days. The securities themselves are generally issued by banks or other financial institutions while the notes are backed by assets such as trade receivables or mortgage loans. These investments had formed part of Vancity's excess liquid (cash equivalent) securities portfolio in accordance with Vancity policies and were rated in the highest quality category (R-1 High) by Dominion Bond Rating Service (DBRS).

As a result of the liquidity disruption in Q3 2007, the Montreal Accord called for a system-wide freeze on the trading and pricing of the ABCPs with the intent to restructure them. As a result, Vancity reclassified its ABCP from cash equivalent securities to long term investments and recorded a \$13.9 million impairment in the carrying value of its ABCP. The impairment loss was based on a probability weighted valuation method that employed market data and management assumptions to determine fair value.

Currently, the Pan-Canadian Investors Committee, a group assigned to resolve the illiquid nature of these ABCP trusts, is diligently working toward a resolution to restructure the ABCP securities. As a prudent measure, Vancity had augmented its investment portfolio with additional government and bank securities to maintain adequate liquidity and capital. Vancity management has confirmed that the current status of these ABCP investments have not impacted any of its debt covenants and does not anticipate any material changes to its near term cash obligations and longer term strategic business planning. An existing liquidity contingency plan will address Vancity's ongoing funding needs due to any further unforeseen changes in the markets.

The above loss is offset by a \$4.8 million gain on Vancity's membership interest in *Visa* Inc. as a result of its restructuring activities.

Note 11 to the Financial Statements provides further information on these two unusual items.

### Income and Other Taxes

Vancity pays a variety of federal, provincial and municipal taxes. The major taxes payable are reported in Table 5, which shows the overall level of taxes decreased relative to the prior year. The majority of the decline was due to lower income taxes in 2007 due to lower earnings for the year. Further information regarding corporate income taxes is provided in Note 13 to the financial statements.

### **Distributions to Community and Members**

Distributions to community and members decreased to \$10.8 million in 2007 from \$15.8 million in 2006, consistent with the lower net earnings. Note 12 to the financial statements show distributions by major categories. Membership share dividends of \$1.2 million represent a 1.8% dividend payment while patronage rebates of \$4.0 million consist of a bonus on deposit interest paid by Vancity, a rebate on loan interest paid by members, a dividend based on investments held by members with Credential Group, and a rebate on various home insurance purchased through Vancity.

### **Employee Loans**

Outstanding loans to employees of the Credit Union amounted to \$296 million at year end (2006: \$300 million) as shown in Note 20. This note also outlines the loan terms, which range from normal market rates to low rate employee loans that form part of the compensation to employees of the Credit Union.

## **BALANCE SHEET**

### **Lending and Credit Risk**

Total loan volumes increased by 15.4% in 2007. The increase was mainly driven by growth in residential mortgages of 11.0%, consumer loans of 19.7% and commercial mortgages of 28.8%. The growth in business loans and commercial mortgages reflects Vancity's focus on diversifying revenue by relying on lines of businesses other than retail.

Loan losses due to normal credit factors increased from last year with loans written off totaling \$10.7 million (2006: \$8.3 million). As described in Note 4 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 \$1.5 million at the end of 2007 (2006: \$4.4 million). In total, Vancity's allowance for impairment consists of \$8.1 million of specific allowances and \$63.8 million of general allowances. Total impaired loans, as defined in Note 1(e) are \$31.7 million at the end of 2007, a decrease of \$7.2 million from 2006. The total of the specific and general allowances provides adequately for future credit losses inherent in the loan portfolio from impaired loans as well as general economic and business conditions. The level of allowance is consistent with the growth in the total loan portfolio.

### **Liabilities**

Deposits increased by 9.7% in 2007. Member preference continues to be in demand and cashable term products, which provide added flexibility. Vancity continues to benefit from the investment grade short term debt rating received from DBRS in 2005. This rating 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. In 2007, despite the ABCP market disruption, the DBRS rating for Vancity was confirmed at R-1 (low) consistent with our continued financial stability.

## **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 6. Vancity management maintains a target for capital that is higher than the regulatory capital requirements. Both the regulatory and management targets were exceeded in 2007. The capital ratio at 12.1% was lower than the prior year (2006 – 13.0%) due to the growth of risk-weighted assets outpacing growth in capital. The 2007 capital requirement was achieved primarily through retained earnings growth and the contributed surplus resulting from business combinations.

## **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 2007, Vancity has maintained a relatively stable interest rate risk profile that is well within its policy limits. Note 15 to the financial statements analyzes the balance sheet by the earlier of re-pricing or maturity dates while Note 16 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>Net Interest Income</b> (thousands of dollars)	<b>2007</b>	2006	2005	2004	2003
<b>Interest Income</b>					
Residential mortgages	\$ 348,510	\$ 313,091	\$ 266,210	\$ 252,034	\$ 259,324
Commercial mortgages	66,871	53,177	42,104	50,381	53,888
Other loans	255,033	212,298	163,411	125,064	123,095
Cash and securities	48,100	36,511	29,211	24,769	23,273
Other interest income	5,800	17,181	16,838	14,244	7,402
	<b>724,314</b>	<b>632,258</b>	<b>517,774</b>	<b>466,492</b>	<b>466,982</b>
<b>Interest Expense</b>					
Chequing/savings accounts	28,755	24,678	13,092	9,677	12,036
Other demand accounts	5,211	3,701	2,110	1,328	1,474
Term deposits	277,343	219,236	148,536	123,592	125,541
Retirement plans	66,216	60,279	53,753	57,824	59,945
Wholesale borrowings	68,665	42,606	22,423	16,314	14,860
Other interest costs	2,591	2,326	5,004	2,681	3,665
	<b>448,781</b>	<b>352,826</b>	<b>244,918</b>	<b>211,416</b>	<b>217,521</b>
<b>Net interest income</b>	<b>\$ 275,533</b>	<b>\$ 279,432</b>	<b>\$ 272,856</b>	<b>\$ 255,076</b>	<b>\$ 249,461</b>

**TABLE 2****Analysis Of Changes In Net****Interest Income** (thousands of dollars)

	<b>2007 vs 2006</b>			<b>2006 vs 2005</b>		
	<b>Increase (decrease) due to changes in</b>			<b>Increase (decrease) due to changes in</b>		
	<b>Average Volume</b>	<b>Average Rate</b>	<b>Net Change</b>	<b>Average Volume</b>	<b>Average Rate</b>	<b>Net Change</b>
<b>Assets</b>						
Residential mortgages	\$ 12,580	\$ 22,109	\$ 34,689	\$ 32,671	\$ 16,006	\$ 48,677
Commercial mortgages	12,740	954	13,694	10,009	1,064	11,073
Other loans	36,888	6,529	43,417	35,037	18,597	53,634
Cash and securities	3,280	8,310	11,590	3,801	5,532	9,333
Total interest income	<b>65,488</b>	<b>37,902</b>	<b>103,390</b>	<b>81,518</b>	<b>41,199</b>	<b>122,717</b>
<b>Liabilities</b>						
Demand deposits	4,160	4,639	8,799	4,056	9,121	13,177
Term deposits	22,257	32,637	54,894	29,670	41,031	70,701
Retirement plans	1,832	4,105	5,937	1,478	5,048	6,526
Debentures and loans	22,471	3,589	26,060	8,906	11,277	20,183
Total interest expense	<b>50,720</b>	<b>44,970</b>	<b>95,690</b>	<b>44,110</b>	<b>66,477</b>	<b>110,587</b>
	<b>\$ 14,768</b>	<b>\$ (7,068)</b>	<b>7,700</b>	<b>\$ 37,408</b>	<b>\$ (25,278)</b>	<b>12,130</b>
<b>Other interest income (costs)</b>			<b>(11,599)</b>			<b>(5,555)</b>
<b>Change in net interest income</b>			<b>\$ (3,899)</b>			<b>6,575</b>

**TABLE 3**

<b>Other Income</b> (thousands of dollars)	<b>2007</b>	2006	2005	2004	2003
Account service fees	\$ 22,470	\$ 20,362	\$ 18,302	\$ 17,503	\$ 17,435
Credit card fees	22,140	18,109	14,214	11,965	9,328
Foreign exchange	10,666	10,130	8,686	7,222	5,216
Insurance services fees	9,362	8,018	6,381	5,727	5,676
Loan fees	2,212	11,204	9,357	7,661	6,166
Trust and investment fees	15,356	12,498	11,547	9,675	6,552
Loan Insurance fees	6,338	5,918	5,379	5,517	5,037
Other	5,074	2,972	1,957	2,769	2,073
<b>Total other income</b>	<b>\$ 93,618</b>	<b>\$ 89,211</b>	<b>\$ 75,823</b>	<b>\$ 68,039</b>	<b>\$ 57,483</b>

