





## summary of our performance 2006-2008

Key results indicators	Organization	Performance ▼/▲/■	2008 targets†	2008	2007	2006	
<b>Being responsible and effective financial managers</b> (consolidated, millions of dollars)							
Net earnings	Vancity Group*	▲	\$38.3	\$46.8	\$32.8 <sup>(1)</sup>	\$45.3	
Efficiency ratio <sup>(2)</sup>	Vancity Group	▲	84.4%	81%	85.5% <sup>(1)</sup>	79.9%	
Total assets	Vancity Group	▲	-	\$14,532	\$14,107 <sup>(1)</sup>	\$12,281	
<b>Providing outstanding service</b>							
Total number of members/clients	Vancity Credit Union	▲	-	407,120 <sup>(3)</sup>	388,000	355,000	
	Citizens Bank	-	-	29,520 <sup>(4)</sup>	25,200	24,600	
	Vancity Insurance	▲	-	39,370 <sup>(5)</sup>	36,900	32,700	
Member loyalty score	Vancity Credit Union	Personal members	■	47%	47%	47%	
		Business members <sup>(6)</sup>	-	-	40%	n/a	n/a
Member satisfaction with service	Personal members	Citizens Bank	-	-	85% <sup>(7)</sup>	88%	84%
	All clients	Vancity Insurance	■	59%	62%	58% <sup>(8)</sup>	54% <sup>(8)</sup>
<b>Being a great place to work</b>							
Employee engagement index <sup>(9)</sup>	Vancity Group <sup>(10)</sup>	▼	-	56%	64%	-	
	Vancity	▼	75%	57%	68%	75%	
	Citizens Bank	▲	60%	54%	50%	66%	
<b>Leading by example</b>							
Community leadership portfolio <sup>(11)</sup> (billions of dollars)	Vancity Group	■	10% increase	\$1.1	\$1.1	\$0.9	
Corporate donations: % of average previous 3 years' pre-tax consolidated earnings	Vancity Group	n/a <sup>(12)</sup>	n/a <sup>(12)</sup>	12.0%	5.7%	8.5%	
CO <sub>2</sub> equivalent emissions (metric tonnes) <sup>(13)</sup>	Vancity Group	Premises energy use <sup>(14)</sup>	▼	-	1,524	1,482 <sup>(16)</sup>	1,290
		Paper use	▲	-	792	868 <sup>(16)</sup>	800
		Vehicle fleet <sup>(15)</sup>	▼	-	44	36	n/a
		Employee business travel (air and vehicle) <sup>(15)</sup>	▲	-	894	992	n/a
		Employee commuting to/from work by single occupancy vehicles	▲	-	2,017	2,146 <sup>(17)</sup>	2,390 <sup>(17)</sup>
		Total	▲	6,000 <sup>(18)</sup>	5,271	5,524 <sup>(16,17)</sup>	n/a
% agree we use our resources and expertise to benefit the community and environment	Employees	Vancity Group <sup>(10)</sup>	-	-	80%	n/a	n/a
	Employees	Vancity Credit Union	▼	93%	81%	89%	93%
	Personal members <sup>(19)</sup>	Vancity Credit Union	■	82%	74%	78%	-
	Public	Vancity Credit Union <sup>(20)</sup>	■	-	30%	33%	-

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

† Where 2008 targets were set, these are shown. "-" indicates no targets were set.

## we measure what's important to our members

As a financial co-operative we feel it's important to measure, disclose, and be accountable to you – our members and owners – for all of our impacts, be they economic, environmental, or social. Taking a long-term, sustainable approach to doing business is both good for business, and the right thing to do. This is why we have been producing accountability reports since 1998.

Accountability reporting helps us understand and keep on top of what matters most to those who influence our long-term success: our members, employees, and the communities where we operate. It provides us with a complete picture of our performance in order to make better-informed decisions. We believe that managing and reporting our performance in a meaningful and credible way demonstrates accountability and builds loyalty and trust. And members tell us this is important, as around four-fifths agree they are concerned about accountability and transparency in the business world.

The table (at left) provides a snapshot of our performance from 2006-2008. For a fuller picture

of our performance, view our externally verified 2006-07 Accountability Report online at [vancity.com/accountability07](http://vancity.com/accountability07). This report includes data, our key successes and challenges, the views of members and employees, and specific targets and commitments 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. We also hope it encourages you, as consumers, to take social and environmental factors into account when making business or purchasing decisions.

We currently produce an Accountability Report once every two years, but we're exploring ways to report key information more frequently, including integrating our Annual and Accountability Reports. We're also looking at ways we can make our reports shorter and more accessible to readers, while still meeting expectations for full disclosure of our key issues. Your input and feedback is important to us, so if you have any comments or suggestions on our reporting efforts or sustainability performance, email us at: [accountability@vancity.com](mailto:accountability@vancity.com).

## Legend and Notes

- = performance is stable
- ▲ = performance has improved since 2007
- ▼ = performance has worsened since 2007

The financial data has been externally verified and we are in the process of verifying our GHG emissions data. Our 2008 verified GHG emission data (CO<sub>2</sub>e) will be published on Vancity's website ([vancity.com](http://vancity.com)) once available. For more information on our economic, social and environmental issues, performance and impacts, visit [vancity.com/accountability07](http://vancity.com/accountability07).

- (1) Data has been re-stated. See Note 4 to the Financial Statements for explanation.
- (2) Total non-interest expenses (including community donations) divided by total revenue after loan loss provision. In general, a lower efficiency ratio is better.
- (3) The 2008 total includes 4,587 members who joined as a result of our merger with Greater Victoria Savings in February 2008.
- (4) Excludes Visa-only customers. Methodology for counting the number of Bank members changed in 2008 and affects comparability of data over time.
- (5) The 2008 total includes 3,085 members who joined as a result of our merger with Greater Victoria Savings Insurance Services in February 2008.
- (6) New business member loyalty measure introduced in 2008; replaces business member service satisfaction.
- (7) Change in methodology and not comparable to previous years.
- (8) Re-stated to reflect weighted results of two surveys: insurance purchasers and insurance renewers.
- (9) Comprises six key questions designed to measure employees' intellectual and emotional involvement in the organization.
- (10) Group measure introduced in 2008.
- (11) Includes: member/client deposits, loans and investments and development projects – products which have social and/or environmental benefits.
- (12) N/A = not applicable. Through our Shared Success program, 30 per cent of net profits are shared with members and the community. Of the 30 per cent, 40 per cent is allocated to the community.
- (13) 2008 data includes Squamish Credit Union (excluded from 2007 data) and Greater Victoria Savings Credit Union, with whom we merged in February 2008.
- (14) The reporting period for premises energy emissions data changed from January-December 2007 to October-September 2008 to allow adequate time to collect data for inclusion in the Annual Report. This will affect the comparability of data over time.
- (15) The scope of data collected was broadened in 2007 due to improved accounting systems.
- (16) Data updated as a result of verification.
- (17) 2006 and 2007 data for employee commuting updated using improved CO<sub>2</sub>e factor to ensure comparability over time.
- (18) Specifically: maintain our greenhouse gas emissions at 6,000 tonnes (excluding growth through mergers and acquisitions).
- (19) Panel survey of the credit union's members which statistically tends to represent more primary (those members who tell us Vancity is their primary financial institution) and engaged Vancity members.
- (20) 16 per cent of members in 2008 and 15 per cent in 2007 responded "don't know" or did not answer.

“Amid change and uncertainty,  
we’re remaining true to our roots.  
We are Main Street, not Wall  
Street – independent and local,  
member-owned and based on  
co-operative principles.

“In short, **we are our members.**”

excerpt from the message from the CEO and Chair  
2008 Annual Report, Vancity

“They give me all  
the financial  
services I need,  
and they support  
the community –  
I don’t understand  
why everyone  
isn’t a member  
of Vancity.”

Mary Johnston  
CEO **wat**ermatters®  
*member since 2004*





Janina, member since 1992



Rita, employee since 1999



Matt, member since 2005



Johnathan, member since 2006



Reginald, member since 1978



Fred, member since 1996



Tracy with daughter Arielle, member since 2006



Walter, member since 1995



Demetrio, member since 1999



Edwin, member since 1999



Vijay, member since 1983



Kuljit, member since 1979



Steve, member since 2006



Leonora with granddaughter Chloe, member since 1985



Kennedy, member since 2006



Danielle, member since 1999



Brian, member since 1979



Ryan, employee since 2002

“Vancity didn’t just  
give me financial  
backing, they taught  
me to be financially  
successful.”

Josh Booy  
Future Foundations Program  
*member since 2008*





“I’ve been with Vancity since 1993 and never felt the need to go anywhere else. Great customer service. I highly recommend Vancity to friends.”

Deepak Bhardwaj  
*member since 1993*



Stephen, member since 1985



Cynthia, member since 1987



Ayaz, employee since 2005



Charles with son Patrick, member since 2003



Gurpal, member since 1994



Bing, member since 1998



Sarwan, member since 2001



Geoff, member since 2008




Serena, employee since 2004



“Vancity is the type of organization that one can be proud to be associated with. It sets the bar very high in many areas: diversity, service and respect for its members, community involvement and support.”

Sondra Marshall  
*member since 1975*

A professional portrait of Alnawaz Ladha, a man with dark hair and a slight smile, wearing a dark blue blazer over a light blue and white checkered button-down shirt. He is seated with his hands clasped in front of him. The background is a plain, light grey.

“This is one  
financial institution  
that sees things the  
right way – from  
the member’s point  
of view.”

Alnawaz Ladha  
Executive Director  
Retire-at-Home Services™  
*member since 2008*



Harry, member since 2008



Tony, member since 1982



Rami with daughter Sia, member since 1993



Patrick and Katherine, members since 1969



John, member since 1995



Balwant, member since 1982



Prem-Parkash, member since 1984



Sonia, employee since 1998



David, member since 2008

“There are really good people working at Vancity; people who care about the jobs they do and about each other.”

Shirley Wong  
Centralized Compliance  
& Administration, Vancity  
*staff member since 1998*



## message from the ceo and chair

### the world has changed

This time last year, the financial services industry – Vancity included – was responding to a credit crunch triggered by the collapse of the sub-prime mortgage market in the United States. Twelve months on, a crisis that seemed to focus on a single sector has spread and the threat of economic slowdown has become a reality that touches all of us, as well as our communities.

As we continue to navigate through market turmoil, it has become crystal clear that being a local, member-owned financial co-operative is not only a differentiator, it's fundamental to our success.

As the market changed, we stuck to our co-operative banking model of member deposits funding member loans, giving our retail members priority access to credit. At the height of uncertainty about the financial sector, we reached out to our members: in our branches, on the phone, through conference calls and our website – as well as a phone-in television panel for Global TV.

### success amid uncertainty

The results speak for themselves. For 2008, consolidated earnings from operations for the Vancity Group came in at \$75.6 million, 49 per cent higher than our 2007 results. Thanks to the success of the Jumpstart™ High Interest Savings Account,

we enjoyed one of our best years ever for retail deposit growth while also building financial self-sufficiency; a percentage of all Jumpstart High Interest Savings Account revenues go the Future Foundations Program, which offers financial literacy education for low-income individuals and families. And our investment areas quietly bucked the industry trend, reporting net mutual fund sales at a time when many mutual fund companies were reporting net redemptions.



Our success belongs to you, our member-owners. Based on 2008 earnings, close to \$15.3 million will be given to members and communities through Shared Success: an increase of 68 per cent in member distributions, and an 80 per cent increase in contributions to community groups.

As encouraging as these results are, they only tell part of the story of 2008. Vancity's success has never been measured exclusively in dollars and cents, but by a

triple bottom line that includes environmental and social performance as well. We've always seen this as a must-do rather than a nice-to-do.

We received local and international recognition for environmental leadership. In addition to reaching our goal to be Carbon Neutral two years ahead of schedule, we set a world record for highest LEED environmental sustainability with Dockside Green, our real estate co-development in Victoria, B.C.

Our enviro Visa\* credit cards helped community groups tackling environmental issues. Non-profit groups received more than \$300,000 in enviroFund™ grants – the program’s largest grant sum to date.

Our Shared Growth™ term deposit is just one example of our commitment to building the social economy. Last year, we designated funds for investment in our local microfinance programs. A portion of Shared Growth™ proceeds will now help micro-entrepreneurs – including new immigrants and refugees, people with disabilities, aboriginal people and residents of the Downtown Eastside – overcome the barriers they face when trying to borrow money.

### looking to the future

One of our most significant accomplishments for 2008 is one that has set the stage for our future: the creation of a new vision for the Vancity Group. We’re building for tomorrow, even as we navigate through today.

Vancity has a rich history of serving as a catalyst for change. We’re proud of what we’ve achieved over the past 63 years, but we also know that there’s even more we can do to support our members

and communities. We can move beyond philanthropy to create a profound and lasting improvement in the lives of those we serve.

Our new vision for the Vancity Group is *redefining wealth*. You’ll be hearing more about this throughout 2009 and beyond, but fundamentally it’s about creating a definition of wealth in which profit is

not the end point, but the beginning; it’s a definition that includes social justice, environmental sustainability and community well-being. It’s about creating wealth that makes the world a better place.

All economic indicators point to a taxing year ahead for our members and communities, and for our industry. We continue to shape our organization so that we can be flexible and responsive to market conditions and to your needs, and to move us towards our vision. But amid change and uncertainty, we’re remaining true to our roots. We are Main Street, not Wall Street –

independent and local, member-owned and based on co-operative principles.

In short, we are our members.



