



# Vancity is for the wealthy\*

**Vancity** 2009 Annual Report

\*The notion of wealth being defined in only financial terms is a relatively modern idea; in fact, the 13th century definition of wealth originated from “health.” Our Vision is for a return to this original definition, in which financial well-being plays a key part—but not the only part—of the total well-being of our members, and the communities where they live and work.

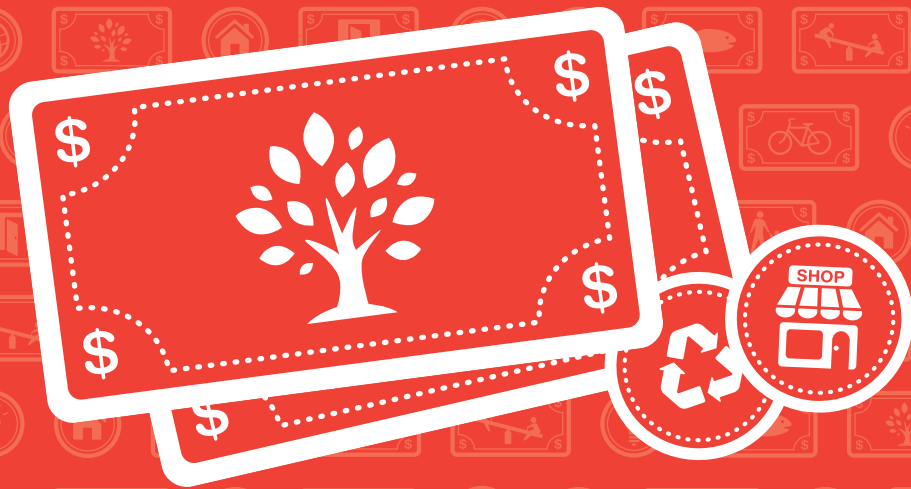
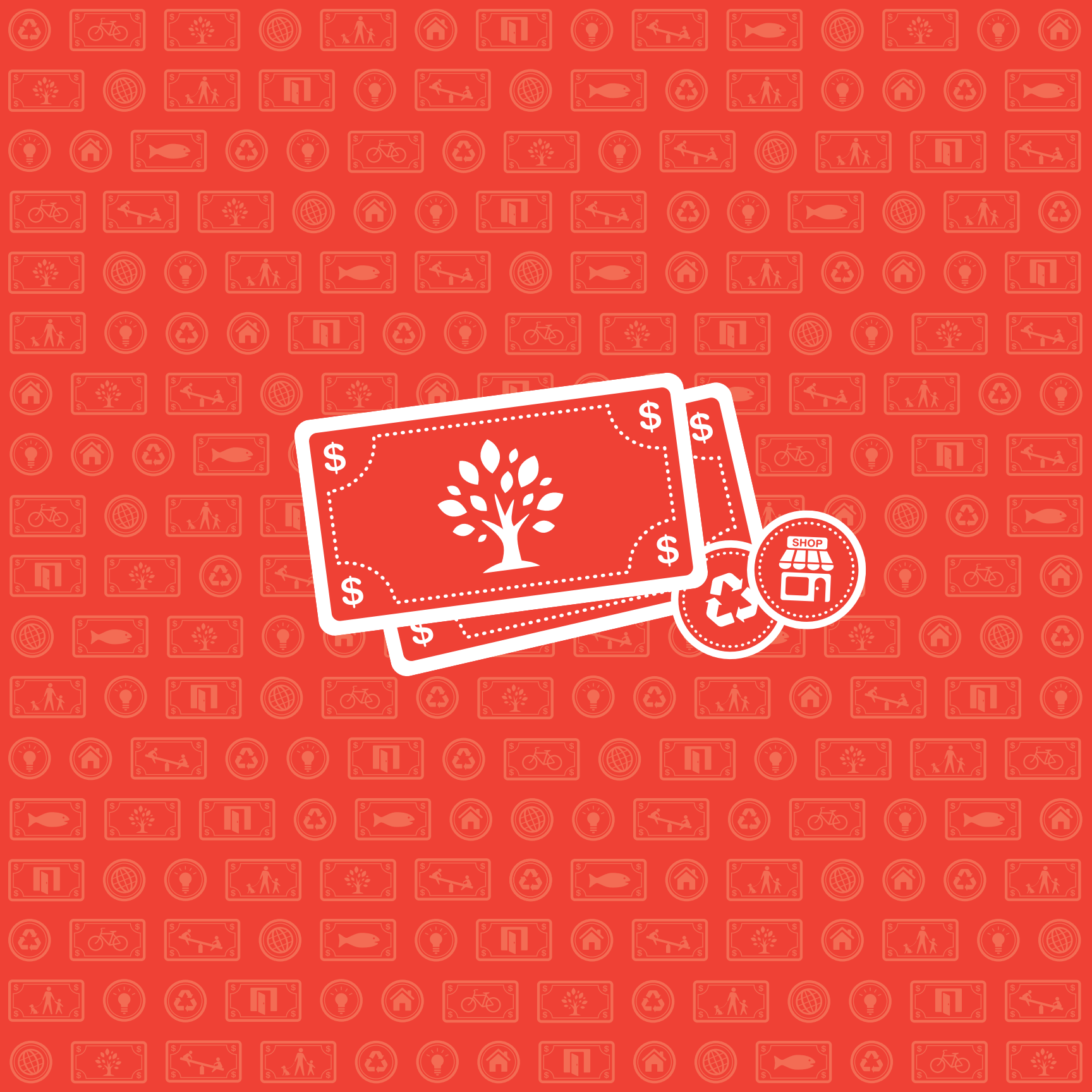