**TABLE 4**

<b>Operating Expenses</b> (thousands of dollars)	<b>2007</b>	2006	2005	2004	2003
<b>Salary and employee benefits</b>					
Salaries and wages	\$ 142,415	\$ 132,978	\$ 121,720	\$ 110,569	\$ 96,469
Benefits and training	31,331	27,898	25,262	22,761	19,334
	<b>173,746</b>	<b>160,876</b>	<b>146,982</b>	<b>133,330</b>	<b>115,803</b>
<b>Occupancy and equipment</b>					
Rent	14,127	11,923	11,296	10,137	9,531
Equipment	1,510	1,250	1,508	1,292	1,302
Maintenance and security	4,085	3,783	3,859	3,541	3,496
Amortization	12,338	11,725	11,988	15,734	11,096
	<b>32,060</b>	<b>28,681</b>	<b>28,651</b>	<b>30,704</b>	<b>25,425</b>
<b>General operating</b>					
B.C. corporation capital tax	7,712	7,187	6,551	5,963	5,415
Advertising and promotion	13,159	13,092	14,415	12,342	11,077
Computer	6,536	6,082	6,366	5,802	4,383
Central dues and insurance	6,920	8,382	210	3,452	4,732
Meetings and travel	2,173	2,258	1,739	1,751	1,330
Postage	3,793	3,056	2,523	2,426	2,330
Professional services	12,537	9,934	11,702	6,894	15,145
Stationery	2,451	2,407	2,249	2,101	2,157
Telecommunications	3,881	3,977	3,669	3,315	3,318
Member services	13,593	18,255	19,054	15,176	12,797
Credit Card services	15,192	13,021	10,021	8,337	6,505
Other	4,753	8,237	8,621	6,799	5,233
	<b>92,700</b>	<b>95,888</b>	<b>87,120</b>	<b>74,358</b>	<b>74,422</b>
<b>Total operating expenses</b>	<b>\$ 298,506</b>	<b>\$ 285,445</b>	<b>\$ 262,753</b>	<b>\$ 238,392</b>	<b>\$ 215,650</b>

**TABLE 5**

<b>Income And Other Taxes</b> (thousands of dollars)	<b>2007</b>	2006	2005	2004	2003
Income taxes	\$ 6,136	\$ 10,885	\$ 16,012	\$ 16,838	\$ 17,779
B.C. corporation capital tax	7,712	7,187	6,551	5,963	5,415
Payroll taxes	6,691	6,282	5,763	5,284	4,901
Property taxes	2,842	2,287	1,976	1,851	1,726
Federal and provincial sales taxes	7,505	6,772	7,782	6,612	6,261
<b>Total income and other taxes</b>	<b>\$ 30,886</b>	<b>\$ 33,413</b>	<b>\$ 38,084</b>	<b>\$ 36,548</b>	<b>\$ 36,082</b>

**TABLE 6**

<b>Capital Ratios</b> (thousands of dollars)	<b>2007</b>	2006	2005	2004	2003
Capital Components					
Membership shares and accrued dividends	\$ 68,066	\$ 65,560	\$ 59,153	\$ 57,440	\$ 52,200
Investment shares	39,556	39,031	38,292	36,243	35,809
Retained earnings and contributed surplus	583,600	536,914	491,614	440,302	383,114
Less: Future income taxes	(14,195)	(11,950)	(11,825)	(14,939)	(15,189)
Less: Deductions from capital	(84,327)	(80,419)	(79,473)	(87,801)	(81,787)
Vancity Group capital	592,700	549,136	497,761	431,245	374,147
Proportion of system capital	66,182	57,033	50,671	48,345	44,659
Total capital	\$ 658,882	\$ 606,169	\$ 548,432	\$ 479,590	\$ 418,806
Total risk-adjusted assets	\$ 5,443,757	\$ 4,652,840	\$ 3,970,605	\$ 3,978,379	\$ 3,602,918
<b>Capital ratio</b>	<b>12.1%</b>	<b>13.0%</b>	<b>13.8%</b>	<b>12.1%</b>	<b>11.6%</b>

## 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, 2007 and the consolidated statements of earnings, comprehensive income, changes in members' equity 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, 2007 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  
February 2, 2008

## 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.



**Tamara Vrooman**  
Chief Executive Officer  
February 2, 2008



**Rob Malli**  
Vice-President, Finance

## VANCOUVER CITY SAVINGS CREDIT UNION

## Consolidated Balance Sheet

As at December 31, 2007

(thousands of dollars)	Note	2007	2006
<b>ASSETS</b>			
<b>Cash And Securities</b>			
Cash and cash equivalents		\$ 148,677	\$ 158,786
Deposits with financial institutions	3	732,575	625,454
Government and corporate securities	3	272,368	320,899
		<u>1,153,620</u>	<u>1,105,139</u>
<b>Loans</b>			
Residential mortgages		7,272,558	6,552,353
Commercial mortgages		1,488,616	1,155,658
Consumer loans		2,502,615	2,090,452
Business loans		1,380,371	1,154,290
Allowance for credit losses		(71,969)	(64,161)
	4	<u>12,572,191</u>	<u>10,888,592</u>
<b>Other</b>			
Accrued interest receivable		53,010	45,035
Derivative instruments	16	16,382	4,252
Premises and equipment	6	71,950	67,108
Other assets	7	227,733	170,961
		<u>369,075</u>	<u>287,356</u>
		<u>\$ 14,094,886</u>	<u>\$ 12,281,087</u>
<b>LIABILITIES</b>			
<b>Deposits</b>			
Demand		\$ 2,408,599	\$ 2,113,410
Term		8,695,207	8,007,067
Shares	8	104,583	100,718
		<u>11,208,389</u>	<u>10,221,195</u>
<b>Wholesale Borrowings</b>			
Demand loans and banker's acceptances		1,256,115	780,009
Bearer deposit notes		653,432	396,847
		<u>1,909,547</u>	<u>1,176,856</u>
<b>Other Liabilities</b>			
Accrued interest and dividends payable		170,914	158,432
Accounts payable and other accrued liabilities		208,065	187,691
Derivative instruments	16	18,610	-
		<u>397,589</u>	<u>346,123</u>
<b>MEMBERS' EQUITY</b>			
Contributed Surplus	9	22,470	4,190
Retained Earnings		561,130	532,723
Accumulated Other Comprehensive Loss		(4,239)	-
		<u>579,361</u>	<u>536,913</u>
		<u>\$ 14,094,886</u>	<u>\$ 12,281,087</u>

*Paine Pratt*  
Director

*Clair Dwyer*  
Director

VANCOUVER CITY SAVINGS CREDIT UNION

## Consolidated Statement of Earnings

For the Year Ended December 31, 2007

(thousands of dollars)	Note	2007	2006
<b>INTEREST INCOME</b>			
Loans		\$ 670,414	\$ 578,566
Cash and securities		48,100	36,511
Other		5,800	17,181
		<u>724,314</u>	<u>632,258</u>
<b>INTEREST EXPENSE</b>			
Deposits		377,525	307,894
Wholesale borrowings		68,665	42,606
Other		2,591	2,326
		<u>448,781</u>	<u>352,826</u>
<b>NET INTEREST INCOME</b>		<b>275,533</b>	279,432
<b>PROVISION FOR CREDIT LOSSES</b>	4	<b>16,323</b>	11,208
		<u>259,210</u>	<u>268,224</u>
<b>OTHER INCOME</b>		<b>93,618</b>	89,211
<b>NET INTEREST AND OTHER INCOME</b>		<b>352,828</b>	357,435
<b>OPERATING EXPENSES</b>			
Salaries and employee benefits	10	173,746	160,876
Occupancy and equipment		32,060	28,681
General operating		92,700	95,888
		<u>298,506</u>	<u>285,445</u>
<b>EARNINGS FROM OPERATIONS</b>		<b>54,322</b>	71,990
<b>UNUSUAL ITEMS</b>	11	<b>(9,035)</b>	-
<b>EARNINGS AFTER UNUSUAL ITEMS</b>		<b>45,287</b>	71,990
<b>DISTRIBUTIONS TO COMMUNITY AND MEMBERS</b>	12	<b>10,822</b>	15,805
<b>EARNINGS BEFORE INCOME TAXES</b>		<b>34,465</b>	56,185
<b>PROVISION FOR INCOME TAXES</b>	13	<b>6,136</b>	10,885
<b>NET EARNINGS</b>		<b>\$ 28,329</b>	\$ 45,300