  
 Tamara Vrooman  
 Chief Executive Officer

  
 Patrice Pratt  
 Chair, Vancity  
 Board of Directors

\* Visa Int./Vancity, Licensed User.  
 † Vancity enviroFund and enviroFund are registered trade marks of Vancouver City Savings Credit Union.  
 ‡ Jumpstart High Interest Savings Account is a trade mark of Vancouver City Savings Credit Union.  
 †† Shared Growth is a trademark of Vancouver City Savings Credit Union

## 2008 highlights

- » For 2008, Vancity distributed approximately \$850,000 to not-for-profit, community organizations across B.C. in the form of community project grants. It is one part of the credit union's community investment program, which is funded from a portion of Vancity's annual profits and, since 1994, has invested \$46 million in grants to community organizations.
- » Vancity merged with Greater Victoria Savings Credit Union (February).
- » Vancity launched Perspectives Portfolio Solutions – the first all-in-one socially responsible investing (SRI) portfolio solution in Canada built entirely using environmental, social and governance (ESG) criteria, while at the same time considering financial performance (February).
- » Citizens Bank hosted Citizens in Action, a day of volunteering that saw employees in Vancouver, Calgary, and Toronto build houses for Habitat for Humanity and give blood to the Canadian Red Cross (March).
- » Vancity was the first North American-based financial institution to become Carbon Neutral – two years ahead of schedule (April).
- » ChangeEverything.ca, an online community website hosted by Vancity, was nominated for a coveted Webby Award (April).
- » Vancity was named to Canada's Best Diversity Employers list for 2008 (April).
- » Dockside Green, one of Vancity's development projects in Victoria B.C., set a world record for the highest LEED environmental sustainability rating for a new construction project (July) and, along with the City of Victoria, won a LiveSmart BC Green Cities Partnership Award (September). In the same year, the first residents moved into Dockside Green.
- » Readers of the *Georgia Straight* voted Vancity Best Environmentally Responsible Local Company, Best Local Employer, Best Place to Buy a Mortgage and Best Place to Buy RRSPs (September).
- » Vancity published its Accountability Report, the outcome of a rigorous two-year accountability reporting process that reports on the organization's economic, environmental, and social performance as framed by the Statement of Values and Commitments (October).
- » Inventure Solutions, Vancity's IT subsidiary, was recognized by the Gartner Group for environmental leadership (October).
- » Vancity developed a new vision: *redefining wealth* (October).
- » Vancity was awarded the first-ever Green Company of the Year Award for Environmental Leadership at the Canadian Investment Awards (December).
- » The WISH Wellness Centre – winner of the 2003 Vancity Award – opened its doors to survival sex trade workers on the Downtown Eastside (December).



**BOARD OF DIRECTORS**

*(from top, left to right)*

- Patrice Pratt, Chair
- Catherine McCreary, Vice Chair
- Lisa Barrett
- Doreen Braverman
- Elain Duvall
- Elizabeth Fletcher
- Ian Gill
- Kim Griffith
- Wendy Holm
- Virginia Weiler
- Bob Williams

## consolidated financial highlights

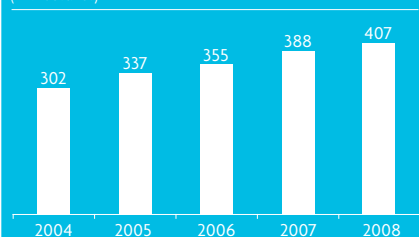
For the year ended December 31,

(thousands of dollars)

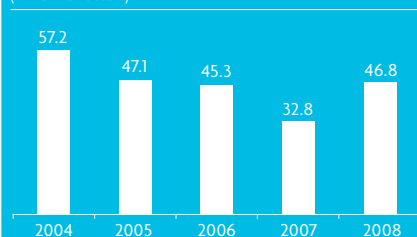
	2008	2007	2006	2005	2004
		(restated - note 4)			
<b>Assets</b>					
Cash and Securities	\$ 1,799,675	\$ 1,153,620	\$ 1,105,139	\$ 1,540,100	\$ 1,714,446
Loans	12,255,961	12,583,832	10,888,592	9,984,474	8,535,816
Other Assets	476,097	369,075	287,356	231,745	203,503
<b>Total Assets</b>	<b>\$ 14,531,733</b>	<b>\$ 14,106,527</b>	<b>\$ 12,281,087</b>	<b>\$ 11,756,319</b>	<b>\$ 10,453,765</b>
<b>Liabilities and Members' Equity</b>					
Deposits and Equity Shares	\$ 11,786,131	\$ 11,208,389	\$ 10,221,195	\$ 10,558,155	\$ 8,950,835
Wholesale Borrowings	1,691,087	1,909,547	1,176,856	458,419	813,768
Other Liabilities	401,557	409,230	346,123	248,132	248,861
Retained Earnings	652,958	579,361	536,913	491,613	440,301
<b>Total Liabilities and Members' Equity</b>	<b>\$ 14,531,733</b>	<b>\$ 14,106,527</b>	<b>\$ 12,281,087</b>	<b>\$ 11,756,319</b>	<b>\$ 10,453,765</b>
<b>Statement of Earnings</b>					
Net Interest Income	\$ 331,607	\$ 280,868	\$ 279,432	\$ 272,856	\$ 255,076
Provision for Credit Losses	(27,108)	(16,323)	(11,208)	(7,525)	(9,968)
Other Income	92,747	84,583	89,211	75,823	68,039
<b>Net Interest and Other Income</b>	<b>397,246</b>	<b>349,128</b>	<b>357,435</b>	<b>341,154</b>	<b>313,147</b>
Salaries and Employee Benefits	187,037	173,746	160,876	146,982	133,330
Other Operating Expenses	134,653	124,760	124,569	115,771	105,062
	321,690	298,506	285,445	262,753	238,392
Earnings from Operations	75,556	50,622	71,990	78,401	74,755
Unusual Item	-	-	-	1,359	18,848
<b>Earnings after Unusual Item</b>	<b>75,556</b>	<b>50,622</b>	<b>71,990</b>	<b>79,760</b>	<b>93,603</b>
Distributions to Community and Members	16,977	10,822	15,805	16,626	19,578
Provision for Income Taxes	11,762	7,045	10,885	16,012	16,838
<b>Net Earnings</b>	<b>\$ 46,817</b>	<b>\$ 32,755</b>	<b>\$ 45,300</b>	<b>\$ 47,122</b>	<b>\$ 57,187</b>
<b>Statistics</b>					
Average Assets (thousands of dollars)	\$ 14,194,884	\$ 13,354,640	\$ 11,768,550	\$ 10,295,365	\$ 9,081,023
Growth of Total Assets	3.0%	14.9%	4.5%	12.5%	15.8%
Return on Average Assets	0.33%	0.25%	0.38%	0.46%	0.63%
Return on Equity	7.2%	5.7%	8.4%	9.6%	13.0%
Dividends per Equity Share	4.0%	1.8%	4.2%	4.5%	4.7%
Dividends per Investment Share	5.2%	5.2%	5.1%	4.7%	4.7%
Membership	407,121	387,762	354,663	337,107	302,032
No. of Employees	2,564	2,408	2,385	2,340	2,050
No. of Branches	61	60	50	50	44

**Membership**

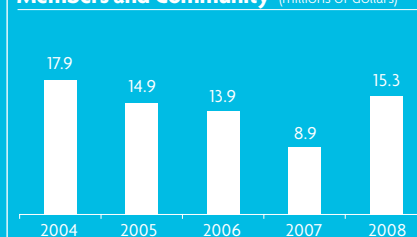
(in thousands)

**Net Earnings**

(millions of dollars)

**Shared Success Distributions to Members and Community**

(millions of dollars)



## 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, 2008 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

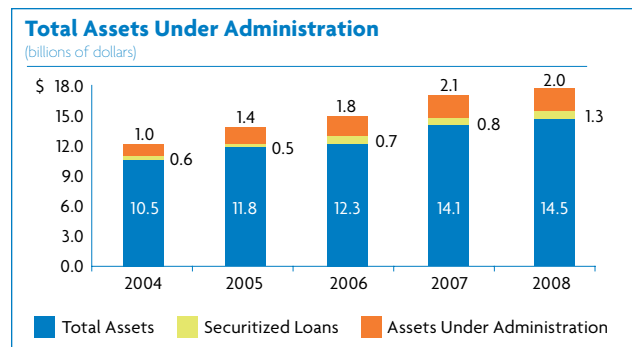
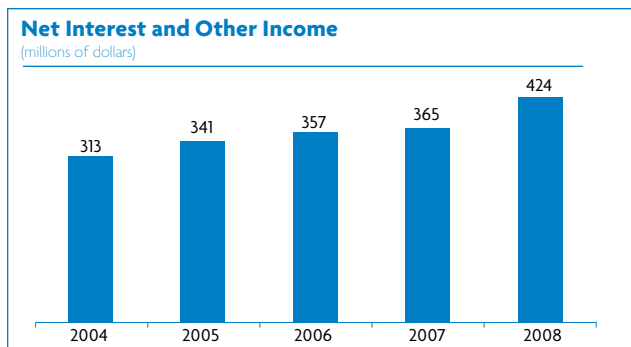
Vancity is Canada’s largest credit union with \$14.5 billion in assets, more than 407,000 members and 61 branches throughout Greater Vancouver, the Fraser Valley, Squamish and Victoria. The Vancity Group comprises the Credit Union and its subsidiaries, all of which are wholly owned except for Inhance Investment Management Inc., of which 97.5% is owned by the Credit Union. 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. Vancity also consolidates variable interest entities (VIEs) when it is the primary beneficiary of the VIEs. Dockside Green Limited Partnership and Dockside Green Energy Limited Partnership qualify as VIEs and are fully consolidated in the results for Vancity. The Credit Union and its subsidiaries are collectively referred to as “Vancity.” Unless otherwise specified, all information is consolidated data of Vancity and its subsidiaries.

### financial performance

In 2008, Vancity’s consolidated earnings from operations increased by 49.3% (\$24.9 million) to \$75.6 million as compared to \$50.6 million in 2007. Revenues, comprising net interest income and other income, increased 16% (\$58.9 million) to \$424.4 million from \$365.5 million in 2007 mainly as a result of securitization and mark-to-market of derivatives. Other income (excluding impairment of securities) for 2008 increased 5.1% (\$5 million) to \$103.5 million as compared to \$98.5 million in 2007. Increases in the volumes of non-interest based services, including Visa cards, foreign exchange transactions and insurance, also contributed to other income growth in 2008.

Consolidated net earnings for Vancity increased 42.9% (\$14.1 million) to \$46.8 million from \$32.8 million in 2007. The increase in consolidated net earnings from 2007 was reduced by a further write-down of asset-backed commercial paper (“ABCP”) of \$10.7 million during the year (2007: \$13.9 million). The 2008 net earnings are after distributions (excluding investment share dividends) to community and members of \$15.3 million. In total, distributions to community and members (excluding investment share dividends) were 32.7% of net earnings, demonstrating Vancity’s ongoing commitment to share its success. Return on equity for 2008 was 7.2% while return on average assets came in at 33 basis points (2007: 5.7% and 25 basis points respectively).

Vancity’s growth was assisted by strong British Columbia employment levels coupled with continued high levels of infrastructure spending related to preparations for the 2010 Winter Olympic Games. Core inflation in Canada stayed steady during 2008, which allowed the Bank of Canada to reduce interest rates over the course of 2008 and, in turn, helped to maintain a buoyant housing sector for the first nine months in British Columbia. Liquidity and credit concerns arose in the latter part



of the year due to the continued stresses in the US economic situation amid the housing market slowdown and credit issues spreading up to Canada. Loan loss provisions for 2008 increased \$10.8 million from 2007 due to an increase in non-performing loans in Q4 2008 caused by the current economic crisis. Net membership grew by more than 19,300 in 2008 with almost 4,600 new members arising from our merger with Greater Victoria Savings Credit Union.

During 2008, Vancity's consolidated assets grew by 3.0% (\$425.2 million) to a total of \$14.5 billion from \$14.1 billion in 2007. This increase arose primarily from growth in interest bearing securities with financial institutions and securities funded through demand deposits partially offset by mortgage sales. Consolidated deposits of \$11.8 billion at the end of 2008 reflect an increase of \$577.7 million or 5.2%. Consolidated loans (after mortgage sales for liquidity and capital management) of \$12.3 billion have decreased by \$312.5 million or 2.5%. Assets under administration of \$2.0 billion have decreased by \$135 million or 6%. 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 16.

### changes in accounting policies

Vancity's significant accounting policies are set out in Note 2 to the financial statements. Note 3 provides a description of the changes in accounting policies implemented in 2008 in response to new accounting standards issued by the Canadian Institute of Chartered Accountants.

### 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.

In 2008, Vancity's net interest income increased 18.1% (\$50.7 million) to \$331.6 million (2007 - \$280.9 million). Interest income increased 11.6% (\$84.4 million) to \$814.0 million (2007 - \$729.6 million). Interest income on loans and cash and securities decreased \$2.2 million from 2007, however total interest income increased as a result of securitization income and other interest income (primarily relating to the mark-to-market of derivatives) increased \$33.2 million and \$53.3 million respectively from 2007.

Interest expense for 2008 increased 7.5% (\$33.6 million) to \$482.4 million (2007 - \$448.8 million). Interest paid on wholesale borrowings decreased \$6.2 million from 2007 while other interest expense (primarily from derivative losses) increased \$38.6 million.

Net interest income showed an increase of \$50.7 million or 18.1% over the previous year compared to last year's increase of \$1.4 million or 0.5%. Although interest rates gradually declined during the year, they were still reasonable by historical standards. Coupled with the high employment levels, the consumer spending and housing markets were strong for

the first nine months of 2008, driving up volumes on consumer-related financing and residential mortgages. The information in Table 1 provides more details on the net interest income components.

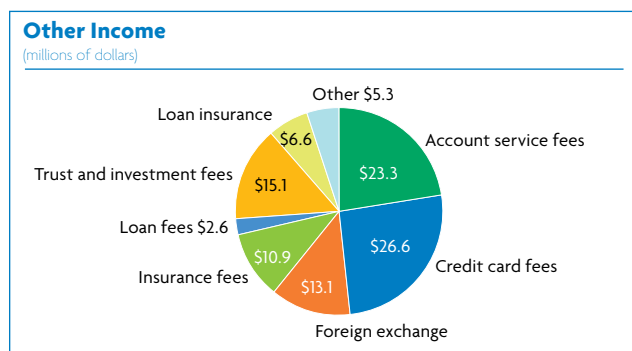
Gross interest income and gross interest expense grew at 11.6% and 7.5%, respectively. The higher growth in our interest income percentage relative to interest expense reflects the change in mix and volumes due to increased securitization and swap income. Interest income is sensitive to changes in mix and volumes of assets and liabilities and to changes in interest rates. Table 2 provides an analysis of these factors for 2008 and 2007 relative to the preceding year. From this table, the impact of declining lending interest rates can be seen by the decrease in average rate of interest income while the competition for deposits can be seen by the increase in average rates of interest expense.