# we are redefining wealth

Dharmasensa Yakandawela was a hard-working and successful judge in Sri Lanka, but when he immigrated, he couldn't practice law in Canada. To make ends meet, he worked at 7-Eleven. By using two Back to Work loans provided through Vancity's Microlending Program, he was able to attend UBC, write his exams, and qualify as a Certified Immigration Counsellor. Dharmasensa has since provided legal expertise and services to help more than 100 new Canadian residents get settled in their new country. Investing in others is what makes our communities richer.







In 2008, Vancity was the first North American-based financial institution to become carbon neutral. We felt that if we could do it, we had a responsibility to show others how they could do it too.

To celebrate our carbon neutral status, we “paid it forward” by providing Climate Smart Business training scholarships to 40 businesses in 2008 and 2009.

Black Stilt Coffee Lounge owner Dave Crothall, a Vancity business member in Victoria, is an enthusiastic participant in the Climate Smart Business program. Dave initially started down the green path at the urging of his employees, and his two locations have now become known as the “green” coffee company. Initially, Black Stilt aimed to reduce its waste, but after completing a carbon inventory, they also streamlined supplier deliveries and product sourcing options to reduce third-party greenhouse gas emissions. In addition, they focused on reducing waste from takeout cups.

Reducing emissions is also good for business. Black Stilt has better staff retention (reducing training and turnover costs) and higher profit margins (as customers have embraced reusable cups). We're proud to have played a small part in the greening of Black Stilt Coffee.

Try a cup of our  
Black Stilt  
French Press!

Red Pepper & Tomato  
Wednesday  
Italian Wedding  
Thursday  
Moroccan Veggie  
Friday  
Weekly Feature



Manager Kayli Anderson and owner Dave Crothall



Senior Community Leadership Associate Njeri Kontulahti

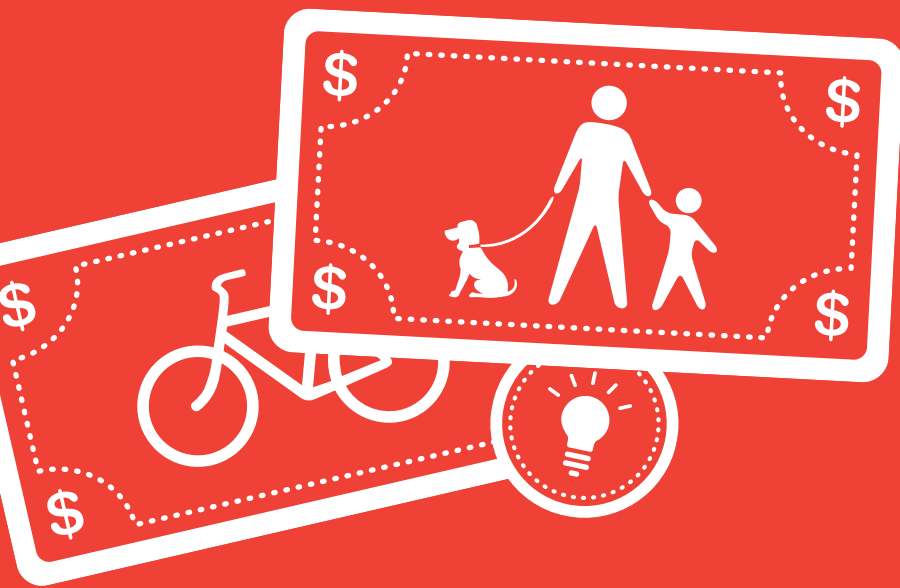
While the Jumpstart™ High Interest Savings Account pays members a competitive interest rate on their deposits, it has another contribution that goes beyond deposit interest.

A portion of the revenue from the Jumpstart Account goes to support Future Foundations, a program that helps people with low incomes move towards self-sufficiency by teaching them asset building, financial empowerment, and money management skills. A key part of the program is an accelerated savings plan that matches participants' savings at a rate of three to one, giving them the opportunity to put their money towards career training, starting a business, or purchasing a family home.

"The participants say the program helps them build financial confidence, but an unexpected outcome is the confidence that is carried over to other aspects of their lives," says Njeri Kontulahti, an employee with Vancity's Sustainability team who helps manage the Future Foundations Program with the Mennonite Central Committee.

Thanks to members' deposits in 2009, Future Foundations will receive \$107,000 for their programs. And we expect that figure to grow as members' deposits continue to grow. By providing the tools and resources needed to build savings, assets, and financial skills, Future Foundations invests in those people who are seriously motivated to enhance their future.