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

VANCOUVER CITY SAVINGS CREDIT UNION

## Consolidated Statement of Comprehensive Income

For the Year Ended December 31, 2007

(thousands of dollars)

	<b>2007</b>
<b>NET EARNINGS</b>	<b>\$ 28,329</b>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>	
Net change in cash flow hedges	
Net unrealized gains on derivatives designated as cash flow hedges, net of tax of \$297	<b>2,179</b>
Transfer of net realized loss on cash flow hedges to earnings, net of tax of \$612	<b>2,247</b>
	<b>4,426</b>
Net change in available for sale securities	
Net unrealized losses on available for sale securities, net of tax of (\$4,154)	<b>(8,873)</b>
Transfer of net realized loss on available for sale securities to earnings, net of tax of \$4,430	<b>9,467</b>
	<b>594</b>
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>5,020</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 33,349</b>

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

VANCOUVER CITY SAVINGS CREDIT UNION

## Consolidated Statement of Changes in Members' Equity

For the Year Ended December 31, 2007

(thousands of dollars)	Note	2007	2006
<b>CONTRIBUTED SURPLUS</b>			
Balance, beginning of year		\$ 4,190	\$ 4,190
Net assets acquired	9	<b>18,280</b>	-
Balance, end of year		<b>\$ 22,470</b>	\$ 4,190
<b>RETAINED EARNINGS</b>			
Balance, beginning of year		\$ 532,723	\$ 487,423
Adjustment for change in accounting policies, net of tax of \$13	2	<b>78</b>	-
Net earnings		<b>28,329</b>	45,300
Balance, end of year		<b>\$ 561,130</b>	\$ 532,723
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
Balance, beginning of year		\$ -	\$ -
Adjustment for change in accounting policies, net of tax of \$(2,136)	2	<b>(9,259)</b>	-
Other comprehensive income		<b>5,020</b>	-
Balance, end of year		<b>\$ (4,239)</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, 2007

(thousands of dollars)	Note	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>NET EARNINGS</b>		\$ 28,329	\$ 45,300
Adjustments to determine net cash flows from operating activities:			
Provision for credit losses		16,323	11,208
Amortization of premises and equipment		12,339	11,725
Write-down on available for sale securities		13,897	-
Net change in derivative financial instruments		(916)	(4,252)
Changes in operating assets and liabilities:			
Future income tax assets		108	(749)
Accrued interest receivable		(7,975)	(531)
Other assets		(20,980)	(1,543)
Accrued interest and dividends payable		12,482	52,589
Accounts payable and other accrued liabilities		20,374	45,402
		<b>73,981</b>	<b>159,149</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Deposits with financial institutions		(106,907)	(93,300)
Government and corporate securities		35,513	516,923
Loans, net of repayments		(2,057,615)	(1,206,868)
Premises and equipment		(20,051)	(12,895)
Other assets		(37,644)	(47,369)
Non-cash net assets acquired from business combinations	9	(21,387)	-
Cash and cash equivalents acquired from business combinations	9	41,667	-
		<b>(2,166,424)</b>	<b>(843,509)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Demand and term deposits		983,329	(341,566)
Shares		3,865	4,606
Loans payable		732,691	718,437
Sale of mortgage backed securities	5	362,449	346,765
		<b>2,082,334</b>	<b>728,242</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(10,109)</b>	<b>43,882</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>		<b>158,786</b>	<b>114,904</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>		<b>\$ 148,677</b>	<b>\$ 158,786</b>
<b>SUPPLEMENTARY INFORMATION</b>			
Interest paid		\$ 426,275	\$ 300,543
Income taxes paid		12,371	14,143

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, 2007

Vancouver City Savings Credit Union (the 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 bank), the principal subsidiary of the Credit Union, is federally incorporated and its operations are regulated by the Office of the Superintendent of Financial Institutions (OSFI). The bank serves customers across Canada with its main operations in British Columbia and Ontario. 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. The 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 Inhance Investment Management Inc. The Credit Union owns 96.6% of Inhance 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., SCU Insurance Services Ltd., Squamish Insurance Agencies 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) Cash and Cash Equivalents

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

### (c) Deposits with Financial Institutions

Deposits held for liquidity purposes with Credit Union Central of B.C. and other financial institutions are recorded at amortized cost. Interest income on deposits is recorded on an accrual basis.

### (d) 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. Marketable securities are held as available for sale securities. Any impairment other than temporary is classified in other income. For changes related to accounting for available for sale securities, refer to Note 3.

### (e) Loans

Loans are initially measured at fair value plus fees and direct transaction costs. Subsequently, they are measured at amortized cost, net of an allowance for credit losses, using the effective interest method.

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 only after recovery of the specific provision for impairment or partial write-off, and provided that there is no further doubt as to the collectibility of the principal amount.

#### Impaired Loans

Loans are generally considered to be impaired at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectibility 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. 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 Credit Losses

The allowance for credit losses 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 loans that are specifically identified as being impaired. The general allowance represents the best estimate of probable losses within the portion of the portfolio that is not specifically

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

identified as impaired. The amount is established through the application of expected loss factors to outstanding balances. The general allowance includes management's assessment of probable, unidentified losses, 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.

The balance in the allowance for credit losses account is deducted from the related asset category. The amount of the provision for credit losses that is charged to the consolidated statement of earnings is the estimated net credit loss experience for the year. The provision for the year establishes the amount needed in the allowance for credit losses account that management considers adequate to absorb all credit related losses in its portfolio after charging loans written off during the year, net of recoveries, to the allowance for credit losses account.

**Loan Fees**

The accounting treatment for loan fees varies depending on the transaction. Fees that are considered to be adjustments to loan yield are recognized using the effective interest method. The effective interest method capitalizes fees and transaction costs on the consolidated balance sheet and amortizes them to interest income or expense over the expected life of the related loan or deposit. Retail loan fees, except for application fees, are recognized using the effective interest method as interest income over the duration of the loan portfolio. 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 recognized over the average remaining term of the original mortgage. Loan origination, restructuring and renegotiation fees for commercial and business loans are recorded as interest income over the average term of the loan using the effective interest method. 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. Loan fees that are recognized using the effective interest method are included with loan balances on the consolidated balance sheet.

**Loan Securitizations and Sales**

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 that commensurate with the risks involved. Gains or losses on these transactions are recorded in other interest income or interest expense 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 the 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. Vancity classifies its retained interests in securitizations as available for sale securities. These retained interests are recorded at their fair value at the time of sale and are periodically re-evaluated with changes in fair value flowing through other comprehensive income and interest income flowing through net earnings.

**(f) Commissions**

Commissions paid in connection with deposit taking and lending activities are considered transaction costs to their related products. These commission costs are adjustments to the yield of the loan or deposit and therefore are recognized using the effective interest method as interest expense over the average term of the portfolio. Commission costs are included with the related loan or deposit balances on the consolidated balance sheet.

**(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

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

**(h) Other Assets**

Investments in shares of Credit Union Central of B.C. are recorded at cost. Properties acquired for development purposes are held at the lower of cost or net realizable value. Intangible assets consists of ICBC licenses and customer lists. Intangible assets are recorded at their fair value on acquisition and are subsequently carried at cost less permanent impairments.

**(i) Derivative Instruments**

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

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 and measured. Hedging relationships, between the 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 the 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 in cash flows attributable to the risk being hedged. Effectiveness testing is performed both at inception and over the term of the hedging relationship. For accounting treatment related to hedges refer to Note 2.

Derivatives, including trading 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 other interest income.

Interest rate swaps are used to manage the interest rate exposure from specific assets, liabilities, and commitments or anticipated transactions.

Options are used to manage the risk of changes in fair value of equity linked deposit contracts with members. Both equity 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 and 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 or substantively enacted income tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. 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 on the statement of earnings.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

**(n) Comparative Figures**

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

**2. CHANGES IN ACCOUNTING POLICIES****(a) Current Year Changes**

Financial Instruments, Hedges and Comprehensive Income

On January 1, 2007, Vancity adopted four new CICA accounting standards: Handbook Section 3855, *Financial Instruments - Recognition and Measurement* (HB 3855), Handbook Section 3861, *Financial Instruments - Disclosure and Presentation* (HB 3861), Handbook Section 3865, *Hedges* (HB 3865), and Handbook Section 1530, *Comprehensive Income* (HB 1530). The requirements of the new standards, the accounting policies adopted by Vancity and the resulting financial statement impact are further discussed below.