The 2008 provision for credit losses increased to \$27.1 million from \$16.3 million in 2007. Note 7 to the Financial Statements indicates that the provision related to normal credit factors has significantly increased due to increases in delinquency caused by the current economic crisis. 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 (expense)

Other income continues to grow at Vancity as the consolidated group provides an increasing array of financial services to our members. Total other income grew by \$8.2 million or 9.7% for the year. The largest growth areas were credit card fees, foreign currency income and insurance services fees. Our Visa card base continues to grow along with purchase volumes, while the increase in foreign currency transactions and insurance service fees generate steady fee income.

Vancity holds two categories of impaired ABCP investments: \$52.6 million of third-party non-bank sponsored ABCP with a face value of \$76.4 million; and bank-sponsored ABCP of \$2.2 million with a face value of \$3.0 million. During 2008, \$10.7 million (2007 - \$13.9 million) of impairment charges were recorded in other income (expense).



Note: Other income above excludes the impairment charge included in other income on the income statement

### Operating Expenses

Total operating expenses increased by 7.8% or \$23.2 million compared to 2007. The increased operating costs in 2008 were less than the revenue growth, resulting in an efficiency ratio of 81.0% compared to 85.5% for the prior year. Much of the increased expenses were related to restructuring costs, and salaries and benefits.

Details of operating expenses are in Table 3, which shows that salary and employee benefits costs increased by \$13.3 million, occupancy and equipment increased by \$1.5 million and general operating expenses increased by \$8.4 million. Salaries and employee benefits grew due to increased staff, pension, regular salary increases, and restructuring costs. Occupancy and equipment grew primarily due to increased rent relating to our expanded branch network. General operating expenses increased mainly due to increases in Central 1 Credit Union dues and insurance, member services, professional services and volume-related *Visa* card expenses, offset by declines in advertising and promotion, capital tax and computer expenses.

### Income and Other Taxes

Vancity pays a variety of federal, provincial and municipal taxes. The major taxes payable are reported in Table 4, which shows the overall level of taxes increased relative to the prior year. The majority of the increase was caused by higher income taxes in 2008 due to higher earnings for the year. Further information regarding corporate income taxes is provided in Note 15 to the financial statements.

### Distributions to Community and Members

Distributions to community and members increased to \$17.0 million in 2008 from \$10.8 million in 2007, consistent with the higher net earnings. Note 13 to the financial statements show distributions by major categories. Membership share dividends of \$4.9 million represent a 4.0% dividend payment while patronage rebates of \$3.8 million consist of a bonus on deposit interest paid by Vancity, a rebate on loan interest paid by members, and a dividend based on investments held by members with Credential Group and a rebate on various home insurance products purchased through Vancity.

### Employee Loans

Outstanding loans to employees of Vancity amounted to \$301 million at year end (2007: \$296 million) as shown in Note 22. 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 Vancity.

### balance sheet

#### Lending and Credit Risk

Total loan volumes decreased by 2.6% in 2008. The decrease was mainly driven by a decline in residential mortgages retained of 11.6% offset by increases in consumer loans of 13.9%, business loans of 7.0%, and commercial mortgages of 6.2%. The growth in consumer and business loans and commercial mortgages reflect Vancity's objective of diversifying revenue by relying increasingly on other lines of business, while the decline in residential mortgages reflects the increased securitization volume undertaken in 2008 to increase liquidity.

Loan losses due to normal credit factors increased from last year with loans written off totaling \$13.5 million (2007: \$10.7 million). In total, Vancity's allowance for impairment consists of \$8.4 million of specific allowances and \$78.9 million of general allowances. Total impaired loans, as defined in Note 2(f)(i) are \$59.2 million at the end of 2008, an increase of \$27.9 million from 2007. 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

Consolidated deposits increased by 5.2% in 2008. Member preference continues to be in demand and cashable term products, which provide added flexibility. Vancity benefits from the investment grade short-term debt rating received from Dominion Bond Rating Service (DBRS) beginning 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) – satisfactory credit quality also allows Vancity to issue commercial paper (short-term debt), which is categorized on the consolidated balance sheet as bearer deposit notes. In 2008, despite the ABCP market disruption, the DBRS rating for Vancity's short-term debt 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-weighted assets, which are calculated by applying specified weighting factors to balance sheet assets and off balance sheet items. The major components of Vancity's capital are detailed in Note 14. Vancity management has a more stringent target for capital that is higher than the eight per cent regulatory capital requirement. Both the regulatory and management targets were exceeded in 2008. The capital ratio was higher than the prior year at 12.3% (2007 – 12.1%) due to the growth of capital outpacing growth in risk-weighted assets. The 2008 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 2008, Vancity maintained a relatively stable interest rate risk profile that is well within its policy limits. Note 17 to the financial statements analyzes the balance sheet by the earlier of re-pricing or maturity dates while Note 18 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 that are reviewed regularly.

**TABLE 1**

<b>Net interest income</b> (thousands of dollars)	<b>2008</b>	2007	2006	2005	2004
<b>Interest Income</b>					
Residential mortgages	\$ 327,940	\$ 348,510	\$ 313,091	\$ 266,210	\$ 252,034
Commercial mortgages	80,705	66,871	53,177	42,104	50,381
Other loans	265,247	255,033	212,298	163,411	125,064
Cash and securities	42,423	48,100	36,511	29,211	24,769
Other interest income	97,681	11,135	17,181	16,838	14,244
	<b>813,996</b>	<b>729,649</b>	<b>632,258</b>	<b>517,774</b>	<b>466,492</b>
<b>Interest Expense</b>					
Chequing / savings accounts	23,494	28,755	24,678	13,092	9,677
Other demand accounts	16,402	5,211	3,701	2,110	1,328
Term deposits	269,835	277,343	219,236	148,536	123,592
Retirement plans	68,939	66,216	60,279	53,753	57,824
Wholesale borrowings	62,494	68,665	42,606	22,423	16,314
Other interest costs	41,225	2,591	2,326	5,004	2,681
	<b>482,389</b>	<b>448,781</b>	<b>352,826</b>	<b>244,918</b>	<b>211,416</b>
<b>Net interest income</b>	<b>\$ 331,607</b>	<b>\$ 280,868</b>	<b>\$ 279,432</b>	<b>\$ 272,856</b>	<b>\$ 255,076</b>

**TABLE 2****Analysis of changes in net****interest income** (thousands of dollars)

	<b>2008 vs 2007</b>			<b>2007 vs 2006</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	\$ (3,863)	\$ (16,707)	\$ (20,570)	\$ 12,580	\$ 22,109	\$ 34,689
Commercial mortgages	24,129	(10,295)	13,834	12,740	954	13,694
Other loans	73,983	(63,769)	10,214	36,888	6,529	43,417
Cash and securities	9,262	(14,939)	(5,677)	3,280	8,310	11,590
Total interest income	\$ 103,511	\$ (105,710)	\$ (2,199)	\$ 65,488	\$ 37,902	\$ \$103,390
<b>Liabilities</b>						
Demand deposits	(9,597)	3,667	(5,930)	4,160	4,639	8,799
Term deposits	(28,284)	35,792	7,508	22,257	32,637	54,894
Retirement plans	(4,274)	1,551	(2,723)	1,832	4,105	5,937
Debentures and loans	(25,129)	31,300	6,171	22,471	3,589	26,060
Total interest expense	(67,284)	72,310	5,026	50,720	44,970	95,690
	\$ 36,227	\$ (33,400)	2,827	\$ 14,768	\$ (7,068)	7,700
<b>Other interest income (costs)</b>			<b>47,912</b>			<b>(11,599)</b>
<b>Change in net interest income</b>			<b>\$ 50,739</b>			<b>\$ (3,899)</b>

**TABLE 3**

<b>Operating expenses</b> (thousands of dollars)	<b>2008</b>	2007	2006	2005	2004
<b>Salary and employee benefits</b>					
Salaries and wages	\$ 151,976	\$ 142,415	\$ 132,978	\$ 121,720	\$ 110,569
Benefits and training	35,061	31,331	27,898	25,262	22,761
	<b>187,037</b>	173,746	160,876	146,982	133,330
<b>Occupancy and equipment</b>					
Rent	15,460	14,127	11,923	11,296	10,137
Equipment	1,575	1,510	1,250	1,508	1,292
Maintenance and security	4,241	4,085	3,783	3,859	3,541
Amortization	12,324	12,338	11,725	11,988	15,734
	<b>33,600</b>	32,060	28,681	28,651	30,704
<b>General operating</b>					
B.C. Corporation Capital Tax	6,370	7,712	7,187	6,551	5,963
Advertising and promotion	10,962	13,159	13,092	14,415	12,342
Computer	5,911	6,536	6,082	6,366	5,802
Central dues and insurance	9,931	6,920	8,382	210	3,452
Meetings and travel	1,987	2,173	2,258	1,739	1,751
Postage	4,143	3,793	3,056	2,523	2,426
Professional services	13,300	12,537	9,934	11,702	6,894
Stationery	2,198	2,451	2,407	2,249	2,101
Telecommunications	3,896	3,881	3,977	3,669	3,315
Member services	15,113	13,593	18,255	19,054	15,176
Credit card services	17,033	15,192	13,021	10,021	8,337
Other	10,209	4,753	8,237	8,621	6,799
	<b>101,053</b>	92,700	95,888	87,120	74,358
<b>Total operating expenses</b>	\$ <b>321,690</b>	\$ 298,506	\$ 285,445	\$ 262,753	\$ 238,392

**TABLE 4**

<b>Income and other taxes</b> (thousands of dollars)	<b>2008</b>	2007	2006	2005	2004
Income taxes	\$ 11,762	\$ 6,136	\$ 10,885	\$ 16,012	\$ 16,838
B.C. Corporation Capital Tax	6,370	7,712	7,187	6,551	5,963
Payroll taxes	7,119	6,691	6,282	5,763	5,284
Property taxes	3,077	2,842	2,287	1,976	1,851
Federal and provincial sales taxes	9,445	7,505	6,772	7,782	6,612
<b>Total income and other taxes</b>	\$ <b>37,773</b>	\$ 30,886	\$ 33,413	\$ 38,084	\$ 36,548

## Auditors' Report to the Members

We have audited the consolidated balance sheet of Vancouver City Savings Credit Union as at December 31, 2008 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 Vancouver City Savings Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 Vancouver City Savings Credit Union as at December 31, 2008, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures as at and for the year ended December 31, 2007 were reported on by another firm of chartered accountants, except for the adjustments related to derivatives as described in Note 4 to the financial statements.



Chartered Accountants  
Vancouver, Canada  
February 6, 2009

## 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. KPMG, 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 6, 2009



**Rob Malli**  
Vice President, Finance

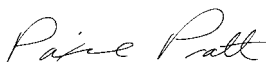
## Consolidated Balance Sheet

December 31, 2008, with comparative figures for 2007

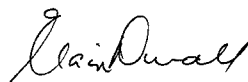
(Expressed in thousands of dollars)

	2008	2007
		(restated - note 4)
<b>ASSETS</b>		
<b>Cash and securities:</b>		
Cash and non-interest bearing deposits with financial institutions	\$ 148,478	\$ 148,677
Interest bearing deposits with financial institutions	958,357	732,575
Government and corporate securities (note 6)	692,840	272,368
	<u>1,799,675</u>	<u>1,153,620</u>
<b>Loans: (note 7)</b>		
Residential mortgages	6,444,788	7,293,033
Commercial mortgages	1,575,135	1,482,525
Consumer loans	2,849,852	2,502,615
Business loans	1,473,524	1,377,628
Allowance for credit losses	(87,338)	(71,969)
	<u>12,255,961</u>	<u>12,583,832</u>
<b>Other:</b>		
Accrued interest receivable	40,145	53,010
Derivative instruments (note 18)	96,788	16,382
Premises and equipment (note 9)	87,592	71,050
Other assets (note 10)	251,572	228,633
	<u>476,097</u>	<u>369,075</u>
	<u>\$ 14,531,733</u>	<u>\$ 14,106,527</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Deposits:</b>		
Demand	\$ 3,085,790	\$ 2,408,599
Term	8,599,501	8,695,207
Shares (note 11)	100,840	104,583
	<u>11,786,131</u>	<u>11,208,389</u>
<b>Wholesale borrowings:</b>		
Demand loans and banker's acceptances	1,415,481	1,256,115
Bearer deposit notes	275,606	653,432
	<u>1,691,087</u>	<u>1,909,547</u>
<b>Other liabilities:</b>		
Accrued interest and dividends payable	159,333	170,914
Accounts payable and other accrued liabilities	205,088	219,706
Derivative instruments (note 18)	37,136	18,610
	<u>401,557</u>	<u>409,230</u>
<b>MEMBERS' EQUITY:</b>		
Contributed surplus	29,275	22,470
Retained earnings	602,765	555,948
Accumulated other comprehensive income	20,918	943
	<u>652,958</u>	<u>579,361</u>
<b>COMMITMENTS AND CONTINGENCIES (note 21)</b>		
	<u>\$ 14,531,733</u>	<u>\$ 14,106,527</u>

Approved on behalf of the Board:



Director



Director

See accompanying notes to consolidated financial statements.