\*Jumpstart is a trademark of Vancouver City Savings Credit Union.



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President and CEO Tamara Vrooman (left) and Board Chair Patrice Pratt

“One of Vancity’s greatest strengths is our ability to connect with the communities in which we operate, and where we live. As we continue to create a definition of wealth that includes member and community well-being, and use the depth and strength of our networks to create opportunity, we will create growth and profit for members and the communities to which they belong.”

## message from the chair

### Creating our Vision

Two years ago, we began an extensive process to articulate a Vision for Vancity in a way that is rooted in our history while providing a road map for the future—one that challenges us to support our members and communities in innovative ways as we channel our resources towards profound social change.

Our Vision of **Redefining Wealth** is provocative and invites us to think about wealth in a very different way.

Our new definition of wealth is about looking holistically at the well-being of our members and the communities in which they live and work, as they are inextricably connected. It is difficult to have healthy, satisfied members when our communities are in decline. It's about meeting members where they are and working with them in sometimes unconventional ways, whether we offer help with starting a small business, buying a first home, dealing with job loss, or building assets for retirement. It's the same thinking our founders had in 1946 when 12 people came together with \$22 to create a financial institution that was accessible to everyone, regardless of employment status, cultural group, race, or income. By looking at how wealth is created and sustained and taking a new approach, we can be so much more than a provider of financial services. You'll see examples of how our Vision is being brought to life in the stories on the first few pages of this report.

### Back to basics

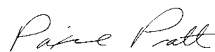
Building on our history is something I talked about last year at this time, and the activities of 2009 took us a long way toward this goal. We looked at our business with an eye to how we could simplify our structure, what adds value for our members, and how to support the longevity and health of the credit union. This analysis informed our decision to leave certain areas of the marketplace, freeing resources that could better be used elsewhere. This included the sale of our home, auto, and travel insurance portfolio to The Co-operators Group Ltd. so we could focus on life insurance services, changing Citizens Bank to focus solely on commercial lending, foreign exchange, and Visa\* card services, and the

sale of Inhance Investment Management funds business to IA Clarington to create a national network for our award-winning socially responsible investment (SRI) funds.

Transactions such as these are extremely complex but we were intentional in our choice of partners and mindful to minimize the impact on members and employees. We are very pleased with the outcome, as the returns are better than we expected. We've been able to expand the reach of our socially responsible investments while retaining our fund management expertise, we have freed capital to invest in new technology and in our people, and we've created a tighter focus on what we do best—providing financial services to our members and supporting their communities.

One of Vancity's greatest strengths is our ability to connect with the communities in which we operate, and where we live. As we continue to create a definition of wealth that includes member and community well-being, and use the depth and strength of our networks to create opportunity, we will create growth and profit for members and the communities to which they belong. Our financial results for 2009 provide another remarkable distribution of funds to the community through Vancity's Shared Success program: more than \$15.2 million will be shared with members and communities through dividends, patronage payments, grants, sponsorships, and other community investments. Vancity is proud to have sustained its support of the community in tough economic times, when it is most needed.

I regularly hear stories of how Vancity employees have positively affected members and their communities. Throughout this year, our employees continued to be passionate, professional, and member-focused. I thank them for their ongoing commitment and service. On behalf of your Board of Directors, I also thank you—Vancity's owners—for your ongoing loyalty and business.



Patrice Pratt  
Chair, Vancity Board of Directors

## message from the president and ceo

### A strong year

The trust our members place in us and the hard work of our employees, combined with the market turnaround and our internal restructuring, are reflected in our 2009 net income of \$53.8 million. This result is higher than 2008 and the second-highest in our history. Strong earnings and capital freed up through divested lines of business have strengthened our already healthy capital position and provided a firm base for sustainable future growth. Our membership continues to grow, with more than 414,000 individuals, businesses and organizations who have chosen to be part of our financial cooperative—a business model that promotes local ownership and focuses on building local assets and retaining wealth within local communities.

### Managing—and listening—in a tough economy

With a softening housing market and a slowing economy, we took a prudent approach to managing expenses. Prior to 2009 we were staffed for growth and high volumes, so we made the difficult but appropriate decision to reduce our non-member-facing workforce by four per cent. Through managing employment vacancies, offering voluntary departure options, and redeploying staff, we were able to keep layoffs to a minimum.

The federal government reduced the prime rate to historically low levels. For members, this was good news, as borrowing became more affordable than ever. But for Vancity it created a squeeze on our margin. We wrestled with the best way to continue to offer competitive pricing to members while protecting their collective assets in the credit union as a result of this market issue. This was the thinking behind our decision to reprice existing lines of credit in the spring of 2009.

Members generally understood the situation but felt “a deal was a deal” and said we shouldn’t ask them to help us solve a market-induced problem. Based on this feedback, we reversed the repricing decision, refunded any additional interest members had paid, and reinstated the original lending agreements.