Financial Instruments - Recognition and Measurement

HB 3855 requires that all financial assets and liabilities be carried at fair value, unless they are classified on initial recognition as loans and receivables (L&R), held to maturity (HTM) financial assets or other financial liabilities (OFL). L&R, HTM financial assets and OFL are carried at amortized cost. Any financial asset or liability may be designated as held for trading (HFT) at initial recognition. In addition, the standard requires that all derivatives be measured at fair value. When available from active markets, fair values are based on quoted market prices. If reliable markets are not available, fair values are estimated using a variety of valuation techniques and models.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured upon initial recognition, minus principal payments, plus or minus cumulative amortization of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Amortization is based on the effective interest method.

Classification of Financial Instruments

HFT financial assets and liabilities are acquired or incurred principally for resale, generally within a short period of time. They are measured at fair value at each balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are reported in income as trading revenue. Interest earned and interest incurred is included in interest income and expense, respectively. Vancity has classified cash and cash equivalents as HFT as well as foreign currency deposit liabilities.

HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than L&R, which an entity has the positive intention and ability to hold to maturity. These financial assets are accounted for at amortized cost. Vancity has not designated any financial assets as HTM.

Available for sale (AFS) financial assets are non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM investments, trading or designated at fair value. AFS assets are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income (AOCI) until sale or other than temporary impairment, at which time the cumulative gain or loss is transferred to the consolidated statement of earnings. Income from these assets is included in interest income. Vancity has classified securities, investment in shares of Credit Union Central of B.C., and retained interests as AFS securities.

L&R are recorded at amortized cost. All loans, receivables and liquidity deposits are classified as L&R by Vancity. OFL are recorded at amortized cost and include all liabilities, other than derivatives and liabilities designated as HFT. All financial liabilities other than foreign currency deposits are classified as OFL.

Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. In both cases they are classified as derivative instruments in the financial statements. Derivatives may also be embedded in other financial instruments. Under the new standards, derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a derivative if it was a free standing instrument; and the combined contract is not designated as HFT and recorded at fair value. These embedded derivatives are classified as part of the host instrument and measured at fair value with changes therein recognized on the consolidated statement of earnings. Vancity applied this accounting treatment to all host contracts entered into after January 1, 2003. Embedded derivatives separately valued include index-linked options within deposit contracts.

Interest income and expense are recognized on the consolidated statement of earnings using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

expected life of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently. The calculation of the effective interest rate includes transaction costs, fees and discounts or premiums that are an integral part of the rate.

Interest income and expense presented on the consolidated statement of earnings include:

- interest on financial assets and liabilities at amortized cost on an effective interest basis;
- interest on AFS debt securities on an effective interest basis;
- the release from AOCI of the gain or loss relating to the effective portion of qualifying hedging derivatives designated as cash flow hedges as the hedged item is recorded in interest income (expense); and
- effective portion of fair value changes in derivatives, designated as fair value hedges and fair value changes on the related hedged items arising from the hedged risk when interest rate risk is the hedged risk.

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs related to HFT financial instruments are expensed as incurred. Transaction costs related to AFS and HTM assets and L&R are capitalized and amortized over the expected life of the instrument using the effective interest method. Settlement date accounting continues to be used for all assets.

#### Hedges

There are two main types of hedges: (i) fair value hedges, and (ii) cash flow hedges. Previously, derivatives that met hedge accounting criteria were accounted for on an accrual basis.

In a fair value hedge, the change in fair value of the hedging derivative is offset on the consolidated statement of earnings by the change in fair value of the hedged item relating to the hedged risk. Vancity utilizes fair value hedges primarily to convert fixed rate financial assets and liabilities to floating rate. The main financial instruments designated in fair value hedging relationships are loans and deposits. If the derivative expires or is sold, terminated or exercised, no longer meets the criteria for fair value hedged accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortized to the consolidated statement of earnings as part of the recalculated effective interest rate of the item over its remaining life.

In a cash flow hedge, the effective portion of changes in fair value of the derivative is recognized in other comprehensive income (OCI). The amount recognized in OCI is reclassified and included on the consolidated statement of earnings in the same period that the hedged cash flows affect income. Vancity utilizes cash flow hedges primarily to convert floating rate assets and liabilities to fixed rate.

Any hedge ineffectiveness is measured and recorded in other interest income on the consolidated statement of earnings. When either a fair value or cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income is recognized in income over the remaining term of the original hedge (fair value hedge) and as the hedged item impacts earnings (cash flow hedge) or immediately if the hedged item is derecognized.

#### Comprehensive Income

A new statement of comprehensive income now forms part of Vancity's consolidated financial statements and displays current period net income and OCI. AOCI is a separate component of members' equity. The consolidated statement of comprehensive income reflects changes in AOCI, comprised of changes in unrealized gains and losses on AFS assets, as well as changes in the fair value of derivatives designated as cash flow hedges, to the extent they are effective.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

**Financial Instruments, Hedges and Comprehensive Income** (continued)

As required, these standards have been applied as an adjustment, net of tax, to opening retained earnings, AOCI, and the related financial asset or financial liability balances. The impact of adopting these standards as at January 1, 2007 was as follows:

(thousands of dollars)	As at December 31 2006	Adjustment Upon Adoption of New Standards	As at January 1 2007
<b>Assets</b>			
Cash and cash equivalents	\$ 158,786	\$ -	\$ 158,786
Securities	946,353	299	946,652
Loans	10,888,592	4,755	10,893,347
Derivative instruments	-	(3,220)	(3,220)
Other assets	287,356	94	287,450
<b>Impact on total assets</b>	<b>\$ 12,281,087</b>	<b>\$ 1,928</b>	<b>\$ 12,283,015</b>
<b>Liabilities and Members' Equity</b>			
<b>Liabilities</b>			
Deposits	\$ 10,221,195	\$ (214)	\$ 10,220,981
Derivative instruments	-	11,288	11,288
Other liabilities	1,522,979	35	1,523,014
Impact on total liabilities	11,744,174	11,109	11,755,283
<b>Members' Equity</b>			
Contributed surplus	4,190	-	4,190
Retained earnings	532,723	78	532,801
Accumulated other comprehensive income			
Net unrealized gains on AFS assets	-	346	346
Net unrealized losses on derivatives designated as cash flow hedges	-	(9,605)	(9,605)
Impact on members' equity	536,913	(9,181)	527,732
<b>Impact on liabilities and members' equity</b>	<b>\$ 12,281,087</b>	<b>\$ 1,928</b>	<b>\$ 12,283,015</b>

The opening entries resulted in a \$78,000 increase in retained earnings. This increase is caused by the following:

- Recognition and restatement of loan fees using the effective interest method resulted in an increase in retained earnings of \$6,755,000 (net of taxes of \$1,996,000).
- Restatement of premiums and discounts on purchased mortgage pools using the effective interest method accounted for a decrease in retained earnings of \$268,000 (net of a tax recovery of \$144,000).
- Reclassification of long-term investments from amortized cost to AFS securities caused a decrease in retained earnings of \$139,000 (net of a tax recovery of \$75,000).
- Classification and restatement of retained interests in sold loans to AFS securities caused a decline in retained earnings of \$2,876,000 (net of a tax recovery of \$990,000).
- Restatement of non-market rate mortgages to fair value resulted in a \$2,735,000 decline in retained earnings (net of a tax recovery of \$635,000).
- Recognition of the ineffective portion of cash flow hedge swaps at January 1, 2007 accounted for a \$24,000 decrease in retained earnings (net of a tax recovery of \$49,000).
- Restatement of equity-linked options to their incremental fair value over cost resulted in a \$635,000 decline in retained earnings.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

The opening entries in accumulated other comprehensive income resulted in recording expected future losses to earnings of \$9,259,000. This amount consists of the following:

- Recognition and measurement of cash flow hedge swaps as derivative assets and liabilities resulted in a decrease in AOCI of \$8,551,000 (net of a tax recovery of \$2,083,000).
- Transfer of the opening balance from other assets to AOCI for gains and losses relating to the effective portion of qualifying hedging derivatives designated as cash flow hedges accounted for a \$1,058,000 decrease in AOCI (net of a tax recovery of \$217,000).
- Recognition of securities and retained interests as available for sale assets and measurement at fair value resulted in a \$350,000 increase in AOCI (net of taxes of \$164,000).