VANCOUVER CITY SAVINGS CREDIT UNION

## Consolidated Statement of Earnings

Year ended December 31, 2008, with comparative figures for 2007

(Expressed in thousands of dollars)

	2008	2007 (restated - note 4)
<b>INTEREST INCOME:</b>		
Loans	\$ 673,892	\$ 670,414
Cash and securities	42,423	48,100
Securitization	36,931	3,702
Other (note 18)	60,750	7,433
	<b>813,996</b>	729,649
<b>INTEREST EXPENSE:</b>		
Deposits	378,670	377,525
Wholesale borrowings	62,494	68,665
Other (note 18)	41,225	2,591
	<b>482,389</b>	448,781
<b>NET INTEREST INCOME</b>	<b>331,607</b>	280,868
<b>PROVISION FOR CREDIT LOSSES</b> (note 7)	<b>27,108</b>	16,323
	<b>304,499</b>	264,545
<b>OTHER INCOME:</b>		
Account service fees	23,277	22,470
Credit card fees	26,560	22,140
Foreign exchange	13,098	10,666
Insurance service fees	10,933	9,362
Loan fees	2,578	2,212
Trust and investment fees	15,106	15,356
Loan insurance fees	6,589	6,338
Impairment of securities (note 6)	(10,741)	(13,897)
Other	5,347	9,936
	<b>92,747</b>	84,583
<b>NET INTEREST AND OTHER INCOME</b>	<b>397,246</b>	349,128
<b>OPERATING EXPENSES:</b>		
Salaries and employee benefits	187,037	173,746
Occupancy and equipment	33,600	32,060
General operating	101,053	92,700
	<b>321,690</b>	298,506
<b>EARNINGS FROM OPERATIONS</b>	<b>75,556</b>	50,622
<b>DISTRIBUTIONS TO COMMUNITY AND MEMBERS</b> (note 13)	<b>16,977</b>	10,822
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>58,579</b>	39,800
<b>PROVISION FOR INCOME TAXES</b> (note 15)	<b>11,762</b>	7,045
<b>NET EARNINGS</b>	<b>\$ 46,817</b>	\$ 32,755

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Year ended December 31, 2008, with comparative figures for 2007

(Expressed in thousands of dollars)

	<b>2008</b>	<b>2007</b>
		(restated - note 4)
<b>NET EARNINGS</b>	\$ <b>46,817</b>	\$ 32,755
<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 \$5,823	<b>18,896</b>	-
Transfer of net realized gains on cash flow hedges to earnings, net of tax of \$(29)	<b>(93)</b>	-
	<b>18,803</b>	-
Net change in available for sale securities:		
Net unrealized gain (losses) on available for sale securities, net of tax of \$652 (2007 - \$(4,154))	<b>2,409</b>	(8,873)
Transfer of net realized loss on available for sale securities to earnings, net of tax of \$(457) (2007 - \$4,430)	<b>(1,237)</b>	9,467
	<b>1,172</b>	594
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>19,975</b>	594
<b>COMPREHENSIVE INCOME</b>	\$ <b>66,792</b>	\$ 33,349

See accompanying notes to consolidated financial statements.

VANCOUVER CITY SAVINGS CREDIT UNION

## Consolidated Statement of Changes in Members' Equity

December 31, 2008, with comparative figures for 2007

(Expressed in thousands of dollars)

	2008	2007
		(restated - note 4)
<b>CONTRIBUTED SURPLUS:</b>		
Balance, beginning of year	\$ 22,470	\$ 4,190
Net assets acquired (note 12)	6,805	18,280
Balance, end of year	29,275	22,470
<b>RETAINED EARNINGS:</b>		
Balance, beginning of year	555,948	532,723
Adjustment for change in accounting policies, net of tax of \$(2,204)	-	(9,530)
Net earnings	46,817	32,755
Balance, end of year	602,765	555,948
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME:</b>		
Balance, beginning of year	943	-
Adjustment for change in accounting policies, net of tax of \$19	-	349
Other comprehensive income	19,975	594
Balance, end of year	20,918	943
<b>MEMBERS' EQUITY, END OF YEAR</b>	<b>\$ 652,958</b>	<b>\$ 579,361</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Cash Flows

Year ended December 31, 2008, with comparative figures for 2007

(Expressed in thousands of dollars)

	2008	2007
		(restated - note 4)
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATIONS:</b>		
Net earnings	\$ 46,817	\$ 32,755
Provision for credit losses	27,108	16,323
Amortization of premises and equipment	12,053	12,339
Write-down on available for sale securities	10,741	13,897
Net change in derivative financial instruments	(61,880)	(916)
Changes in operating assets and liabilities:		
Future income tax assets	(10,602)	248
Accrued interest receivable	12,865	(7,975)
Other assets	(16,932)	(26,140)
Accrued interest and dividends payable	(11,581)	12,482
Accounts payable and other accrued liabilities	(14,618)	20,374
Other	19,975	594
	<u>13,946</u>	<u>73,981</u>
<b>FINANCING:</b>		
Demand and term deposits	581,485	983,329
Shares	(3,743)	3,865
Loans payable	(218,460)	732,691
Sales and securitizations (note 8)	841,632	362,449
	<u>1,200,914</u>	<u>2,082,334</u>
<b>INVESTMENTS:</b>		
Interest bearing deposits with financial institutions	(225,782)	(106,907)
Government and corporate securities	(431,213)	35,513
Loans, net of repayments	(540,869)	(2,057,615)
Premises and equipment	(28,595)	(20,051)
Other assets	4,595	(37,644)
Non-cash net assets acquired from business combinations (note 12)	(2,812)	(21,387)
Cash and cash equivalents acquired from business combinations (note 12)	9,617	41,667
	<u>(1,215,059)</u>	<u>(2,166,424)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(199)</b>	<b>(10,109)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>148,677</b>	<b>158,786</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 148,478</b>	<b>\$ 148,677</b>
<b>SUPPLEMENTARY INFORMATION:</b>		
Interest paid	\$ 451,350	\$ 426,275
Income taxes paid	13,908	12,371

See accompanying notes to consolidated financial statements.

VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

### 1. GOVERNING LEGISLATION AND OPERATIONS

Vancouver City Savings Credit Union (Vancity) is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. Vancity serves members principally in the Lower Mainland of British Columbia and Victoria. Citizens Bank of Canada (the Bank), the principal subsidiary of Vancity, 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. Vancity is an integrated financial institution that provides a wide range of financial products and services that comprise one business operating segment.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Through the application of these principles, management is required 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 Vancity and its subsidiaries, all of which are wholly owned except for Inhance Investment Management Inc. Vancity owns 97.5% (2007 - 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. All intercompany transactions and balances have been eliminated.

Vancity consolidates variable interest entities (VIEs) when it is the primary beneficiary of the VIE. An entity is a VIE when, by design, one or both of the following conditions exist: (a) the total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others; (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. The primary beneficiary is the enterprise that absorbs or receives the majority of the VIE's expected losses and/or expected residual returns. Dockside Green Limited Partnership and Dockside Green Energy Limited Partnership qualify as VIEs and are fully consolidated in the results in Vancity.

#### (b) Cash resources

Cash and non-interest bearing deposits with financial institutions are comprised of cash, demand deposits with Central 1 Credit Union (Central 1) and cheques and other items in transit. These are considered cash and cash equivalents for the purpose of the consolidated statement of cash flows.

#### (c) Interest bearing deposits held with financial institutions

Deposits held for liquidity purposes with Central 1 and other financial institutions are recorded at amortized cost using the effective interest method.

#### (d) Financial instruments

##### (i) Recognition and measurement

All financial instruments are classified as one of the following: held for trading (HFT), available for sale (AFS), held to maturity (HTM), loans and receivables (L&R) or other financial liability (OFL) and are recognized at fair value on initial recognition.

All financial instruments are carried at fair value subsequent to initial recognition, unless they are classified as L&R, HTM or OFL, which are carried at amortized cost. Any financial asset or liability may be designated as AFS or HFT at initial recognition. In addition, all derivatives are measured at fair value. When available from active markets, fair values are based on quoted market prices. If prices from active markets are not available, fair values are estimated using a variety of valuation techniques and models.

The amortized cost of a financial instrument is the amount at which the financial instrument 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.

##### (ii) Classification of financial instruments

HFT financial instruments 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 earnings as other income. Interest earned and interest incurred are included in interest income and expense, respectively. Vancity has classified cash and cash equivalents as HFT.

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 classified any financial assets as HTM.

AFS financial assets are non-derivative financial assets that are not classified as L&R, HTM, HFT, are not designated as HFT, or are designated as AFS. AFS assets are carried at fair

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

value whereby the unrealized gains and losses are included in accumulated other comprehensive income (AOCI) until sale, at which time the cumulative gain or loss is transferred to the consolidated statement of earnings. Write downs to reflect other than temporary impairment are included in other income. Income from these assets is included in interest income using the effective interest method.

L&R are recorded at amortized cost using the effective interest rate method. All loans and receivables are classified as L&R by Vancity.

OFL are recorded at amortized cost using the effective interest rate method and include all liabilities, other than derivatives.

Vancity reviews AFS securities for possible impairment when cash flows are not received from counterparties at their expected dates. An investment is considered impaired if the unrealized losses are considered to be other than temporary.

In determining whether a loss is temporary, factors considered include the extent of the unrealized loss, the length of time that the security has been in an unrealized loss position, the financial condition of the issuer, and Vancity's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If the decline is considered to be other than temporary, a write-down is recorded in the consolidated statement of earnings.

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 securities on an effective interest basis; and
- the gain or loss relating to the effective portion of qualifying hedging derivatives designated as cash flow hedges released from AOCI as the hedged item is recorded in interest income (expense).

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. For all other financial instruments, transaction costs are capitalized and amortized over the expected life of the instrument using the effective interest method. Trade date accounting is used for all assets.

**(e) Securities**

Vancity has designated government and corporate securities as AFS. AFS assets are generally held for liquidity and longer term investment purposes.

**(f) Loans**

Loans are initially measured at fair value. 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 effective interest rate method, except when a loan is considered to be impaired. Interest income on impaired loans is recognized on a cash basis only after recording any recovery of the specific provision for impairment or partial write-off, and provided that there is no further doubt as to the collectability of the principal amount.

**(i) Impaired loans**

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there no longer is reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, unless the loan is fully secured, the collection of the debt is in process, and collection efforts are reasonably expected to result in repayment of the loan or in restoring it to a current status. Loans considered uncollectable 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.

**(ii) 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 specifically identified. Specific provisions include all the accumulated provisions for losses on identified impaired loans required to reduce the carrying value of those loans to their estimated realizable amount. The general allowance for credit risk includes provisions for losses inherent in the portfolio that are not presently identifiable by management of Vancity on an account-by-account basis. The general allowance for credit risk is established by taking into consideration historical trends in the loss experience during economic cycles, the current portfolio profile, estimation of incurred losses for the current phase of the economic cycle and historical experience in the industry.

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.

VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

## (iii) 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. 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 expected remaining term of the original mortgage using the effective interest method. Loan origination, restructuring and renegotiation fees for commercial and business loans are recorded as interest income over the expected term of the loan using the effective interest method. Commitment fees are recorded to other income over the expected 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.

## (iv) 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 are commensurate with the risks involved. Gains or losses on these transactions are recorded in other interest income or expense. Gains and losses on transactions that have a retained interest are based on the carrying value of the loans transferred allocated between the assets sold and the retained interests in proportion to their fair value at the date of transfer. Gains and losses on transactions that do not have a retained interest are based on the proceeds of the sale compared with the carrying value of the loans at the date of sale.

Vancity may retain interests in the transferred loans, such as servicing rights and cash reserve accounts. Vancity classifies its retained interests in securitizations as available for sale assets. 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 other securitization income flowing through net earnings. The carrying value of the retained interests is reviewed annually for impairment and adjusted as required. Depending on the sale or securitization vehicle, Vancity will record a service liability for securitizations for which adequate compensation for servicing the transferred loans is not received, and will record a servicing asset when servicing revenue from the transferred loans is expected to exceed servicing cost. The servicing asset or liability is initially measured at fair value and is recorded in the consolidated balance sheet in other assets or other liabilities, respectively. Over the term of the transferred loans, the related servicing asset or liability will be amortized to securitization income.

## (g) Derivative instruments

Derivative instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying interest rates, exchange rates or other financial indices to notional contract amounts.

Derivative instruments are carried at fair value and are reported as assets where they have a positive fair value, or as liabilities where they have a negative fair value. The resulting gains or losses on derivative instruments not qualifying for hedge accounting are recognized in other interest income or expense as appropriate, in the current period. Derivatives may also be embedded in other financial instruments. Derivatives embedded in other financial instruments are separated from the host contracts and accounted for as a derivative instrument when their economic characteristics and risks are not closely related to those of the host contract, it meets the definition of a derivative instrument and the host contract is not accounted for as HFT. Vancity applied this accounting treatment to all host contracts entered into after January 1, 2003. The index-linked component on an equity-linked deposit is accounted for as an embedded derivative and is classified as a derivative instrument on the consolidated balance sheet.

A derivative qualifies for hedge accounting if the hedging relationship is designated and formally documented at inception in accordance with the requirements of CICA handbook section 3865 *Hedges*. This documentation involves outlining the particular risk management objective and strategy for the hedging relationship, the specific risk being hedged, and how effectiveness is assessed and measured as well as the frequency of these tests. Hedging relationships, between the hedged and hedging items, are designated as cash flow hedges. This process includes linking the derivatives to specific pools of assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions that give rise to the specific risk being hedged. Effectiveness is assessed by determining whether

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

derivatives used in hedging relationships are 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 on both a prospective and retrospective basis.

Vancity uses hedge accounting for cash flow hedges that convert floating rate assets and liabilities to fixed rate assets or liabilities. With a cash flow hedge, the effective portion of changes in fair value of the derivative is recognized in other comprehensive income (OCI), while the ineffective portion is recognized in the consolidated statement of earnings. 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. Ineffectiveness is measured and recorded in other interest income or expense on the consolidated statement of earnings. When a cash flow hedge is discontinued and the hedged item is still in existence, amounts previously recognized in other comprehensive income are released to income as the hedged item impacts earnings. When a cash flow hedge is discontinued and the hedged item is no longer in existence, amounts previously recognized in OCI are immediately recognized in the consolidated statement of earnings.