### Keeping a strong capital base

In December 2009, we assumed 100 per cent ownership of Dockside Green Development, an award-winning real estate development on a 14.6-acre site at Victoria’s inner harbour. To facilitate the financial restructuring of the project to ensure its long-term success, and in response to the softening of the real estate market, we took a cumulative writedown in 2008 and 2009 of \$35.4 million, representing 5.1 per cent of our total capital. We maintain an overall healthy capital position and are fully committed to Dockside’s environmental and social vision as well as its financial success.

### Supporting our employees

Engaged employees mean better business results. While we’ve traditionally had high employee engagement scores, they have declined for the third year in a row. The economy, workforce reduction, reduced budgets and aging technology likely contributed to this result. Employees continue to feel passionate about Vancity and we believe the strategies in our Three Year Plan and reinvestment in technology, processes, and training will address the root causes of employees’ concerns, which will, in turn, have a positive outcome for members.

### Redefining wealth

Where we allocate capital today—where and how we provide loans—creates the society of the future. This is one of the most significant ways to build a strong and vibrant community. By applying the tools of social finance—which range from strategic grants that lead to economic viability to venture capital debt and equity—we will support entrepreneurs (including women, the fastest-growing segment), small businesses, non-profit organizations, and new immigrants achieve success.

We have every confidence that we will continue operating from a position of strength so that we all prosper together. It is our employees, with their continued energy and creativity who make this happen and I’d like to acknowledge their commitment to you, our members.



Tamara Vrooman  
President & Chief Executive Officer

## 2009 highlights

- Vancity distributed approximately \$8.3 million in the form of community project grants to not-for-profit community organizations. The grants are one part of the credit union's community investment program, which is funded from a portion of Vancity's annual profits.
- Vancity collected a total of \$107,000 from the Jumpstart™ High Interest Savings Account this year for the Mennonite Central Committee's Future Foundations Programs operated in the Fraser Valley. The program helps people on low incomes move towards self-sufficiency by teaching them asset building, financial empowerment, and money management skills.
- Vancity was awarded top honours for the Inhance Monthly Income Fund, a socially responsible investment fund, from the Canadian Investment Awards, Canada's premier financial services award program. The awards recognize leading investment products and firms that demonstrate a long-term commitment to excellence within the Canadian financial services industry.
- Vancity commenced the offer of new financial solutions for on-reserve housing to First Nations through the First Nations Market Housing Fund, providing greater access to financing for homeowner, rental, and renovation loans. Miawpukek First Nation, a Newfoundland and Labrador community, was the first approved for housing loans backed by the Fund.
- Vancity renewed its partnership with Family Services of Greater Vancouver to fund and expand financial literacy workshops to help low-income earners gain skills to weather challenging economic conditions.
- Vancity was chosen as one of Canada's Greenest Employers for the second year in a row by Canada's Top 100 Employers. The award recognized Vancity for exceptional earth-friendly initiatives and for making environmental values part of its organizational culture.
- Vancity was ranked number one for leadership diversity by *Corporate Knights* magazine for the third year in a row. Vancity received similar recognition for the second year from Canada's Top 100 Employers as one of the nation's leaders in workplace diversity and inclusiveness among several employee groups: women, visible minorities, people with disabilities, Aboriginal Canadians, and gay and lesbian staff.
- Vancity received recognition as a top British Columbian employer that leads their industry in offering exceptional places to work in the 2010 list of BC's Top 55 Employers.
- Dockside Green was recognized by the Clinton Climate Initiative as one of two Canadian developments and one of 17 communities around the world as founding "Climate Positive Developments." Dockside also received CARE (Construction Achievements and Renovations of Excellence) honours for the Residential Development of the Year and Best Condominium.
- Readers of the *Georgia Straight* voted Vancity the best place to get a mortgage and the best place to buy RRSPs.
- Vancity ranked third among 15 in the category of Top Financial Co-operatives in the 2009 edition of the *Globe and Mail Report on Business* Top 1000 ranking of Canadian public companies. Vancity placed after the Desjardins Group and The Co-operators Group Ltd., moving up one spot from a fourth-place ranking last year.
- Readers of the *Vancouver Courier* newspaper named Vancity the "Best Financial Institution" in the paper's annual Stars of Vancouver Readers' Choice Awards.
- Vancity's eight Burnaby branches were recognized as the "Best Financial Institution" and "Best Community-Minded Business" by the readers of the *Burnaby Now* in the 12th annual Readers' Choice supplement.

## board of directors



Vancity's Board of Directors is elected by and is accountable to the membership. It provides oversight and sets the strategic direction of the credit union and its subsidiaries. All Directors are independent from management. Any member in good standing may run for election and Directors are elected by members annually for a three-year term and can serve a maximum of four terms.

(from top, left to right) Virginia Weiler (Vice Chair), Lisa Barrett, Wendy Holm, Catherine McCreary, Bob Williams, Patrice Pratt (Chair), Doreen Braverman, Ian Gill, Jan O'Brien

## performance snapshot

The performance targets and other performance measures presented below include metrics and targets included in Vancity's Three Year Plan and organizational scorecard, and our most material performance aspects, where quantifiable.