**(b) Future Changes in Accounting Policies****Financial Instruments - Presentation and Disclosure**

Handbook Section 3862, *Financial Instruments – Disclosures* (HB 3862), and Handbook Section 3863, *Financial Instruments – Presentation* (HB 3863), issued in December 2006, revise the current standards on financial instrument disclosure and presentation. These standards enhance users' ability to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks. These standards will be adopted by Vancity effective January 1, 2008.

## Capital Disclosures

Handbook Section 1535, *Capital Disclosures*, was issued in December 2006. This section requires enhanced quantitative disclosures about what is regarded as capital and disclosure of information with respect to the objectives, policies and processes used to manage capital. These standards will be adopted by Vancity effective January 1, 2008.

**3. SECURITIES**

An analysis of the fair value (2006: carrying value) of securities by remaining term to maturity is as follows:

	Effective Yield	Within 1 Year	1 to 5 Years	Over 5 Years	2007 Total Fair Value	2006 Carrying Value
(thousands of dollars)						
<b>Securities held as AFS assets</b>						
Securities issued or guaranteed by:						
Canadian federal government	4.18%	\$ 70,132	\$ -	\$ -	\$ 70,132	\$ 109,456
Canadian provinces and municipalities	4.15%	20,813	-	-	20,813	-
Mortgage-backed securities	3.82%	5,804	2,230	-	8,034	63,621
Other debt	4.68%	114,930	4,944	61,016	180,890	151,622
Total AFS assets at fair value		211,679	7,174	61,016	279,869	324,699
<b>Securities held as L&amp;R</b>						
Deposits with CUCBC	4.58%	580,001	145,073	-	725,074	621,654
Total L&R at amortized cost		580,001	145,073	-	725,074	621,654
<b>Total securities</b>		<b>\$ 791,680</b>	<b>\$ 152,247</b>	<b>\$ 61,016</b>	<b>\$ 1,004,943</b>	<b>\$ 946,353</b>

Total securities consist of:

	2007	2006
Deposits with financial institutions	\$ 732,575	\$ 625,454
Government and corporate securities	272,368	320,899
<b>Total securities</b>	<b>\$ 1,004,943</b>	<b>\$ 946,353</b>

Included in other debt is Vancity's net investment in asset-backed commercial paper (Note 11).

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

## 4. LOANS

## (a) Loan Maturities and Rate Sensitivities

(thousands of dollars)	Maturity Term				Rate Sensitivity		
	Under 1 Year	1 to 5 Years	5 to 10 Years	2007 Total	Floating	Fixed Rate	2007 Total
Residential mortgages	\$ 3,399,478	\$ 3,791,003	\$ 82,077	\$ 7,272,558	\$ 1,105,188	\$ 6,167,370	\$ 7,272,558
Consumer and other personal loans	2,370,127	130,877	1,611	2,502,615	2,239,145	263,470	2,502,615
Commercial loans	654,894	539,284	294,438	1,488,616	543,336	945,280	1,488,616
Business loans	450,986	864,603	64,782	1,380,371	83,261	1,297,110	1,380,371
Total loans	6,875,485	5,325,767	442,908	12,644,160	3,970,930	8,673,230	12,644,160
Allowance for credit losses	39,009	30,450	2,510	71,969	22,602	49,367	71,969
Total loans, net of allowance for credit losses	\$ 6,836,476	\$ 5,295,317	\$ 440,398	\$ 12,572,191	\$ 3,948,328	\$ 8,623,863	\$ 12,572,191

## (b) Allowance for Credit Losses

(thousands of dollars)	Residential	Commercial	Consumer	Business	2007 Total	2006 Total
Balance, beginning of year	\$ 14,451	\$ 12,585	\$ 23,273	\$ 13,852	\$ 64,161	\$ 59,569
Provision for credit losses						
Normal credit factors	1,545	4,398	8,688	4,392	19,023	12,698
Mortgage fraud recovery	(2,700)	-	-	-	(2,700)	(1,490)
	(1,155)	4,398	8,688	4,392	16,323	11,208
Loans written-off	(73)	-	(9,512)	(1,078)	(10,663)	(8,334)
Recoveries of loans written-off	-	-	2,048	100	2,148	1,718
Balance, end of year	\$ 13,223	\$ 16,983	\$ 24,497	\$ 17,266	\$ 71,969	\$ 64,161
Loans with specific allowances						
Loan balance	\$ 5,945	\$ 3,338	\$ 6,288	\$ 14,964	\$ 30,535	\$ 26,081
Related allowance	2,521	250	2,684	2,676	8,131	8,144
Carrying amount	\$ 3,424	\$ 3,088	\$ 3,604	\$ 12,288	\$ 22,404	\$ 17,937
Loans with general allowances						
Loan balance	\$ 7,266,613	\$ 1,485,278	\$ 2,496,327	\$ 1,365,407	\$ 12,613,625	\$ 10,870,880
Related allowance	10,702	16,733	21,813	14,590	63,838	56,017
Carrying amount	\$ 7,255,911	\$ 1,468,545	\$ 2,474,514	\$ 1,350,817	\$ 12,549,787	\$ 10,814,863
Loans on which the accrual of interest has been discontinued	\$ 15,471	\$ 5,146	\$ 7,840	\$ 3,267	\$ 31,724	\$ 38,882

In the fourth quarter of 2007, management issued \$4.5 million in non-recourse loans to members for exposure to investments in asset-backed securities. An allowance of \$885,000 has been set up against these loans to account for an impairment caused by the disruption in the credit and liquidity markets. For further discussion regarding Vancity's exposure to non-bank sponsored asset backed commercial paper, see Note 11.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

**5. LOAN SECURITIZATIONS AND SALES**

The total outstanding loans sold and removed from the balance sheet at December 31, 2007 were \$847 million (2006: \$727 million). Of this amount, \$847 million (2006: \$717 million) were residential mortgages and \$Nil (2006: \$10 million) were commercial mortgages. Vancity retains the responsibility for servicing the assets securitized and sold.

New activity during the year:

(thousands of dollars)

	<b>2007</b>	2006
	<b>Residential Mortgages</b>	
Loans sold	\$ <b>364,918</b>	\$ 350,878
Net cash proceeds received	<b>362,449</b>	346,765
Retained rights: cash reserves	<b>2,469</b>	4,112
future (deficit) excess interest	<b>(2,346)</b>	3,855
Pre-tax (loss) gain on sale	<b>(2,346)</b>	3,855
Key assumptions at date of sale:		
Average term to maturity	<b>4.89 years</b>	3.67 years
Prepayment rate (%/year)	<b>20%</b>	20%
Excess spread	<b>0.69%</b>	0.42%
Discount rate	<b>4.48% - 4.85%</b>	4.74% - 5.00%

**6. PREMISES AND EQUIPMENT**

	Cost	Accumulated Amortization	<b>2007 Net Book Value</b>	2006 Net Book Value
(thousands of dollars)				
Land	\$ 12,012	\$ -	\$ <b>12,012</b>	\$ 9,311
Buildings	45,697	17,348	<b>28,349</b>	29,978
Leasehold improvements	28,605	12,502	<b>16,103</b>	11,838
Computer equipment and software	64,478	55,097	<b>9,381</b>	9,941
Furniture and equipment	18,432	12,327	<b>6,105</b>	6,040
	<u>\$ 169,224</u>	<u>\$ 97,274</u>	<u>\$ <b>71,950</b></u>	<u>\$ 67,108</u>

**Lease Commitments**

Vancity has leases on certain branch premises for terms extending to 2017. The future minimum lease payments for each of the next five fiscal years and thereafter are as follows:

	(thousands of dollars)
2008	\$ <b>9,461</b>
2009	<b>7,174</b>
2010	<b>6,090</b>
2011	<b>4,495</b>
2012	<b>3,788</b>
2013 and thereafter	<u><b>9,627</b></u>
	<u>\$ <b>40,635</b></u>

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

**7. OTHER ASSETS**

(thousands of dollars)	2007	2006
Credit Union Central of B.C. shares	\$ 32,381	\$ 32,871
Accounts receivable, prepayments and other	179,176	122,575
Future income tax assets (Note 13)	16,176	15,515
	<u>\$ 227,733</u>	<u>\$ 170,961</u>

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

**8. DEPOSITS**

(thousands of dollars)	2007	2006
Membership shares	\$ 59,615	\$ 57,424
Investment shares	39,394	39,033
Savings shares	5,574	4,261
	<u>\$ 104,583</u>	<u>\$ 100,718</u>

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

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

**9. BUSINESS COMBINATIONS****(a) Acquisitions in the Current Year**

Van Tel/Safeway Credit Union

Vancity acquired the assets and assumed liabilities of Van Tel/Safeway Credit Union on April 1, 2007. This transaction was recorded using the purchase method. The fair value of net assets acquired of \$18.3 million has been reported on the consolidated balance sheet as contributed surplus.