**(h) Commissions**

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

**(i) Premises and equipment**

Land is carried at cost. Buildings, equipment and leasehold improvements are recorded at cost, less accumulated amortization. Amortization is 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

**(j) Other assets**

Investments in shares of Central 1 Credit Union are classified as AFS, but are recorded at cost as there is no active market where fair values can be reliably measured. Vancity capitalizes acquisition and direct development costs for property under development relating to Dockside Green Limited Partnership. When the estimated net realizable value of property under development does not exceed book value, the property under

development is recorded at net realizable value. Intangible assets consist 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.

**(k) Employee future benefits**

Vancity accrues obligations under employee benefit plans. 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, appropriate discount rates 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 consolidated balance sheet.

**(l) Distributions to members**

Patronage rebates and dividends are recorded as an expense when declared in the consolidated statement of earnings.

**(m) 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 when the asset is realized or when the liability is 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.

**(n) 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. Unrealized gains and losses on foreign currency AFS assets are translated at the average exchange rates for the year and recorded in other comprehensive income.

**(o) Comparative figures**

In addition to the restatement referred to in Note 4, certain comparative figures are reclassified, where appropriate, to conform to the current year's presentation.

VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

**3. CHANGES IN ACCOUNTING POLICIES****(a) Current year changes**

Financial instruments - presentation and disclosure

CICA Handbook Section 3862, *Financial Instruments – Disclosures* (HB 3862), and 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 risk exposures and the management of these risks by the entity. These standards were adopted by Vancity effective January 1, 2008.

Capital disclosures

CICA 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 were adopted by Vancity effective January 1, 2008.

**(b) Future changes in accounting policies**

Goodwill and intangible assets

Effective January 1, 2009, Vancity will adopt the CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. The impact of implementation of this standard will not be material to Vancity's results of operations or financial position.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that profit-oriented publicly accountable enterprises will be required to adopt IFRS. IFRS will replace current Canadian GAAP for those enterprises. For Vancity, IFRS will be effective January 1, 2011, including the preparation and reporting of one year of comparative figures. Vancity is in the process of evaluating the impacts and implications for its conversion to IFRS.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the CICA's Emerging Issues Committee (EIC) issued an abstract, EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, clarifying the inclusion of credit risk in determining the fair value of financial assets, financial liabilities and derivatives. Application of EIC-173 is to be applied retroactively without restatement of prior periods. Vancity will be adopting this practice effective January 1, 2009.

**4. RESTATEMENT**

During the year it was determined that, in respect of certain derivative instruments to which hedge accounting had been applied, Vancity had not met the stringent requirements of Handbook Section 3865, *Hedges* (HB 3865) to permit its application. HB 3865 was adopted and applied by Vancity on January 1, 2007. As such, Vancity was precluded from applying hedge accounting for certain of its cash flow derivatives used to manage interest rate risk during 2007. Accordingly, Vancity's consolidated financial statements for the year ended December 31, 2007 have been restated on the basis that hedge accounting not been applied for 2007 as follows:

**Consolidated Statement of Earnings**

Net earnings as originally reported	\$ 28,329
Increase in net interest income	5,335
Decrease in income taxes	(909)
Net earnings as restated	\$ 32,755

In addition, retained earnings decreased and accumulated comprehensive income increased by \$9,608,000 on the reversal of transition adjustments originally made on January 1, 2007.

**5. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS****Risk management framework**

Vancity's principal business activities result in a balance sheet that consists primarily of financial instruments. In addition, Vancity uses derivative instruments for asset/liability management purposes. The principal financial risks that arise from transacting financial instruments include credit, liquidity and funding, operational and market risk.

The Board of Directors has overall responsibility for the establishment and oversight of Vancity's risk management framework. The Board has established committees to oversee and manage Vancity's exposure to primary areas of risk arising from financial instruments: credit, market and liquidity. The Financial Policy (FPC), Audit, and Governance and Conduct Review committees are responsible for developing, approving and monitoring Vancity's risk management policies and strategies in their specified areas. All committees have non-executive Board members and report quarterly to the Board of Directors on their activities.

Vancity's risk management policies are established to identify and analyze the risks faced by it, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed annually to reflect changes in market conditions, products and services offered, and changes in portfolio performance and trends.

The FPC's role is to provide effective oversight of Vancity's risk management activities related to market risk, credit risk, liquidity risk, and capital management.

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

The Audit Committee's principal role is to apply due diligence in ensuring that an effective risk management and control framework has been implemented by management. It is responsible for the oversight of the design and implementation of internal controls to support the risk management framework, the integrity of financial reporting, and compliance with regulatory matters. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported directly to the Audit Committee.

**(a) Credit risk management****(i) Credit risk**

Credit risk is the risk of financial loss to Vancity if a member or counterparty of a financial instrument fails to meet its contractual obligations, and arises primarily from Vancity's loans, investments, securities and derivative instruments with positive market values. The primary credit risk stemming from loans is the possibility that members will be unable or unwilling to repay some or all of the principal amount and interest they have borrowed. For investments, securities and derivative instruments, the credit risk Vancity is exposed to is the risk of default by the counterparty.

**(ii) Management of credit risk**

The Board of Directors has delegated responsibility for the governance of credit risk to the FPC to specifically oversee credit risk. The FPC separates credit responsibilities by lines of business: commercial mortgages, business lending, and retail lending. The Committee is responsible for managing credit risk through the following:

- Formulating and recommending credit policies in consultation with business units. These policies provide guidance over collateral requirements, credit assessment, risk ratings assessments for commercial mortgages and business lending, as well as a framework for reporting, and ensuring appropriate legal documentation is completed. The policies ensure that the lending processes are compliant with regulatory and statutory requirements. These policies are reviewed at minimum annually.
- Establishing authorization limits for the approval and renewal of credit facilities. Authorization limits are assigned to business unit credit officers for commercial mortgages and business lending. Retail lending is dependent on the credit scoring process that is supported by centralized credit officers. Large credit facilities require the approval by the FPC or the Board of Directors as directed by policy.

- Reviewing and assessing credit risk. The credit departments assess all credit exposures in excess of designated limits prior to approving the facilities. Renewals and reviews of facilities are subject to a similar process for commercial mortgages and business lending.
- Establishing limits on the exposure to counterparties, concentration in certain geographic areas and industries (for loan advances), as well as limits by issuer, credit rating band, market liquidity and country (for securities).
- Developing and maintaining Vancity's risk rating process in order to categorize risk according to the degree of financial loss faced and to focus management on these risks. The risk rating system is used in determining where impairment provisions may be required. The current risk rating framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit mitigation. The responsibility for setting risk grades lies with the final approving officer/committee as appropriate. Risk grades are subject to regular review by Vancity group commercial mortgage and business risk management committee.
- Reviewing compliance of business units with agreed exposure limits; including those for selected industries, country risk and product types. Regular reports are provided to the credit departments and the FPC on the credit quality of local portfolios and appropriate corrective action is taken.
- Each credit department is required to implement credit policies and procedures, with credit approval authorities delegated from the Chief Credit Officer. Each business unit has a department head who reports on all credit-related matters to local management for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.
- Regular audits of business units and the credit department processes are undertaken by Internal Audit.

**(b) Liquidity risk management**

Liquidity risk is the risk that Vancity may be unable to generate or obtain sufficient funding in a timely and cost effective manner to meet commitments associated with its financial instruments and operations.

**Management of liquidity risk**

Vancity's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Vancity's reputation.

Vancity's liquidity risk is subject to extensive risk management controls and is managed within the framework and policies and limits approved by the Board. On an annual basis the Board of

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

Directors through the FPC reviews and approves the liquidity policy presented by management to ensure adherence to regulatory requirements. The Asset and Liability Committee (ALCO), oversees the operational adherence to the liquidity policy. ALCO approves liquidity management processes and strategies presented by treasury and finance management in addition to overseeing adherence to minimum liquidity limits, eligibility requirements for liquid assets, funding diversification, deposit concentration and diversification limits.

The daily management of Vancity's liquidity is the responsibility of the treasury department under the direction of the VP, Treasury and Foreign Exchange. The finance department monitors treasury's adherence with liquidity policies and on a monthly basis reports all findings to ALCO. Treasury manages liquidity by monitoring expected daily cash inflows and outflows versus actual, projecting long-term cash requirements weekly and monthly, and by developing channels for a diverse source of funding. Vancity's primary sources of funding are wholesale and retail deposits, and wholesale borrowings.

Contingency plans exist for liquidity to satisfy funding requirements in the case of a general market disruption or adverse economic conditions. Proper execution of the contingency plan is the responsibility of the treasury department. The liquidity policy outlines the appropriate steps to follow and stakeholders to notify. The contingency plan is scenario tested annually, and the results are presented to the Board.

## Exposure to liquidity risk

The key measure used by Vancity for managing liquidity risk is the ratio of liquid assets to deposits.

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

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

	2008	2007
At December 31	<b>14.74%</b>	9.72%
Average for the period	<b>11.26%</b>	9.99%
Maximum for the period	<b>14.75%</b>	10.90%
Minimum for the period	<b>10.53%</b>	9.10%
<b>Liquid assets</b>	<b>2008</b>	<b>2007</b>
Cash and deposits with Central 1 Credit Union	\$ <b>1,106,835</b>	\$ 881,252
Securities <sup>(1)</sup>	<b>629,865</b>	208,717
	<b>1,736,700</b>	1,089,969
<b>Total liquid assets as a percentage of deposits</b>	<b>14.74%</b>	<b>9.72%</b>

(1) Balance does not include securities that are not liquid, such as the asset backed commercial paper.

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

	Less than 1 year	1 - 3 years	4 to 5 years	Over 5 years	No fixed maturity	Total
At December 31, 2008						
Retail deposits	\$ 5,902,279	\$ 937,165	\$ 279,514	\$ 411	\$ 3,054,490	\$10,173,859
Wholesale deposits	1,624,810	201	-	-	-	1,625,011
Borrowings	1,698,172	-	-	-	-	1,698,172
Financial liabilities	317,264	-	-	-	906	318,170
Derivatives	16,374	17,352	-	-	-	33,726
	\$ 9,558,899	\$ 954,718	\$ 279,514	\$ 411	\$ 3,055,396	\$13,848,938

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

**(c) Market risk management**

In the normal course of its operations, Vancity engages in transactions that give rise to market risk. Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads will affect Vancity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

**(i) Management of market risks**

The Board through the FPC sets risk tolerance levels for Vancity. Within these boundaries, ALCO measures, monitors and manages Vancity's interest risk profile. The policies for market risk management are reviewed annually by ALCO, and approved by the FPC and the Board of Directors.

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

**(ii) Interest rate risk management**

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

**(iii) Interest rate risk policies and processes**

Vancity meets its objectives for interest rate risk management by structuring the balance sheet to take advantage of the yield curve and mismatch opportunities while limiting risk exposure to approved levels to ensure that net interest income and net market values are not significantly impacted when there is an adverse change in interest rates.

The treasury department, under the direction of ALCO, is responsible for managing interest rate risk. ALCO monitors Vancity's compliance with policy through monthly meetings

by reviewing the interest rate risk profile of Vancity and by reviewing and approving limits and strategies recommended by the treasury department.

**(iv) Interest rate risk measurement techniques**

Vancity uses a number of techniques to manage interest rate risk. In order to manage the repricing of assets and liabilities, Vancity will alter the product mix through the marketing of particular products, pricing initiatives, and the use of derivative instruments. Decisions on determining the appropriate mix of assets, liabilities and derivative instruments, including interest rate swaps and forward rate agreements, is based on economic conditions, member behaviour, capital levels, liquidity levels and policies that limit exposure by instrument and counterparty.

Note 18 discloses details on derivatives used for asset liability management.

Vancity also uses several comprehensive measurement and analytical techniques to manage and control interest rate risk. Interest rate risk is measured primarily by simulation models that employ both current interest revenue and interest expense, and use market values to incorporate an economic perspective. Static gap and duration analyses are also used as supplementary measurement, control and management tools.

**(v) Simulation models**

Simulation models enable Vancity to analyze interest rate risk in a dynamic environment. The models incorporate assumptions about pricing strategies, growth, volume and mix of new business, changes in the level, slope and curvature of the yield curve, interest rates and other related factors. The assumptions used in the model are monitored and updated at least quarterly to reflect changing market conditions.

Simulation models can also be run to measure the impact on net interest income and market values of potential asset and liability management strategies in different economic environments to analyze risk and return tradeoffs.

Simulation models are also used to measure the potential impact of interest rate movements on market value of equity and financial margin. Based on Vancity's interest rate positions as at December 31, 2008, the following table shows the potential before-tax impact on Vancity's financial margin over the next 12 months of an immediate and sustained 100 basis points increase and decrease in interest rates across all currencies.

	Market value impact	Financial margin impact
Interest rate sensitivity		
Before tax impact of:		
100 bps decrease in rates	62,532	(4,756)
100 bps increase in rates	(54,312)	2,173

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

The market value risk technique gauges the impact on the market value of both financial assets and financial liabilities as well as off balance sheet instruments from a movement in interest rates. Market value risk is the present value of potential change in financial margin over all future periods. It is an economic measure of a leading indicator of the potential impact on future earnings of an adverse movement in interest rates.

## (vi) Interest rate risk analysis

Gap analysis is a technique used by Vancity for asset liability management to assess interest rate risk. It comprises aggregating cash flows into repricing periods and then checking if the cash flows in each period nets to zero. The repricing periods are time periods, based on either repricing dates or maturity dates of the assets and liabilities. An interest rate gap is a positive or negative net cash flow for one of the periods. Gap analysis does not take into consideration the credit risk of assets and liabilities.

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

## (vii) Foreign currency risk management

Foreign currency risk is the risk that a movement in foreign exchange rates will have an adverse effect on the financial condition of Vancity. Foreign currency risk arises in the ordinary course of business as Vancity meets the retail demands for foreign currency banking and trading activities.

Vancity is exposed to foreign currency risk each time it buys and sells foreign currency products to a member or to another financial institution. Vancity holds a foreign currency position that is exposed to the risk of exchange rates movements in either the spot or forward market. This exposure has the potential of having a negative effect on earnings. Vancity is exposed to this risk unless the foreign currency position is economically hedged, either naturally or synthetically. The impact of foreign currency risk will result from the volatility of exchange rate changes, the mix of foreign currency assets and liabilities, and the exposure to each currency market.