<b>Performance targets</b> (financial data in millions of dollars)	<b>Organization</b>	<b>Target: 2010</b>	<b>Target: 2009</b>	<b>Status</b>	<b>Actual: 2009</b>	<b>Actual: 2008</b>	<b>Actual: 2007</b>
Earnings from operations <sup>1</sup>	Vancity	88.0	68.8	✓	78.6	75.6	50.6
Net earnings <sup>1</sup>	Vancity	56.0	41.0	✓	53.8	46.8	32.8
Efficiency ratio <sup>2</sup>	Vancity	0.75	0.79	✓	0.78	0.76	0.83
Overall member loyalty score <sup>a</sup>	Vancity Credit Union	44%	43%	✓	44%	46%	n/a
Greenhouse gas emissions <sup>b</sup> (metric tonnes)	Vancity	6,000	6,000	✓	5,101	5,202	5,504
Employee engagement score <sup>c</sup>	Vancity	75%	75%	✗	53%	56%	64%

Key: ✓ met 2009 target; ✗ did not meet 2009 target

### Financial and economic performance

<b>Measures</b> (financial data in millions of dollars)	<b>Organization</b>	<b>Actual: 2009</b>	<b>Actual: 2008</b>	<b>Actual: 2007</b>
Total assets <sup>1</sup>	Vancity	\$14,411	\$14,532	\$14,107
Economic value distributed <sup>3</sup> (millions of dollars)	Vancity	\$341	\$413	\$385
Community donations <sup>4</sup> : percentage of average previous 3 years' pre-tax earnings	Vancity	16.1%	11.6%	5.7%
Return on average assets <sup>5</sup>	Vancity	0.38%	0.33%	0.25%
Return on average equity <sup>6</sup>	Vancity	8.0%	7.6%	5.9%

(1) Financial data is extracted from Vancity's audited financial statements. See 2009 Auditors' Report on page 26. Vancity refers to the credit union and its subsidiaries and affiliates.

(2) Efficiency ratio has been restated using a different methodology. It equals total operating expenses plus community donations divided by total revenues excluding loan loss provisions.

(3) Economic value distributed is the total of operating costs, employee salaries and benefits, payments to providers of capital, payments to government (gross taxes), and donations to the community and to Vancity Community Foundation.

(4) Community donations are cash donations to charitable organizations, not-for-profits, and co-operatives and are reported on an accrual basis.

(5) Return on average assets equals net earnings divided by the average monthly assets for 2009.

(6) Return on average equity has been restated using a different methodology. It equals net earnings divided by average retained earnings, excluding member shares.

(a) The overall loyalty score is the combined percentage of business and individual members who give Vancity a 9 or 10 out of 10 on all three loyalty measures: overall experience at Vancity, likelihood to continue using Vancity, and likelihood to recommend Vancity to others.

(b) Includes emissions from premises energy use, paper use, employee business travel by vehicle or air, and employee commuting to and from work in a single occupancy vehicle. Emissions are expressed in tonnes of carbon-dioxide (CO<sub>2</sub>) equivalent. Some estimation and extrapolation is used in the calculation.

(c) The engagement score is based on employees' answers to six questions: I would not hesitate to recommend Vancity to a friend seeking employment; Given the opportunity, I tell others great things about working here; It would take a lot to get me to leave Vancity; I hardly ever think about leaving Vancity to work somewhere else; Vancity inspires me to do my best work; Vancity motivates me to contribute more than is normally required to complete my work. The percentage of respondents with a score of 4.5 out of 6 or greater is the 'engagement score'.

## performance overview

### Report on operations

Vancity is the largest credit union in Canada and one of the largest in the world. With \$14.4 billion in consolidated assets and more than 414,000 members, we provide a full range of financial services to our member owners in Metro Vancouver, the Fraser Valley, Victoria, and Squamish through 59 branches.

As a co-operative, our governance model is different from most other financial institutions—our shareholders are our members. Our members control us (one member, one vote), and they are also our customers. They live in the same communities where we operate, so they are directly affected by our decisions and actions. Our members expect us to deliver not only positive financial returns, but also positive social, environmental, and sustainable economic returns for the long term.

This Annual Report provides a full picture of our financial results and overview of activities of 2009. Look for our Accountability Report, to be published in summer 2010, for results of our financial, social, and environmental performance.

### Three Year Plan and strategic goals

To create a new meaning of wealth, we will need to focus our many talents—strategic and people—in ways that are true to our roots and our values. In 2008 we began our journey of transformation by creating a new Vision for Vancity: Redefining Wealth, and in 2009 began to create the framework for implementation. With our Three Year Plan, Vision, and strategic goals, (see below) we are well positioned for 2010 and beyond.

- **Get Our Financial House in Order:** Ensure our efforts to create community benefit are financially sustainable, provide adequate reserves to withstand a turbulent economy, and reinvest to build infrastructure for the long term.
- **Make the Branch Network Sing:** Provide an excellent member experience based on sound advice and relevant financial services, bringing together individual members' financial prosperity, and member and community well-being.

- **Build Our Social Finance Offer:** Provide access to credit, investment, and financial advice for members and agencies engaged in businesses that create social or environmental benefits as well as economic benefits.