The members of Van Tel/Safeway Credit Union exchanged membership and savings shares for Vancity membership and savings shares.

The following summarizes the estimated fair value of the net assets acquired:

(thousands of dollars)	
<b>Assets Acquired</b>	
Cash and investments	\$ 41,667
Loans	246,203
Other	2,649
	<u>290,519</u>
<b>Liabilities Assumed</b>	
Deposits	265,774
Other	6,465
	<u>272,239</u>
<b>Net Assets Acquired</b>	<u>\$ 18,280</u>

Kimball Insurance Services Ltd.

Vancity Insurance Services Ltd. (VISL) acquired the shares of Kimball Insurance Services Ltd. for \$2 million on August 1, 2007. The fair value of net assets acquired has been integrated into the consolidated balance sheet.

**(b) Future Acquisitions**

Greater Victoria Savings Credit Union

During 2007, Vancity entered into a merger agreement with Greater Victoria Savings Credit Union (GVSCU). The merger agreement, which has been approved by the Boards of Directors of both credit unions, provides for members of GVSCU to exchange their membership and savings shares for Vancity membership and savings shares. The transaction was completed on February 1, 2008, at which time Vancity acquired the assets and assumed the liabilities of GVSCU using the purchase method of accounting. As of December 31, 2007, GVSCU is reporting assets of \$65 million on their unaudited financial statements.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

**10. ORGANIZATIONAL RESTRUCTURING**

In 2007, an organizational restructuring charge of \$6.0 million, relating to the realignment of lines of businesses and divisions within Vancity, was recorded within salaries and employee benefits on the consolidated statement of earnings. The restructuring enhanced customer service by directing spending to service improvements, creating more efficient processes and systems, and focusing on the community. These changes will lead to future savings through efficiencies gained through process enhancement.

**11. UNUSUAL ITEMS**

The loss of the \$9.1 million reported on the consolidated statement of earnings consists of the following:

**Asset-Backed Commercial Paper**

In 2007, Vancity held \$76.9 million of non-bank sponsored asset-backed commercial paper (ABCP), of which \$76.4 million was held by the bank.

During the pre-August 2007 time horizon when Vancity acquired the securities, the non-bank sponsored ABCPs were rated R-1 (High) by DBRS Limited (DBRS), which had assigned them the highest credit rating for commercial paper and backed by R1 (High) rated assets and liquidity agreements.

Following the August disruption within the Canadian capital markets that culminated into a system-wide freeze of trading and pricing of the ABCPs with the Montreal Accord, these securities remained illiquid at year-end. At December 31, 2007, the ABCP securities are considered impaired, given the absence of any definitive conclusions rendered by the capital markets on the status of these assets and other related information.

In the absence of an actively quoted market, Vancity's management estimated the fair values of the ABCP securities by employing a valuation technique that incorporated reviewing the securities within each individual trust unit that comprise Vancity's holdings and estimating likelihood of ultimate realization of investment. A probability weighted approach was used for making value assessments that was based on but not limited to Vancity's review of available industry and government data and prudent user-defined management assumptions. Information used included market write-downs by other entities carrying ABCP assets, assets held by each of the trusts owned by Vancity, and assigning each trust into rankings of credit quality. Assumptions used that are not observable in the market and that were defined by Vancity included the probability of write-down within each ranking and estimated legal and restructuring costs. This

assessment process resulted in Vancity recognizing a total charge to earnings of \$13.9 million, which represents approximately 18% of Vancity's ABCP holdings. From a review of observable market information, Vancity noted that the overall write-downs in other entities carrying ABCP assets varied significantly from approximately 4% to 57%, depending on their specific holdings, their valuation methodology and the time horizon of their intentions to hold these instruments.

Continuing uncertainty regarding the asset values underlying ABCP, the timing of the cash flows and the outcome of the restructuring activities envisaged by the Montreal Accord may result in a material revision in Vancity's estimates.

Although ABCPs have been classified as AFS securities, Vancity may hold these securities to maturity as Vancity has the capacity and ability to hold them without any material disruption to its day-to-day activities.

**Visa Inc. Restructuring**

Due to a corporate restructuring on October 3, 2007, Vancity's membership interest in Visa Canada Association was exchanged for common shares of Visa Inc. valued at \$4.8 million. The full amount of the gain is recorded as an unusual item on the consolidated statement of earnings.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

**12. DISTRIBUTIONS TO COMMUNITY AND MEMBERS**

(thousands of dollars)	<b>2007</b>	2006
Donations to community and Vancity		
Community Foundation	\$ 3,666	\$ 5,633
Membership share dividends	1,184	2,532
Patronage rebates	<u>4,002</u>	<u>5,714</u>
Total shared success	<b>8,852</b>	13,879
Investment share dividends	<u>1,970</u>	<u>1,926</u>
Total distributions to community and members	<u>\$ 10,822</u>	<u>\$ 15,805</u>

Patronage rebates paid to members are calculated based on loan interest received by Vancity, deposit interest paid by Vancity, member funds under administration with Credential Asset Management (CAM) and home insurance purchased by members. The rebates relating to loan interest received amounted to \$0.9 million (2006: \$1.5 million), to deposit interest paid amounted to \$2.2 million (2006: \$3.1 million), to member funds under administration with CAM amounted to \$0.8 million (2006: \$1.1 million) and to home insurance purchased \$0.1 million (2006: \$0.1 million).

**13. INCOME TAXES**

(thousands of dollars)	<b>2007</b>	2006
Components of the provision for income taxes		
Current income tax expense	\$ 6,797	\$ 10,136
Future income tax (recovery) expense	<u>(661)</u>	<u>749</u>
	<u>\$ 6,136</u>	<u>\$ 10,885</u>

The effective tax rate of the provision for income taxes is different than the combined federal and provincial statutory income tax rates for the following reasons:

	<b>2007</b>	2006
Combined federal and provincial statutory income tax rates	<b>33.8 %</b>	34.2 %
Credit union rate reduction	<b>(25.0)</b>	(13.2)
Non deductible and other items	<u>9.0</u>	<u>(1.6)</u>
	<b>17.8 %</b>	19.4 %

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)	<b>2007</b>	2006
Future income tax assets:		
Allowance for impairment of loans	\$ 11,607	\$ 11,295
Deferred revenue	1,748	798
Accrued employee future benefits	2,918	2,466
Other accrued expenses	1,541	2,203
Premises and equipment	<u>1,745</u>	<u>901</u>
	<b>19,559</b>	17,663
Future income tax liabilities:		
Deferred expenses	<u>(3,383)</u>	<u>(2,148)</u>
Net future income tax assets	<u>\$ 16,176</u>	<u>\$ 15,515</u>

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

**14. PENSION 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, 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, 2007 (prior period was measured at October 31, 2006). The effective date of the last actuarial valuation report for funding purposes was December 31, 2005 and the effective date of the next required actuarial valuation report will be December 31, 2008.