## (viii) Foreign currency risk policies and procedures

Foreign currency risk is managed daily by the Foreign Exchange department under the direction of the VP, Treasury and Foreign Exchange. The Foreign Exchange department develops and implements management policies and processes with the approval of ALCO. The finance department monitors compliance to the foreign exchange policy on a monthly basis.

Foreign currency forwards and futures are used to limit exposures to positions held by Vancity. Gains and losses on foreign exchange are measured monthly. Limits on global trades by currency in the spot and forward markets, and limits by traders are established through ALCO approved policies and monitored on a daily basis. Note 18 discloses details on foreign currency forwards and futures used to manage foreign exchange risk.

## 6. SECURITIES

## (a) An analysis of the fair value of securities by remaining term to maturity is as follows

	Effective yield	Within 1 year	1 to 5 years	Over 5 years	2008 Total fair value	2007 Total fair value
Securities held as AFS assets						
Securities issued or guaranteed by:						
Canadian federal government	1.14%	\$ 491,087	\$ -	\$ -	\$ 491,087	\$ 70,133
Canadian provinces and municipalities	0.91%	35,162	-	-	35,162	20,813
Mortgage-backed securities	3.95%	1,752	-	-	1,752	8,034
Bank-sponsored commercial paper	1.50%	100,000	-	2,229	102,229	5,232
Other securities	3.60%	10,001	-	52,609	62,610	168,156
Total AFS assets at fair value		\$ 638,002	\$ -	\$ 54,838	\$ 692,840	\$ 272,368

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

**(b) Impairment of securities**

Within AFS securities as at December 31, 2008 were two categories of impaired asset-backed commercial paper (ABCP) investments: \$52.6 million of third-party non bank sponsored ABCP with a face value of \$76.4 million; and bank-sponsored ABCP of \$2.2 million with a face value of 3.0 million. During 2008, \$10.7 million (2007 - \$13.9 million) was recorded in the consolidated statement of earnings with respect to the impairment.

The fair value of this ABCP has been determined by management based on a model that assesses the specific underlying composition of assets in each ABCP trust held and categorizes them into classes with similar risk characteristics. For each class of assets, Management applied the best, average and worst case scenarios to determine values. These values were then weighted, based on management's estimates of probabilities for each scenario and used to arrive at management's best estimate of fair value. In carrying out this assessment, management relied on best available information regarding market conditions, proxy

benchmarks, historical trends and other factors that a market participant would consider for such investments. Where there is no observable market data, management has used estimates that it believed to be reasonable. Continuing uncertainties regarding the value of assets that underlie the ABCP and the nature of the current third-party non-bank sponsored ABCP restructuring process could give rise to a further change in the value of the ABCP. The effect of a 10% change in the key assumptions on the size of the write-downs would result in a further adjustment of \$2.7 million.

Included in the valuation is an estimate for the residual value of accrued interest on the ABCP as of December 31, 2008. Subsequent to the year end, the non-bank sponsored ABCP restructuring plan was closed on January 21, 2009. At that time, the ABCP was exchanged for long term notes and \$2.3 million in cash. At this point, the market for the restructured long-term notes is not expected to be active.

**7. LOANS****(a) Loan maturities and rate sensitivities**

	Maturity term			2008 Total	Rate sensitivity		
	Under 1 year	1 to 5 years	5 to 10 years		Floating	Fixed rate	2008 Total
Residential mortgages	\$ 3,376,337	\$ 3,010,868	\$ 57,583	\$ 6,444,788	\$ 1,962,212	\$ 4,482,576	\$ 6,444,788
Commercial loans	712,069	563,029	300,037	1,575,135	592,290	982,845	1,575,135
Consumer loans	2,713,531	134,917	1,404	2,849,852	2,677,946	171,906	2,849,852
Business loans	575,693	837,000	60,831	1,473,524	294,423	1,179,101	1,473,524
Total loans	7,377,630	4,545,814	419,855	12,343,299	5,526,871	6,816,428	12,343,299
Allowance for credit losses	52,202	32,165	2,971	87,338	39,107	48,231	87,338
Total loans, net of allowance for credit losses	\$ 7,325,428	\$ 4,513,649	\$ 416,884	\$ 12,255,961	\$ 5,487,764	\$ 6,768,197	\$ 12,255,961

	Maturity term			2007 Total	Rate sensitivity		
	Under 1 year	1 to 5 years	5 to 10 years		Floating	Fixed rate	2007 Total
Residential mortgages	\$ 3,399,478	\$ 3,811,478	\$ 82,077	\$ 7,293,033	\$ 1,105,188	\$ 6,187,845	\$ 7,293,033
Commercial loans	654,895	533,193	294,437	1,482,525	543,336	939,189	1,482,525
Consumer loans	2,370,127	130,877	1,611	2,502,615	2,239,145	263,470	2,502,615
Business loans	450,988	861,860	64,780	1,377,628	83,261	1,294,367	1,377,628
Total loans	6,875,488	5,337,408	442,905	12,655,801	3,970,930	8,684,871	12,655,801
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	\$ 6,836,479	\$ 5,306,958	\$ 440,395	\$ 12,583,832	\$ 3,948,328	\$ 8,635,504	\$ 12,583,832

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

**(b) Allowance for credit losses**

	Residential	Commercial	Consumer	Business	2008 Total	2007 Total
Balance, beginning of year	\$ 13,223	\$ 16,983	\$ 24,497	\$ 17,266	\$ 71,969	\$ 64,161
Provision for credit losses:						
Normal credit factors	277	(578)	891	26,518	27,108	19,023
Mortgage fraud recovery	-	-	-	-	-	(2,700)
	277	(578)	891	26,518	27,108	16,323
Loans written-off	(1,830)	-	(10,480)	(1,150)	(13,460)	(10,663)
Recoveries of loans written-off	-	-	1,648	73	1,721	2,148
Balance, end of year	\$ 11,670	\$ 16,405	\$ 16,556	\$ 42,707	\$ 87,338	\$ 71,969
Loans with specific allowances:						
Loan balance	\$ 2,342	\$ 3,338	\$ 100	\$ 26,069	\$ 31,849	\$ 30,535
Related allowance	(1,484)	(250)	(100)	(6,608)	(8,442)	(8,131)
Carrying amount	\$ 858	\$ 3,088	\$ -	\$ 19,461	\$ 23,407	\$ 22,404
Loans with general allowances:						
Loan balance	\$ 6,442,446	\$ 1,571,797	\$ 2,849,752	\$ 1,447,455	\$ 12,311,450	\$ 12,625,266
Related allowance	(10,186)	(16,155)	(16,456)	(36,099)	(78,896)	(63,838)
Carrying amount	\$ 6,432,260	\$ 1,555,642	\$ 2,833,296	\$ 1,411,356	\$ 12,232,554	\$ 12,561,428
Loans on which the accrual of interest has been discontinued	\$ 26,468	\$ 17,794	\$ 14,972	\$ -	\$ 59,234	\$ 31,724

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. Settlement on these loans was received in January 2009.

**(c) Loans past due but not impaired**

Loans that are past due but not classified as impaired are loans where our customers have failed to make payments when contractually due, but for which management expects that the full amount of principal and interest payments will be collected. Loans that are past due but not impaired as at December 31, 2008 are as follows:

	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 31,737	\$ 14,512	\$ 32,514	\$ 78,763
Commercial mortgages	18,615	-	-	18,615
Consumer loans	15,512	4,707	20,052	40,271
Business loans	670	62	1,492	2,224
	\$ 66,534	\$ 19,281	\$ 54,058	\$ 139,873

**8. LOAN SECURITIZATIONS AND SALES**

Vancity periodically raises liquidity through securitization and sale of residential and/or commercial mortgages. The total outstanding residential mortgages sold and removed from the balance sheet at December 31, 2008 were \$1,315 million (2007 - \$847 million). Vancity retains the responsibility for servicing the assets securitized and sold. Any gain or loss that results from the sale of assets is recorded in other interest income in the period the sale occurs.

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

## New activity during the year:

	2008	2007
Residential mortgages:		
Loans sold	\$ 835,063	\$ 364,918
Net cash proceeds received	841,632	362,449
Retained rights: cash reserves	-	2,469
future excess (deficit) interest	16,584	(2,346)
Pre-tax gain (loss) on sale	20,025	(2,346)
Key assumptions at date of sale:		
Average term to maturity	4.0 years	4.89 years
Prepayment rate (%/year)	20%	20%
Excess spread	2.65%	0.69%
Discount rate	2.14 - 4.69%	4.48% - 4.85%

## 9. PREMISES AND EQUIPMENT

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
Land	\$ 13,505	\$ -	\$ 13,505	\$ 11,112
Buildings	55,475	19,238	36,237	28,349
Leasehold improvements	32,456	15,134	17,322	16,103
Computer equipment and software	75,208	60,115	15,093	9,381
Furniture and fixtures	20,270	14,835	5,435	6,105
	\$ 196,914	\$ 109,322	\$ 87,592	\$ 71,050

## Lease commitments:

Vancity has leases on certain branch premises for terms extending to 2018. The future minimum lease payments for each of the next five fiscal years and thereafter are as follows:

	2008
2009	\$ 10,401
2010	9,246
2011	7,689
2012	6,911
2013	5,358
2014 and thereafter	5,945
	\$ 45,550

## 10. OTHER ASSETS

	2008	2007
Central 1 Credit Union shares	\$ 32,684	\$ 32,381
Accounts receivable, prepayments and other	192,110	180,076
Future income tax assets (note 15)	26,778	16,176
	\$ 251,572	\$ 228,633

The investment in the shares of Central 1 is required under operating agreements. Central 1 provides a centralized financial facility, a payment clearing house and a trade association for the Credit Unions of BC and Ontario.

## 11. SHARES

	2008	2007
Membership shares	\$ 57,290	\$ 59,615
Investment shares	39,287	39,394
Savings shares	4,263	5,574
	\$ 100,840	\$ 104,583

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.

Deposits held in membership and investment shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC).

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

**12. BUSINESS COMBINATIONS**

Vancity acquired the assets and assumed the liabilities of Greater Victoria Savings Credit Union (GVSCU) on February 1, 2008. The fair value of net assets acquired of \$6.8 million has been reported on the consolidated balance sheet as contributed surplus. The members of GVSCU exchanged membership and savings shares for Vancity membership and savings shares.

These transactions were recorded using the purchase method. The following summarizes the estimated fair value of the net assets acquired:

	<b>2008</b>
	GVSCU
Assets acquired:	
Cash and investments	\$ 9,617
Loans	54,164
Other assets	6,063
	<b>69,844</b>
Liabilities assumed:	
Deposits	61,463
Other	1,576
	<b>63,039</b>
	<b>\$ 6,805</b>

**13. DISTRIBUTIONS TO COMMUNITY AND MEMBERS**

	<b>2008</b>	2007
Donations to community and Vancity Community Foundation	\$ 6,160	\$ 3,666
Membership share dividends	5,396	1,184
Patronage rebates	3,768	4,002
Total shared success	15,324	8,852
Investment share dividends	1,653	1,970
Total distributions to community and members	\$ 16,977	\$ 10,822

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 \$0.8 million (2007 - \$0.9 million), to deposit interest paid amounted to \$2.1 million (2007 - \$2.2 million), to member funds under administration with CAM amounted to \$0.7 million (2007 - \$0.8 million) and to home insurance purchased \$0.1 million (2007 - \$0.1 million).

**14. REGULATORY CAPITAL AND CAPITAL RATIOS**

Capital levels for credit unions in British Columbia are regulated pursuant to guidelines issued by the Financial Institutions Commission of British Columbia (FICOM), based on standards issued by the Bank for International Settlements. Minimum capital standards are based on a total capital to risk weighted assets (RWA) ratio of 8%, along with a requirement that at least 35% of its capital base consist of retained earnings.

Regulatory capital is allocated to two tiers: Primary (Tier 1) and Secondary (Tier 2). Tier 1 comprises the more permanent

components of capital and consists primarily of share capital and retained earnings adjusted for future income taxes. Tier 2 capital consists of 50% of a credit union's portion of retained earnings in CUDIC, Central 1, and Stabilization Central Credit Union. Total regulatory capital is defined as the total of Tier 1 and Tier 2 capital less deductions as prescribed by FICOM.

Regulatory ratios are calculated by dividing total capital by RWA, which are weighted according to relative risk (0% and 150%) and are determined by FICOM prescribed rules relating to on balance sheet and off-balance sheet exposures.

Vancity monitors capital levels on a regular basis via appropriate management and Board committees. Capital plans are updated on a yearly basis as part of Vancity's normal budgeting cycle and are forecasted over a three year period to ensure an appropriate level of capital is maintained to sustain operations. As at December 31, 2008, Vancity's capital ratio was greater than the minimum requirement.

	<b>2008</b>	2007
Capital		
Tier 1 Capital:		
Equity shares	\$ 105,880	\$ 104,618
Credit union's own retained earnings	605,056	561,219
Deferred income tax credits (debits)	(18,407)	(12,073)
Other	29,275	22,469
Total Tier 1 Capital	<b>721,804</b>	676,233
Tier 2 Capital		
50% of Vancity's proportion of retained earnings in CUDIC, Central 1 and Stabilization Central Credit Union	67,438	65,671
Total Tier 2 Capital	<b>67,438</b>	65,671
Total capital	<b>\$ 789,242</b>	\$ 741,904

**15. INCOME TAXES**

	<b>2008</b>	2007
		(restated - note 4)
Components of the provision of income taxes:		
Current income tax expense	\$ 22,364	\$ 6,797
Future income tax (recovery) expense	(10,602)	248
	<b>\$ 11,762</b>	\$ 7,045

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>2008</b>	2007
Combined federal and provincial statutory income tax rate	<b>31.0%</b>	33.8%
Credit Union rate reduction	<b>(21.7)</b>	(25.0)
Non-deductible and other items	<b>10.7</b>	9.0
	<b>20.0%</b>	17.8%

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

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

	2008	2007
Future income tax assets:		
Allowance for impairment of loans	\$ 18,258	\$ 11,607
Deferred revenue	3,759	1,748
Accrued employee future benefits	4,620	2,918
Other accrued expenses	2,999	1,541
Premises and equipment	1,516	1,745
Tax loss carry forward	4,408	-
	<b>35,560</b>	19,559
Future income tax liabilities:		
Deferred expenses	<b>(8,782)</b>	(3,383)
Net future income tax assets	\$ <b>26,778</b>	\$ 16,176

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

The accrued benefit obligation and plan assets were actuarially measured for accounting purposes as of October 31, 2008 (prior period was measured at October 31, 2007). The effective date of the last actuarial valuation report for funding purposes was December 31, 2008 and the effective date of the next required actuarial valuation report will be December 31, 2011.