We took deep strides in getting our financial house in order and simplifying our organizational structure through the divestiture of three lines of business (Vancity Insurance Services Ltd., Inhance Investment Management Inc., and the retail banking portfolio of Citizens Bank) and by managing expenses to provide us with a solid platform for sustainable growth and innovation. We successfully protected our capital, liquidity, and members' equity.

Think of it this way:

In our business, we:	On the financial statements, this is:
Make loans in areas that are consistent with Vancity's mandate (social, environmental)	Interest income
Receive deposits from members	Interest expense
Sell investments and services	Fee revenue
Take calculated risks	Provision for credit losses
<b>Use what's left to...</b>	
Invest in people	Salary, employee benefits and training
Buy and maintain computer systems and equipment, lease space, etc.	Other expenses (non-interest)
Give back to employees	Profit-sharing
Give back to the community and members	Shared Success program
Pay taxes	Tax expense
Reinvest in the business	Net earnings

## key activities of 2009

### Repricing of our Creditline product

In Autumn 2008, the stock market and large international banks collapsed, major corporations went bankrupt, and economists were predicting a depression. In response, the Bank of Canada began dropping its policy rate, which went from 4.25 per cent in January 2008 to 0.5 per cent in April 2009. Accordingly, Vancity's prime lending rate fell from 6.25 per cent in the summer of 2007 to 2.25 per cent in April 2009. This low prime rate caused Vancity's Creditline portfolio to be priced at an unsustainable level. The majority of financial institutions made a rate change from prime to prime plus one per cent for all line of credit products. For Vancity, a one per cent rate change translated to \$7.6 million in interest income the first year and \$16 million in revenues each year going forward. But most of our Creditline agreements signed before March 2009 didn't allow us to adjust interest rates (up or down) without obtaining each member's permission. Approximately 20,000 (about five per cent) of our 414,000 members held secured lines of credit with us.

We went to our members with our unique challenge, mailing letters to our 20,000 Creditline holders, requesting them to sign an amendment to their Creditline agreement. We explained our predicament and sought to raise the interest rate on their Creditline products and to bring their documentation up to industry standard. While some members agreed to do so, others responded by telling us that amending signed agreements wasn't the way for Vancity to address a market-related business problem. They were passionate about their views and their relationship with us, and they reminded us that "a deal is a deal."

We listened.

In August 2009, Vancity reversed the Creditline repricing initiative. We grandfathered the original Creditline agreements, returned members to their original interest rate, and reimbursed any additional interest they'd paid. We offered members who'd switched to a different product the choice of keeping their new product or reinstating their Creditline.

Vancity places great value on our relationships with members and the communities we serve, and we're aware that we're held to high standards of trust and fairness. Therefore, in September 2009, we reviewed the Creditline repricing initiative to learn from it. What emerged is a commitment to ensure that Vancity's major decisions in the future include a balance of financial, legal, risk, and member and employee considerations. As a member-owned financial co-operative, our members have a voice. We thank our members for using that voice to remind us of the values that are at the core of our relationship with them.

### Changes to our business structure

Over the last two years, we've taken a critical look at all areas of our business. In July 2009 we announced the sale of our auto, home, travel, and business insurance division, Vancity Insurance Services Ltd., to a like-minded organization and co-operative, The Co-operators Group Ltd. A few weeks later we announced that Citizens Bank was leaving the personal banking marketplace and would become a commercial bank focusing on commercial mortgage lending, Visa card services, and foreign exchange. While Citizens Bank pioneered the online banking marketplace, the environment had changed and with only 30,000 members, it was no longer prudent to continue in the retail marketplace.

Then in September, we entered into a strategic partnership with IA Clarington. With more than \$7 billion in assets, IA Clarington, a subsidiary of Industrial Alliance, markets a wide range of investment products. Through the agreement, IA Clarington purchased Inhance's mutual fund business and entered into a long-term distribution agreement to bring the new socially responsible mutual funds to not only Vancity members, but to a national audience.

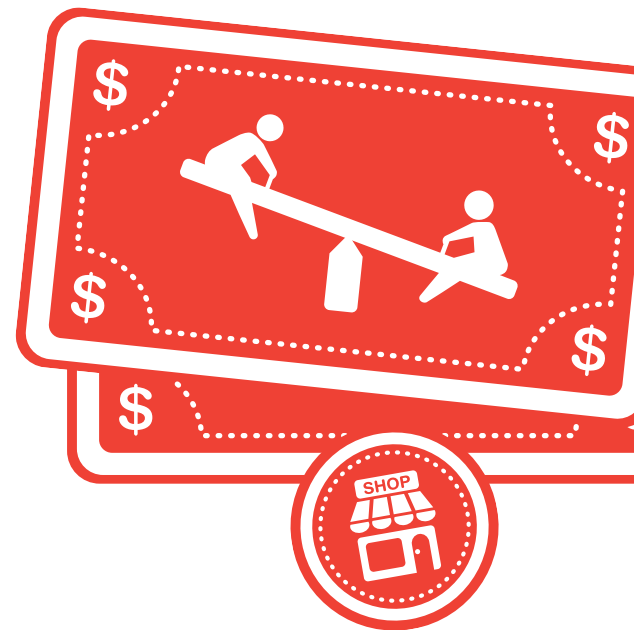
These changes simplify and strengthen our core business and continue Vancity's transformation to a more streamlined and focused organization.