	Pension Plans		Other Benefit Plans	
	2007	2006	2007	2006
<b>Accrued Retirement Plan Obligations</b>				
Opening balance, actuarial benefit liabilities	\$ 16,855	\$ 14,900	\$ 16,360	\$ 14,483
Benefits paid	(293)	(337)	(622)	(526)
Current service	1,391	1,308	1,675	1,514
Interest cost on accrued benefit obligation	913	796	887	786
Actuarial (gains) losses	(473)	188	(1,345)	103
Actuarial benefit liabilities at measurement date	\$ 18,393	\$ 16,855	\$ 16,955	\$ 16,360
<b>Fair Value of Retirement Benefit Plan Assets</b>				
Opening balance, fair value of plan assets	\$ 13,375	\$ 11,563	\$ -	\$ -
Employer contributions	744	568	622	526
Employee contributions	51	50	-	-
Benefits paid	(293)	(337)	(622)	(526)
Actual return on plan assets	1,072	1,531	-	-
Fair value of plan assets at measurement date	\$ 14,949	\$ 13,375	\$ -	\$ -
<b>Funded Status - Plan Deficits</b>				
Contributions between November 1 and December 31	\$ 3,444	\$ 3,480	\$ 16,955	\$ 16,360
Unamortized net actuarial losses	(9)	(14)	-	(28)
Unamortized net actuarial losses	(1,222)	(1,876)	-	(3,315)
Unamortized past service cost	(302)	(548)	(1,841)	-
Accrued benefit liabilities at December 31 <sup>1</sup>	\$ 1,911	\$ 1,042	\$ 15,114	\$ 13,017
<b>Total Retirement Benefit Plan Expense</b>				
Defined benefit plans	\$ 2,307	\$ 1,485	\$ 3,052	\$ 2,447
Multi-employer defined benefit plans	1,782	1,680	-	-
Defined contribution plans	4,803	4,277	-	-
Retirement benefit plan expenses	\$ 8,892	\$ 7,442	\$ 3,052	\$ 2,447

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

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

## 15. 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 re-price to current market rates. Variable rate assets and liabilities are included within the three month category. 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
December 31, 2007									
<b>Assets</b>									
Cash and cash equivalents		\$ 148,677	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 148,677
Deposits and securities	4.37%	509,007	203,975	187,580	22,039	27,127	55,215	-	1,004,943
Loans	5.73%	4,242,507	2,920,614	2,022,932	1,384,697	920,249	1,081,192	-	12,572,191
Other		-	-	-	-	-	-	369,075	369,075
		4,900,191	3,124,589	2,210,512	1,406,736	947,376	1,136,407	369,075	14,094,886
<b>Liabilities and equity</b>									
Deposits	3.62%	3,963,239	5,116,974	914,636	560,691	345,616	307,233	-	11,208,389
Loans	4.99%	1,909,547	-	-	-	-	-	-	1,909,547
Other		-	-	-	-	-	-	976,950	976,950
		5,872,786	5,116,974	914,636	560,691	345,616	307,233	976,950	14,094,886
<b>Balance sheet mismatch</b>		(972,595)	(1,992,385)	1,295,876	846,045	601,760	829,174	(607,875)	-
<b>Derivatives</b>		1,175,125	560,452	(990,911)	(611,190)	(42,483)	(90,993)	-	-
<b>Net mismatch</b>		\$ 202,530	\$ (1,431,933)	\$ 304,965	\$ 234,855	\$ 559,277	\$ 738,181	\$ (607,875)	\$ -
December 31, 2006									
<b>Assets</b>									
Cash and cash equivalents		\$ 158,786	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 158,786
Deposits and securities	4.38%	312,778	276,892	166,077	144,368	44,280	1,958	-	946,353
Loans	5.59%	3,615,466	1,859,798	2,062,091	1,444,890	831,346	1,075,001	-	10,888,592
Other		-	-	-	-	-	-	287,356	287,356
		4,087,030	2,136,690	2,228,168	1,589,258	875,626	1,076,959	287,356	12,281,087
<b>Liabilities and equity</b>									
Deposits	3.33%	3,881,981	3,972,757	882,910	669,278	405,004	311,633	97,632	10,221,195
Loans	4.50%	1,176,856	-	-	-	-	-	-	1,176,856
Other		-	-	-	-	-	-	883,036	883,036
		5,058,837	3,972,757	882,910	669,278	405,004	311,633	980,668	12,281,087
<b>Balance sheet mismatch</b>		(971,807)	(1,836,067)	1,345,258	919,980	470,622	765,326	(693,312)	-
<b>Derivatives</b>		1,053,920	1,454,187	(1,165,600)	(1,510,557)	319,179	(151,129)	-	-
<b>Net mismatch</b>		\$ 82,113	\$ (381,880)	\$ 179,658	\$ (590,577)	\$ 789,801	\$ 614,197	\$ (693,312)	\$ -

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

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

## 16. DERIVATIVE INSTRUMENTS

	Notional Amounts			Total 2006	Current Replacement Cost		Fair Values	
	Maturities of Derivatives Within 1 Year	1 to 5 Years	Total 2007		2007	2006	2007	2006
(thousands of dollars)								
<b>Hedging derivatives used to manage interest rate risk</b>								
Receive fixed interest current swaps	\$ 860,000	\$ 110,000	\$ 970,000	\$ 988,000	\$ 831	\$ 509	\$ (1,224)	\$ (1,481)
Receive fixed interest forward starting swaps	900,000	550,000	1,450,000	575,000	8,403	484	7,964	56
Pay fixed interest current swaps	40,000	1,831,560	1,871,560	1,632,875	770	1,537	(11,637)	(3,418)
Pay fixed interest forward starting swaps	80,000	730,000	810,000	1,375,000	463	217	(3,603)	(4,459)
	<b>1,880,000</b>	<b>3,221,560</b>	<b>5,101,560</b>	4,570,875	<b>10,467</b>	2,747	<b>(8,500)</b>	(9,302)
<b>Derivatives used to manage foreign exchange risk and index fluctuations</b>								
Foreign exchange future sell contracts	33,591	-	33,591	44,687	483	136	171	(431)
Foreign exchange future buy contracts	111,380	-	111,380	38,994	3,317	927	3,150	913
Index-linked call options purchased	4,730	8,084	12,814	18,616	2,971	4,293	2,969	4,293
	<b>149,701</b>	<b>8,084</b>	<b>157,785</b>	102,297	<b>6,771</b>	5,356	<b>6,290</b>	4,775
<b>Economic swaps</b>								
Receive fixed forward rate agreements	-	14,700	14,700	14,700	-	-	(46)	(50)
Pay fixed forward rate agreements	-	10,000	10,000	10,000	28	46	28	46
	-	<b>24,700</b>	<b>24,700</b>	24,700	<b>28</b>	46	<b>(18)</b>	(4)
<b>Total derivative contracts</b>	<b>\$ 2,029,701</b>	<b>\$ 3,254,344</b>	<b>\$ 5,284,045</b>	\$ 4,697,872	<b>17,266</b>	8,149	<b>\$ (2,228)</b>	\$ (4,531)
Less impact of master netting agreements					<b>7,163</b>	2,667		
<b>Net</b>					<b>\$ 10,103</b>	\$ 5,482		

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure.

Fair values based on 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.

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed upon fixed and floating rates. Notional amounts are not exchanged.

Forward rate agreements are effectively tailor made interest rate futures, negotiated between two counterparties, which call for a cash settlement at a future date for the difference between a contractual rate of interest and the current market rate, based on a notional amount.

Foreign currency futures are contractual obligations to buy or sell a foreign currency on a future date at a specified price established on an organized exchange. Similar to interest rate futures, they are subject to daily settlement for any change in market value.

Index-linked call options are equity contracts to pay or receive cash flows based on the increase or decrease in the underlying index or security.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

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 \$17.3 million as at December 31, 2007 (2006: \$8.1 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.

Vancity recorded a loss of \$65,000 from the assessment and measurement of ineffectiveness on cash flow hedges. No gains or losses from ineffective fair value hedges were measured and recorded for the year.

Interest income and expense include the release from AOCI of the gains or losses relating to the effective portion of qualifying hedging derivatives designated as cash flow hedges as the hedged item is recorded in interest income (expense). The release composes the amount that is reported as a reclass from AOCI to net earnings. For 2008, the estimated release from AOCI is expected to be a gain of \$14,000.

No gains and losses were released from AOCI to net earnings as a result of discontinuance of a hedge.

**17. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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. Fair values are determined by discounting current cash flows based on rates available on the date of valuation.