	Pension plans		Other benefit plans	
	2008	2007	2008	2007
Accrued retirement plan obligations:				
Opening balance, actuarial benefit liabilities	\$ 18,393	\$ 16,855	\$ 16,955	\$ 16,360
Benefits paid	<b>(1,785)</b>	(293)	<b>(832)</b>	(622)
Current service cost	1,104	1,340	1,733	1,675
Contributions paid by employees	49	51	-	-
Interest cost on accrued benefit obligation	994	913	957	887
Actuarial gains	<b>(4,216)</b>	(473)	<b>(5,064)</b>	(1,345)
Actuarial benefit liabilities at measurement date	\$ <b>14,539</b>	\$ 18,393	\$ <b>13,749</b>	\$ 16,955
Fair value of retirement benefit plan assets:				
Opening balance, fair value of plan assets	\$ 14,949	\$ 13,375	\$ -	\$ -
Employer contributions	901	744	832	622
Employee contributions	49	51	-	-
Benefits paid	<b>(1,785)</b>	(293)	<b>(832)</b>	(622)
Actual return on plan assets	<b>(2,120)</b>	1,072	-	-
Fair value of plan assets at measurement date	\$ <b>11,994</b>	\$ 14,949	\$ -	\$ -
Funded status – plan deficits	\$ 2,545	\$ 3,444	\$ 13,749	\$ 16,955
Contributions between November 1 and December 31	<b>(121)</b>	(9)	-	-
Unamortized net actuarial gains (losses)	<b>(144)</b>	(1,222)	<b>3,239</b>	(1,841)
Unamortized past service cost	<b>(252)</b>	(302)	-	-
Accrued benefit liabilities at December 31 <sup>(1)</sup>	\$ <b>2,028</b>	\$ 1,911	\$ <b>16,988</b>	\$ 15,114
Total retirement benefit plan expense:				
Defined benefit plans	\$ 1,045	\$ 2,307	\$ 2,631	\$ 3,052
Multi-employer defined benefit plans	1,996	1,782	-	-
Defined contribution plans	5,159	4,803	-	-
Retirement benefit plan expenses	\$ <b>8,200</b>	\$ 8,892	\$ <b>2,631</b>	\$ 3,052

(1) The net accrued benefit liabilities is recorded in accounts payable and other accrued liabilities on the balance sheet.

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.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

The weighted-average of significant actuarial assumptions used to determine benefit expenses and accrued benefit obligations are as follows:

	Pension plans		Other benefit plans	
	2008	2007	2008	2007
Estimated average service period of active employees (in years)	<b>8.0</b>	8.0	<b>13.0</b>	13.0
Discount rate at end of year <sup>(1)</sup>	<b>7.25%</b>	5.50%	<b>7.25%</b>	5.50%
Expected long-term rate of return on plan assets	<b>7.00%</b>	7.00%	-	-
Rate of compensation increase	<b>3.75%</b>	4.00%	-	-
Assumed overall health care cost trend <sup>(2)</sup>	-	-	<b>10.00%</b>	10.00%

(1) The discount rate is based on the market interest rates as of October 31, 2008 on high quality corporate bonds with cash flows that match the timing and amount of expected benefit payments.

(2) Trending to 5% in 10 years and remaining thereafter.

## Sensitivity of assumptions:

Key weighted-average economic assumptions used in measuring the pension benefit liability, the other benefit plans liability and related expenses are outlined in the following table. The sensitivities in each key variable have been calculated independently of changes in other key variables.

	Pension plans		Other benefit plans	
	Accrued benefit obligation	Benefit expense	Accrued benefit obligation	Benefit expense
Discount rate	7.25%	5.50%	7.25%	5.50%
Impact of: 1% increase	\$ (1,709)	\$ (200)	\$ (1,597)	\$ (260)
1% decrease	2,107	244	1,989	286
Rate of compensation increase	3.00%	3.75%	-	-
Impact of: 0.25% increase	\$ 3	\$ 24	-	-
0.25% decrease	(2)	(20)	-	-
Expected rate of return on assets	-	7.0%	-	-
Impact of: 1% increase	-	\$ (146)	-	-
1% decrease	-	145	-	-
Assumed overall health care cost trend rate <sup>(1)</sup>	-	-	10.0%	10.0%
Impact of: 1% increase	-	-	\$ 1,382	\$ 292
1% decrease	-	-	(1,226)	(328)

(1) Trending to 5% in 10 years and remaining thereafter.

Plan assets, as of the measurement date, were invested as follows:

	2008	2007
Equity securities	<b>56%</b>	57%
Debt securities	<b>38%</b>	37%
Other	<b>6%</b>	6%
	<b>100%</b>	100%

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

**17. INTEREST RATE SENSITIVITY**

Interest rate risk is a measure of how sensitive Vancity's financial position is to movements in interest rates. To manage interest rate risk, Vancity uses swaps and other derivative instruments. The determination of interest rate sensitivity or gap position encompasses numerous assumptions. It is based on the earlier of the repricing date or the maturity date of assets, liabilities and derivative instruments used to manage interest rate risk.

The gap position presented is as at December 31 of each year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based on member behavior and the application of Vancity's asset and liability management policies.

The assumptions for the year ended December 31, 2008 and 2007 were as follows:

**(a) Assets**

Fixed term assets, such as residential mortgage loans and consumer loans, are reported based on scheduled repayments and estimated prepayments that reflect expected borrower behaviour.

Variable rate assets that are related to the prime rate or other short term market rates are reported in the within three month category.

Fixed rate and non-interest bearing assets with defined maturity are reported based on expected account balance behavior.

**(b) Liabilities**

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

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

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

**(c) Yields**

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

	Yield	Within 3 months	3 Months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitivity	Total
<b>December 31, 2008</b>									
<b>Assets:</b>									
Cash and cash equivalents		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 148,478	\$ 148,478
Deposits and securities	3.17%	1,112,117	309,060	106,974	95,076	27,970	-	-	1,651,197
Loans	4.87%	5,949,261	1,799,520	1,557,997	1,187,274	917,288	844,621	-	12,255,961
Other		33,170	6,070	14,339	28,509	1,680	36,774	355,555	476,097
		7,094,548	2,114,650	1,679,310	1,310,859	946,938	881,395	484,033	14,531,733
<b>Liabilities and equity:</b>									
Deposits	2.85%	4,289,056	4,992,980	912,799	855,208	385,784	350,304	-	11,786,131
Borrowings	2.91%	1,691,087	-	-	-	-	-	-	1,691,087
Other		61	7,199	8,084	21,634	-	-	1,017,537	1,054,515
		5,980,204	5,000,179	920,883	876,842	385,784	350,304	1,017,537	14,531,733
Asset/liability gap		1,114,344	(2,885,529)	758,427	434,017	561,154	531,091	(513,504)	-
Notional amounts of derivatives		85,000	(320,000)	(695,000)	(95,000)	-	1,025,000	-	-
Interest rate gap position		\$ 1,199,344	\$ (3,205,529)	\$ 63,427	\$ 399,017	\$ 561,154	\$ 1,556,091	\$ (513,504)	-
<b>December 31, 2007</b>									
<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%	4,254,148	2,920,614	2,022,932	1,384,697	920,249	1,081,192	-	12,583,832
Other		-	-	-	-	-	-	369,075	369,075
		4,763,155	3,124,589	2,210,512	1,406,736	947,376	1,136,407	517,752	14,106,527
<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
Borrowings	4.99%	1,909,547	-	-	-	-	-	-	1,909,547
Other		-	-	-	-	-	-	988,591	988,591
		5,872,786	5,116,974	914,636	560,691	345,616	307,233	988,591	14,106,527
Asset/liability gap		(1,109,631)	(1,992,385)	1,295,876	846,045	601,760	829,174	(470,839)	-
Notional amount of derivatives		1,175,125	560,452	(990,911)	(611,190)	(42,483)	(90,993)	-	-
Interest rate gap position		\$ 65,494	\$ (1,431,933)	\$ 304,965	\$ 234,855	\$ 559,277	\$ 738,181	\$ (470,839)	\$ -

VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

## 18. DERIVATIVE INSTRUMENTS

	Notional amounts				Current replacement cost		Fair values	
	Maturities of Derivatives		Total 2008	Total 2007	2008	2007	2008	2007
	Within 1 year	1 to 5 years						
<b>Derivatives used to manage interest rate risk</b>								
Receive fixed interest current swaps	\$ 545,000	\$ 175,000	\$ 720,000	\$ 970,000	\$ 14,474	\$ 831	\$ 14,474	\$ (1,224)
Receive fixed interest forward starting swaps	-	2,221,680	2,221,680	1,464,700	73,984	8,403	73,984	7,918
Pay fixed interest current swaps	470,000	460,000	930,000	1,871,560	-	770	(36,948)	(11,637)
Pay fixed interest forward starting swaps	-	-	-	820,000	-	491	-	(3,575)
	1,015,000	2,856,680	3,871,680	5,126,260	88,458	10,495	51,510	(8,518)
<b>Other derivatives</b>								
Foreign exchange future/forward sell contracts	(14,450)	-	(14,450)	33,591	413	483	(158)	171
Foreign exchange future/forward buy contracts	22,118	-	22,118	111,380	2,095	3,317	1,283	3,150
Forward rate deposit agreements	-	140,000	140,000	-	6,643	-	6,643	-
Index-linked call options purchased	4,124	7,689	11,813	12,814	212	2,971	374	2,969
	11,792	147,689	159,481	157,785	9,363	6,771	8,142	6,290
Total derivative contracts	\$ 1,026,792	\$ 3,004,369	\$ 4,031,161	\$ 5,284,045	97,821	17,266	\$ 59,652	\$ (2,228)
Less impact of master agreements					27,642	7,163		
Net credit risk on derivatives					\$ 70,179	\$ 10,103		

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 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 fluctuations for any change in market value.

Forward foreign currency exchange contracts are tailor made foreign currency futures, negotiated between two counterparties, to buy or sell a specific amount of foreign currency at a certain rate, on or before a certain date.

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.

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, totalled \$97.8 million as at December 31, 2008 (2007 - \$17.3 million). Vancity manages this credit risk by dealing with creditworthy counterparties and setting specific limits for investments with those counterparties, which are reviewed on a monthly basis.

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

Interest income and expense include 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). The release composes the amount that is reported as a reclass from AOCI to net earnings.

No gains and losses were released from AOCI to net earnings as a result of discontinuance of a hedge. As described in Note 4, Restatement, Vancity did not meet the requirements of HB 3865 *Hedges* for certain derivatives that were used to manage interest rate risk. Further, Vancity was precluded from applying hedge accounting for a portion of 2008 and gains of \$39.2 million are recorded in other interest income and expense on the statement of consolidated earnings.

From time to time, Vancity enters into derivative transactions to economically hedge certain business strategies that do not otherwise qualify for hedge accounting, or where hedge accounting is not considered economically feasible to implement. For 2008, \$60.6 million (2007 - \$3.0 million) was recorded in other interest income as unrealized changes in fair value of these derivatives. In addition, other interest expense consists of \$22.4 million (2007 - \$1.7 million) in realized losses on derivatives.

### 19. 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, values are not necessarily comparable among financial institutions. Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. Where there is no quoted market value, fair value is determined using a variety of valuation techniques and assumptions. Vancity has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methodologies and assumptions; since they involve uncertainties, the fair values may

not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of Vancity's financial instruments. The carrying value is a reasonable approximation of fair value for Vancity's cash resources, demand deposits, certain other assets and certain other liabilities, due to their short-term nature.

#### (a) Loans

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

For fixed rate and floating rate performing loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms, adjusting for estimated prepayments expected.

The total value of loans determined using the above assumption is reduced by the allowance for credit losses to determine the fair value of Vancity's loan portfolio.

#### (b) Securities

The fair value of AFS securities is determined by using quoted market values when available. For securities where market quotes are not available, Vancity uses estimation techniques to determine fair value. These estimation techniques include discounted cash flows, internal models that utilize observable market data or comparisons with other securities that are substantially the same. Where there is no observable market data, such as with the ABCP, referred to in Note 6, management used estimates that it believes to be reasonable.

#### (c) Derivative instruments

The fair value of derivative instruments is determined by using quoted market benchmark rates from an independent source. Vancity uses a valuation method that includes discounted cash flows on the remaining contractual life of a derivative instrument, and valuation models that use observable market data.

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

**(d) Deposits**

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

- For fixed rate, fixed maturity deposits, Vancity discounts the remaining contractual cash flows, adjusted for expected redemptions, at market interest rates offered for deposits with similar terms and risks.
- For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits reprice to market frequently. On that basis, fair value is assumed to equal carrying value.