### Dockside Green

Dockside Green is an award-winning, multi-million dollar real estate development transforming 14.6 acres of industrial land at Victoria's inner harbour into one of the most sustainable communities in the world. It has been underway since 2004 and is one of the few North American programs to have achieved full Platinum LEED status certification. It was developed by Vancity and a Victoria-based company, Windmill West Group.

In December 2009, Vancity assumed 100 per cent ownership of the project to facilitate the financial restructuring of the project to ensure Dockside's long-term stability and success. In 2008 and 2009 Vancity took a cumulative writedown of \$35.4 million, representing 5.1 per cent of Vancity's total capital. Given the softening of the real estate market from 2008 to 2009, the build-out of the project to date, the financial results of the project, and the overall healthy capital position of the credit union, we feel this amount is both prudent and manageable.

We have slowed the pace of development, focusing instead on leasing and selling the units built to date and ensuring that the needs of Dockside's existing residents are met. Vancity remains fully committed to Dockside's financial, environmental, and social vision and we look forward to the project's renewed progress as real estate markets improve.



## 5 year consolidated financial highlights

For the year ending December 31 (thousands of dollars)	2009	2008	2007	2006	2005
<b>Assets</b>					
Cash and Securities	\$ 2,779,072	\$ 1,815,114	\$ 1,153,620	\$ 1,105,139	\$ 1,540,100
Loans	11,335,284	12,280,667	12,583,832	10,888,592	9,984,474
Other Assets	296,172	435,894	369,075	287,356	231,745
<b>Total Assets</b>	<b>\$14,410,528</b>	\$ 14,531,675	\$ 14,106,527	\$ 12,281,087	\$ 11,756,319
<b>Liabilities and Members' Equity</b>					
Deposits and Equity Shares	\$ 12,319,752	\$ 11,933,346	\$ 11,208,389	\$ 10,221,195	\$ 10,558,155
Wholesale Borrowings	1,155,164	1,700,199	1,909,547	1,176,856	458,419
Other Liabilities	237,991	245,172	409,230	346,123	248,132
Retained Earnings	697,621	652,958	579,361	536,913	491,613
<b>Total Liabilities and Members' Equity</b>	<b>\$14,410,528</b>	\$ 14,531,675	\$ 14,106,527	\$ 12,281,087	\$ 11,756,319
<b>Statement of Earnings</b>					
Net Interest Income	\$ 290,648	\$ 286,243	\$ 280,868	\$ 279,432	\$ 272,856
Provision for Credit Losses	(18,457)	(27,108)	(16,323)	(11,208)	(7,525)
Other Income	108,974	138,111	84,583	89,211	75,823
<b>Net Interest and Other Income</b>	<b>381,165</b>	397,246	349,128	357,435	341,154
Salaries and Employee Benefits	157,385	186,547	173,746	160,876	146,982
Other Operating Expenses	147,495	129,611	124,760	124,569	115,771
<b>Gain (loss) from business reorganization and other</b>	<b>2,303</b>	(5,532)	-	-	1,359
<b>Earnings from Operations</b>	<b>78,588</b>	75,556	50,622	71,990	78,401
Distributions to Community and Members	16,477	16,977	10,822	15,805	16,626
Provision for Income Taxes	8,286	11,762	7,045	10,885	16,012
<b>Net Earnings</b>	<b>\$ 53,825</b>	\$ 46,817	\$ 32,755	\$ 45,300	\$ 47,122
<b>Statistics</b>	<b>2009</b>	2008	2007	2006	2005
Average Assets (thousands of dollars)	\$ 14,311,330	\$ 14,194,879	\$ 13,354,640	\$ 11,768,550	\$ 10,295,365
Growth of Total Assets (%)	-0.8%	3.0%	14.9%	4.5%	12.5%
Return on Average Assets	0.38%	0.33%	0.25%	0.38%	0.46%
Return on Average Equity	8.0%	7.6%	5.9%	8.8%	10.1%
Dividends per Equity Share	4.0%	4.0%	1.8%	4.2%	4.5%
Dividends per Investment Share	3.4%	4.3%	5.2%	5.1%	4.7%
Membership	414,377	407,121	387,762	354,663	337,107
Number of Employees	2,228	2,384	2,372	2,196	1,995
Number of Branches	59	61	60	50	50

## financial review

This section of the Annual Report provides management's overview of Vancity's financial condition and results from operations. This information describes significant changes in financial conditions and operations for the year ended December 31, 2009 compared to the previous year, and is intended to summarize the information presented in the audited Consolidated 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 \$14.4 billion in assets, more than 414,000 members and 59 branches throughout Metro Vancouver, the Fraser Valley, Squamish, and Victoria. The Vancity Group comprises the Credit Union and its subsidiaries, all of which are wholly owned and include Citizens Bank of Canada.<sup>†</sup> During 2009, Vancity Insurance Services Ltd. was sold and Inhance Investment Management Inc. was dissolved.