	2007					2006			
	Fair Value			Total	Variance	Fair Value	Book Value	Variance	
(thousands of dollars)	HFT	Non-Trading	Total	Book Value					
<b>Assets</b>									
Cash and cash equivalents	\$ 148,677	\$ -	\$ 148,677	\$ 148,677	\$ -	\$ 158,786	\$ 158,786	\$ -	
Deposits and securities	-	1,009,042	1,009,042	1,004,943	4,099	999,329	1,002,145	(2,816)	
Loans	-	12,571,881	12,571,881	12,572,191	(310)	10,826,618	10,832,800	(6,182)	
Derivative instruments	3,311	13,071	16,382	16,382	-	7,964	4,771	3,193	
Other	-	134,955	134,955	134,955	-	130,493	130,493	-	
<b>Liabilities</b>									
Deposits	-	11,120,645	11,120,645	11,103,808	(16,837)	10,237,991	10,221,195	(16,796)	
Loans payable	-	1,909,657	1,909,657	1,909,547	(110)	1,176,831	1,176,856	25	
Derivative instruments	28	18,582	18,610	18,610	-	12,495	-	(12,495)	
Other	-	365,014	365,014	365,014	-	290,752	290,752	-	
<b>Total fair value adjustment</b>					<b>\$ (13,158)</b>			<b>\$ (35,071)</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.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

For the Year Ended December 31, 2007

**18. 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.

**19. 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)	2007	2006
Undrawn lines of credit	<b>\$ 3,469,313</b>	\$ 2,916,498
Commitments to extend credit	<b>949,852</b>	654,040
Undrawn credit on credit cards issued	<b>913,050</b>	859,673
Documentary letters of credit	<b>28,233</b>	17,344
	<b>\$ 5,360,448</b>	\$ 4,447,555

## Deposit Commitments

Under governing legislation, Vancity maintains, for liquidity purposes, deposits with Credit Union Central of B.C. At December 31, 2007, Vancity has made Canadian dollar deposit commitments of approximately \$155 million with CUCBC. These commitments are at fixed rates ranging from 4.10% to 5.10% with terms of one year and maturity dates extending to 2011.

## Pledged Assets

In the normal course of business, Vancity pledges its assets as security for liabilities. Standby credit facilities of \$1,695 million (2006: \$1,560 million) of which \$1,170 million (2006: \$780 million) in demand loans and banker's acceptances have been utilized, are secured by mortgages and securities with a carrying value of \$731 million (2006: \$867 million). Vancity also holds \$31 million (2006: \$31 million) in clearing 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, 2007, this credit facility was \$300 million.

## Guarantees

As part of its regular operations, Vancity issues performance guarantees for its development projects. At December 31, 2007, Vancity has an outstanding performance guarantee with the City of Victoria in the amount of \$17.6 million. In addition, Vancity has a commitment to the City of Victoria to subsidize affordable housing in a development project. At December 31, 2007, the value of this commitment is estimated \$3.5 million and is dependent on market conditions.

## 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.

**20. OTHER INFORMATION**

Loans are advanced to employees at interest rates that range from market rates for Vancity's best members to half the five year term posted rates. In addition, Vancity advances zero interest personal loans to employees to purchase computers.

Employee loans are recorded at market value on the consolidated balance sheet with the difference between market values and book values being recognized as salary expense on the consolidated statement of earnings.

As at December 31, 2007, the outstanding loans to employees amounted to:

(thousands of dollars)	2007	2006
Residential mortgages	<b>\$ 296,000</b>	\$ 300,000
Personal loans	<b>400</b>	300
	<b>\$ 296,400</b>	\$ 300,300

## Vancouver City Savings Credit Union

### Board of Directors 2007-2008

Patrice Pratt, Chair  
 Catherine McCreary, Vice-Chair  
 Lisa Barrett  
 Doreen Braverman  
 Elain Duvall  
 Elizabeth Fletcher  
 Ian Gill  
 Kim Griffith  
 Doug Soo (resigned December 2007)  
 Virginia Weiler  
 Bob Williams

### Executive Leadership Team

**Tamara Vrooman**  
 Chief Executive Officer

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

**Tom Haksi**  
 Chief Information Officer (interim)

**Karen Hoffmann**  
 Vice-President, Human Resources (interim) and Corporate Secretary

**Rob Malli**  
 Vice-President, Finance

**Paula Martin**  
 Senior Vice-President, Member Engagement

**Ellen Pekeles**  
 Senior Vice-President, Strategy

**Rick Sielski**  
 Senior Vice-President, Member Services

Vacant  
 Senior Vice-President, Social Finance\*

\* Barry Fenton, Senior Vice-President and Chief Credit Officer at Citizens Bank, and Lanny Smith, Vice-President Business Banking, represented this position on the Executive Leadership Team.

### Subsidiaries

**Citizens Bank of Canada**  
 Jason Farris, President & Chief Executive Officer

**Inventure Solutions Inc.**  
 Tom Haksi  
 Chief Executive Officer (interim)

**Inhance Investment Management Inc.**  
 Kerry Ho, Chief Executive Officer

**Vancity Capital Corporation**  
 Lee Davis, President & Chief Executive Officer

**Vancity Enterprises Ltd.**  
 Jim Cox, Chief Executive Officer

**Vancity Insurance Services Ltd.**  
 Terry Taciuk, President

**Vancity Investment Management Ltd.**  
 Allan Pankratz, Vice-President

### Associated Organizations

**Vancity Community Foundation**  
 Derek Gent, Executive Director (effective April 1, 2008)

### Board of Directors attendance

In 2007, 8 of 11 directors attended 90% or more regular meetings of Vancity's Board. Those who did not achieve 90% attendance either had made commitments prior to becoming directors or could not attend when a meeting was rescheduled from the regular time. The overall average attendance for committee meetings was greater than 81%. Detailed attendance records are available on [vancity.com](http://vancity.com), by request at 604.877.6549 or by email to [board\\_governance@vancity.com](mailto:board_governance@vancity.com). The attendance records are also published every two years in the Vancity Group's Accountability Report.



Photo: Jaime Kowal

### Vancity Board of Directors 2007-2008

(left to right):

Ian Gill, Elain Duvall, Kim Griffith, Virginia Weiler, Catherine McCreary, Patrice Pratt, Bob Williams, Elizabeth Fletcher, Lisa Barrett, Doreen Braverman, Doug Soo.

## Vancity Community Branches and Managers

### Abbotsford

Michael Spuls

### Burnaby

Brentwood  
Maria Michayluk

North Burnaby  
Josie Romeo and Sheryl Ries

North Road  
Patricia Sonier

Royal Oak  
Jennifer Pecknold

South Burnaby  
Peter Unadkat

South Slope  
Jas Parmar

Station Square  
Maryvonne Taft

Telus  
Ash Lakhan

### Chilliwack

Ben Letkeman

### Coquitlam

Maillardville  
Tony Ciulla

Pinetree  
Holly Harding

### Delta

North Delta  
Mike Matsuo

Tsawwassen  
Paul Cockshutt

### Langley

Langley  
Sonny Neilsen

Walnut Grove  
Ana Sawatzky

### Maple Ridge

Vanita Dennis

### Mission

Sara Dhillon

### New Westminster

Kruger (mill employees only)  
Patricia Sonier

New Westminster  
Jeanette Crocker

### North Vancouver

Lynn Creek  
Angela Lam

Lynn Valley  
Angela Lam

North Vancouver  
Greg Letham

Westview  
Angela Lam

### Pitt Meadows

Jayne Perrault

### Port Coquitlam

North Side  
Jenn Fahey

Shaughnessy Station  
Jenn Fahey

### Port Moody

Tony Ciulla

### Richmond

Praveen Sidhu

### Surrey

Cedar Hills  
Hormus Karat

Guildford  
Rup Sumal

Johnston Heights  
Marie Lewthwaite

Newton  
Jodh Dhaliwal

Surrey City Centre  
Grace Saris

**Vancouver**  
4th Avenue  
Sarah Shellard

Chinatown  
Grace Wong

Collingwood  
Gerry Collins

Commercial Drive  
Phelan Jung

Downtown  
Jan Dean

Dunbar  
Dean Webster

Fairview  
Duncan McGuffie

Fraser Street  
Jasvir Kheleh

Hastings  
Lily Wong

Kerrisdale  
Kristin Yakumo

Kitsilano  
Ross Lambert

Main Street  
Aldina Graziano

Marpole  
Gabiella Bognar

Oakridge  
Ritu Linfoot

Point Grey  
Susan Long

Vancity Centre  
Janette Hunter

Victoria Drive  
Elaine Kennedy

Waterfront  
Cathie West

Westend  
Kathryn Fitzgerald

### Victoria

Saanich  
Crystal Pearce

Victoria  
Charleen Dunn

### West Vancouver

Franko Zaurrini

### White Rock

Semiahmoo  
Harjit Chima

### Regional Directors

Debbie Bywater  
Mohamed Ladak  
Mike Matsuo (interim)  
David Perri

### Squamish Savings

Ian Cornish, General Manager

Downtown  
Tracey Kliesch

Highlands  
Tracey Kliesch

### National Contact Centre

Paula Macfarlane and Dennis  
Pantazis, Directors