				<b>2008</b>	
	HFT	Fair value non-trading	Total	Total carrying value	Variance
<b>Assets</b>					
Cash and cash equivalents	\$ 148,478	\$ -	\$ 148,478	\$ 148,478	\$ -
Interest-bearing deposits	-	963,525	963,525	958,357	5,168
Securities	-	692,840	692,840	692,840	-
Loans:					
Residential mortgages	-	6,571,337	6,571,337	6,444,788	126,549
Commercial mortgages	-	1,660,255	1,660,255	1,575,135	85,120
Consumer loans	-	2,879,219	2,879,219	2,849,852	29,367
Business loans	-	1,515,711	1,515,711	1,473,524	42,187
Allowance for credit losses	-	(87,338)	(87,338)	(87,338)	-
Total loans net of allowance for credit losses	-	12,539,184	12,539,184	12,255,961	283,223
Derivative instruments	96,788	-	96,788	96,788	-
Other assets	-	146,905	146,905	146,905	-
<b>Liabilities</b>					
Deposits	-	11,885,237	11,885,237	11,786,131	(99,106)
Wholesale borrowings	-	1,691,093	1,691,093	1,691,086	(7)
Derivative instruments	37,136	-	37,136	37,136	-
Other liabilities	-	318,170	318,170	318,170	-
Total fair value adjustment					\$ 189,278
<b>2007</b>					
	HFT	Fair value non-trading	Total	Total carrying value	Variance
<b>Assets</b>					
Cash and cash equivalents	\$ 148,677	\$ -	\$ 148,677	\$ 148,677	\$ -
Interest-bearing deposits	-	734,108	734,108	732,575	1,533
Securities	-	272,368	272,368	272,368	-
Loans:					
Residential mortgages	-	7,285,030	7,285,030	7,293,033	(8,003)
Commercial mortgages	-	1,485,670	1,485,670	1,482,525	3,145
Consumer loans	-	2,488,052	2,488,052	2,502,615	(14,563)
Business loans	-	1,385,098	1,385,098	1,377,628	7,470
Allowance for credit losses	-	(71,969)	(71,969)	(71,969)	-
Total loans net of allowance for credit losses	-	12,571,881	12,571,881	12,583,832	(11,951)
Derivative instruments	16,382	-	16,382	16,382	-
Other assets	-	134,955	134,955	134,955	-
<b>Liabilities</b>					
Deposits	-	11,244,753	11,244,753	11,208,389	(36,364)
Wholesale borrowings	-	1,909,657	1,909,657	1,909,547	(110)
Derivative instruments	18,610	-	18,610	18,610	-
Other liabilities	-	365,014	365,014	365,014	-
Total fair value adjustment					\$ (46,892)

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

**20. CREDIT RISK:****(i) Credit risk exposure:**

The following information represents the maximum exposure to credit risk before taking into consideration any collateral or credit enhancements. For financial assets recognized on the balance sheet, the exposure to credit risk is their stated carrying amount. For loan commitments, the maximum exposure is the full amount of the undrawn facilities.

	December 31, 2008		
	On balance sheet exposures	Off balance sheet exposures	Total exposures
Cash and securities	\$ 1,799,675	\$ -	\$ 1,799,675
Loans	12,255,961	-	12,255,961
Other	361,727	-	361,727
Undrawn Lines of Credit	-	3,746,657	3,746,657
Commitments to Extend Credit	-	380,095	380,095
Undrawn credit on credit cards issued	-	1,105,029	1,105,029
Documentary Letters of Credit	-	45,776	45,776
Maximum exposure	\$ 14,417,363	\$ 5,277,557	\$ 19,694,920

**(ii) Collateral and other credit enhancements:**

Cash, Securities and Other Assets have a low credit risk exposure as the majority of these assets are high quality investments with low risk counterparties. For the retail loan portfolio, Vancity's underwriting methodologies and risk modeling is customer based rather than product based. Vancity reviews the customers capacity to repay the loan rather than relying exclusively on collateral, although it is an important mitigant of credit risk. Decisions on consumer loans are based on an overall assessment of credit risk utilizing a scoring model that takes into account factors such as Beacon scores and debt levels relative to income. The table below provides a distribution of Vancity's loans and undrawn facilities by Beacon score; however it does not take into consideration others factors that may mitigate exposure to credit risk:

Risk category	Beacon score range	2008
High	less than 620	\$ 825,641
Medium	620 – 720	3,166,359
Low	greater than 720	5,302,640
Total		\$ 9,294,640

The non-retail portfolio utilizes an assessment process that measures credit risk, taking into consideration a number of factors such as the borrower's management, current and projected financial results, industry statistics, and economic trends that cumulates into a risk rating. This risk rating categorizes risk according to the degree of financial loss faced and forces management to focus on these risks and helps determine where impairment provisions may be required. The current risk rating framework consists of internal

grades reflecting varying degrees of risk of default, staff oversight, and the availability of collateral or other credit enhancements. These risk ratings can be grouped as follows:

Risk rating	Risk rating descriptions
11 - 21	<i>Minimal to Normal Risk:</i> Account is identified to be low or normal risk and requires minimal staff oversight - low risk of default.
22 - 32	<i>Acceptable or Qualified Risk:</i> Account has acceptable levels of risk with a potential for a heavier reliance on asset security. Staff activities maintain a certain level of oversight based on industry business practices.
41 - 52	<i>Account Requires Management Involvement or is Substandard:</i> Account is identified to be of higher risk driven by a material adverse change, deterioration of the financial situation of the customer, or major security deficiencies.

The credit quality of Vancity's non-retail portfolio, expressed in terms of the internal risk ratings discussed above is shown in the table below:

Internal risk ratings	2008
11 – 21	\$ 460,021
22 – 32	2,551,180
41 – 52	37,458
	\$3,048,659

## VANCOUVER CITY SAVINGS CREDIT UNION

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

Collateral for the loan portfolio is dependent on the type of loan as follows:

- Residential Loans: Mortgages secured by residential real estate,
- Consumer Loans: Loans secured by other personal assets pledged; and
- Commercial & Business Loans: Mortgages, charges over commercial or business properties or charges over other assets such as land, equipment, inventory and receivables.

Fair values of collateral held as security are not disclosed as it is not practical to do so. For loans that are neither past due nor impaired, information relative to collateral or the credit risk of the customer is regularly updated or reviewed.

**(iii) Concentration 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 Vancity 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. Vancity's loan portfolio has a geographic concentration of 95.2% in British Columbia. Loans outside of British Columbia are composed of 3.4% in Ontario and 1.4% in Alberta.

To reduce the impact of the geographic credit risk, Vancity has insured approximately 31% of its residential mortgages.

**21. COMMITMENTS AND CONTINGENCIES****(a) Credit commitments**

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

	2008	2007
Undrawn lines of credit	\$ 3,746,657	\$ 3,469,313
Commitments to extend credit	380,095	949,852
Undrawn credit on credit cards issued	1,105,029	913,050
Documentary letters of credit	45,776	28,233
	\$ 5,277,557	\$ 5,360,448

**(b) Deposit commitments**

Under governing legislation, Vancity maintains, for liquidity purposes, deposits with Central 1. Liquidity deposits totaled \$1.1 million at December 31, 2008. From this total, Vancity has made Canadian dollar deposit commitments of approximately \$140 million (2007 - \$155 million) with Central 1. These commitments are at fixed rates ranging from 3.46% to 4.90% with terms of

one year and maturity dates extending to 2013. The deposit commitments are classified as derivatives and have a fair value of \$6.6 million at December 31, 2008.

**(c) Pledged assets**

In the normal course of business, Vancity pledges mortgage assets and readily marketable securities to secure credit and clearing facilities. Asset pledging transactions are conducted under terms that are common and customary to standard derivative and other financing activities. Standard risk management controls are applied with respect to asset pledging.

The following tables summarize Vancity's pledged assets, to whom they are pledged and in relation to what activity.

	2008	2007
Securities	\$ 5,881	\$ 5,803
Mortgages	375,890	345,617
General charge	454,000	380,000
Total assets pledged	\$ 835,771	\$ 731,420

	2008	2007
<b>Assets pledged to:</b>		
Central 1 Credit Union	\$ 47,050	\$ 50,996
Other financial institutions	788,721	680,424
	835,771	731,420

<b>Assets pledged in relation to:</b>		
Clearing facilities	31,000	31,000
Standby credit facilities	1,707,000	1,695,000

**(d) Guarantees**

As part of its regular operations, Vancity issues performance guarantees for its development projects. At December 31, 2008, Vancity has an outstanding performance guarantee with the City of Victoria in the amount of \$13.2 million (2007 - \$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, 2008, the value of this commitment is estimated at \$3.4 million (2007 - \$3.5 million).

**(e) Restricted cash**

In connection with its development projects, Vancity is holding restricted cash in the amount of \$2.7 million (2007 - \$3.9 million) related to construction holdbacks and \$2.3 million (2007 - \$1.5 million) related to deposits on housing sales not yet conveyed.

**(f) 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.

## Notes to the Consolidated Financial Statements (continued)

(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2008

**22. OTHER INFORMATION**

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

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

As at December 31, 2008, the outstanding loans to employees amounted to:

	Fair value		Book value	
	2008	2007	2008	2007
Residential mortgages	\$ 279,115	\$ 292,179	\$ 287,000	\$ 296,000
Personal loans	14,000	400	14,000	400
	\$ 293,115	\$ 292,579	\$ 301,000	\$ 296,400

**23. ACCUMULATED OTHER COMPREHENSIVE INCOME (AOCI)**

AOCI is comprised of the following:

	2008		
	Opening balance	Net change	Ending balance
Gains (losses) on derivative instruments designated as cash flow hedges	\$ -	\$ 18,803	\$ 18,803
Unrealized gains (losses) on available for sale securities	943	1,172	2,115
AOCI \$	\$ 943	\$ 19,975	\$ 20,918

	2007			
	Opening balance	Adoption of new standard	Net change	Ending balance
Unrealized gains (losses) on available for sale securities	\$ -	\$ 349	\$ 594	\$ 943
AOCI	\$ -	\$ 349	\$ 594	\$ 943

## vancouver city savings credit union

### board of directors 2008-2009

Patrice Pratt, Chair  
Catherine McCreary, Vice Chair  
Lisa Barrett  
Doreen Braverman  
Elain Duvall  
Elizabeth Fletcher  
Ian Gill  
Kim Griffith  
Wendy Holm  
Virginia Weiler  
Bob Williams

### executive leadership team

Tamara Vrooman  
Chief Executive Officer

Catherine Aczel Boivie  
Senior Vice President, Information Technology

Chris Dobrzanski  
Senior Vice President, Risk Management & Operations,  
and Social Finance (interim)

Brian Forward  
Vice President, Human Resources

Karen Hoffmann  
Corporate Secretary and Senior Vice President,  
Risk & Compliance

Rob Malli  
Vice President, Finance

Paula Martin  
Senior Vice President, Member Engagement

Ellen Pেকেles  
Senior Vice President, Strategy

Rick Sielski  
Senior Vice President, Member Services

### subsidiaries

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

Inventure Solutions Inc.  
Catherine Aczel Boivie, Chief Executive Officer

Inhance Investment Management Inc.  
Kerry Ho, Chief Executive Officer

Vancity Insurance Services Ltd.  
Terry Taciuk, President

Vancity Investment Management Ltd.  
Paul Savage, Vice President

Vancity Capital Corporation  
Lee Davis, Chief Executive Officer

Vancity Enterprises Ltd.  
Jim Cox, Chief Executive Officer  
(until November 2008)

### associated organizations

Vancity Community Foundation  
Derek Gent, Executive Director

### board of directors attendance

In 2008, 10 of 11 directors attended 90% or more regular meetings of Vancity's Board. The director who was only able to attend 75% of the regular scheduled meetings had made commitments prior to becoming a director. Special meeting attendance varied from 44% to 100% as these meetings may be called with 24 hours notice. 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 Vancity's Accountability Report.

vancity community branches and managers\*

<b>Abbotsford</b> Michael Spuls	<b>Mission</b> Sara Vrabec	<b>Vancouver</b> 4th Avenue Sarah Shellard	<b>Victoria</b> Blanshard Street Zeenat Ali
<b>Burnaby</b> Brentwood Maria Michayluk	<b>New Westminister</b> Kruger Patricia Sonier	Chinatown Grace Wong	Langford Jeremy Meckler
North Burnaby Josie Romeo & Ritu Linfoot	New Westminister Jeanette Crocker	Collingwood Gerry Collins	Saanich Vacant
North Road Patricia Sonier	<b>North Vancouver</b> Lynn Creek Arlene Urlacher	Commercial Drive Phelan Jung	Scott Street Zeenat Ali
Royal Oak Jennifer Pecknold	Lynn Valley Arlene Urlacher	Downtown Jan Dean	Victoria Maria McLeod
South Burnaby Peter Unadkat	North Vancouver Greg Letham	Dunbar Dean Webster	<b>West Vancouver</b> Franko Zaurrini
South Slope Jas Parmar	Westview Arlene Urlacher	Fairview Duncan McGuffie	<b>White Rock</b> Semiahmoo Ana Sawatzky
Station Square Maryvonne Taft	<b>Pitt Meadows</b> Jayne Perrault	Fraser Street Jasvir Kheleh	<b>regional directors</b> Debbie Bywater Mohamed Ladak David Perri Keith Tongue
Telus Christopher Singh	<b>Port Coquitlam</b> North Side Jenn Fahey	Hastings Sheryl Ries	<b>squamish savings</b> Ian Cornish, General Manager
<b>Chilliwack</b> Ben Letkeman	Shaughnessy Station Jenn Fahey	Kerrisdale Kristin Yakumo	Downtown Tracey Kliesch
<b>Coquitlam</b> Maillardville Jag Gill	<b>Port Moody</b> Barry Osman	Main Street Aldina Graziano	Highlands Tracey Kliesch
Pinetree Tony Ciulla	<b>Richmond</b> Praveen Sidhu	Marpole Gabriella Bogнар	<b>national contact centre</b> Jean-Marc Hadfield, Vice President Cherie Devisser** and Dennis Pantazis, Directors
<b>Delta</b> North Delta Mike Matsuo	<b>Surrey</b> Cedar Hills Hormus Karat	Oakridge Lily Wong	
Tsawwassen Paul Cockshutt	Guilford Rup Sumal	Point Grey Susan Long	
<b>Langley</b> Langley Sonny Neilsen	Johnston Heights Marie Lewthwaite	Vancity Centre Janette Hunter	
Walnut Grove Sandeep Mann	Newton Jodh Dhaliwal	Victoria Drive Elaine Kennedy	
<b>Maple Ridge</b> Vanita Dennis	Surrey City Centre Grace Saris	Westend Kathryn Fitzgerald	

\* as of February 2009

\*\* Cherie Devisser is interim director for Paula MacFarlane, currently on maternity leave