Vancity also consolidates variable interest entities (VIEs) when it is the primary beneficiary of the VIEs. Dockside Green Energy Limited Partnership qualifies as a VIE and is 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.

### Managing our economic and financial performance

#### Overall financial and economic performance

Vancity is moving forward on a solid financial foundation for the future. 2009 was a year in which we strengthened our balance sheet and solidified our liquidity reserves, evidenced by a strong core liquidity position as well as a higher capital adequacy ratio (more than 50 per cent higher than minimum regulatory capital requirements). Our membership grew by more than 7,200 in 2009 to 414,377 members.

In 2009, consolidated net earnings were \$53.8 million—our second-highest on record, and more than 15 per cent higher than in 2008. We exceeded our net earnings targets for both 2008 and 2009. This performance allowed us to accumulate capital while also investing in areas of the business to support and build upon the member experience. One of our organizational goals is to distribute 30 per cent of net earnings to community and members in order to drive change within our marketplace and demonstrate our commitment to share profits locally. In 2009, of the 30 per cent earmarked for the community and members, 55 per cent (\$8.3 million) was allocated to the community and 45 per cent (\$6.9 million) was allocated to members. An additional \$1.3 million was distributed to members as dividends on investment shares.

Consolidated earnings from operations in 2009 reached \$78.6 million, a slight increase from 2008. Earnings from operations is one of three metrics on our organizational scorecard and drives employee profit share. The other metrics are member loyalty and employee engagement. Consolidated earnings were boosted by the three sales transactions, and were negatively impacted by losses from impaired asset-backed commercial paper (ABCP) investments (see Note 6 to the Consolidated Financial Statements) and from the Dockside Green Limited Partnership write downs (see Note 4 to the Consolidated Financial Statements). Performance metrics, such as return on average assets (how efficiently Vancity is utilizing its assets to generate income) and return on equity (how Vancity uses member equity to generate earnings), are also important measures to evaluate performance.

Two positive external events that reflect confidence in the credit union system and Vancity are as follows:

- In late 2008, the provincial government increased all BC credit union deposit insurance coverage from \$100,000 to unlimited.

<sup>†</sup>The wholly owned active subsidiaries include Citizens Bank of Canada and Citizens Trust Company, Inventure Solutions Inc., Vancity Capital Corporation, Vancity Enterprises Ltd., Vancity Life Insurance Services Ltd., SCU Insurance Services Ltd., Squamish Insurance Agencies Ltd., Vancity Investment Management Ltd., and Dockside Green Limited Partnership.

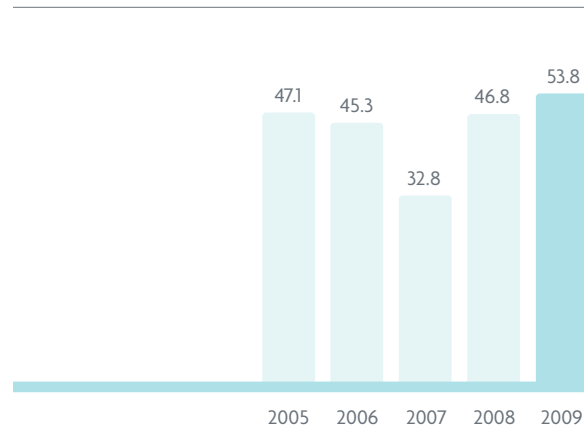
- In 2009, Dominion Bond Rating Service (DBRS) reaffirmed our investment grade short-term debt rating of “R-1 (low)—satisfactory credit quality”. This rating allows us to issue commercial paper (short-term debt) and it validates our financial sustainability, strengthens our industry position, and allows us to be an eligible investment partner for institutional or corporate investors.

Through our financial success, we contribute to the economy in direct and measurable ways, including goods and services we purchase, staff salaries and benefits, corporate taxes, in-kind services, and sponsorships. As well, as a financial co-operative we take pride in sharing our profits with our members and communities. We also contribute to the economy in ways that are less easy to quantify. The indirect economic impacts of our operations, products, and services include jobs created or supported, greenhouse gas emissions reduced, increased home ownership, and greater participation in the economy as individuals attain economic self-reliance. Our community investment activities are guided by our Vision and Social Finance strategies.

## Consolidated Statement of Earnings

This is also known as the income statement and indicates how our income or revenue (the “top line”) is transformed into our net earnings (the “bottom line”). It displays the income we recognized for a specific period, and the cost and expenses we charged against this income, including writeoffs and taxes. The purpose of this statement is to show whether we made or lost money during the period being reported.

Net earnings (millions of dollars)



## Revenues

In 2009, our net interest and other income decreased by approximately four per cent from 2008, to \$381 million. More than 76 per cent of revenues was generated from net interest income, and the remainder came from other income. We distribute our revenues in the form of: salaries, employee benefits, and profit share; taxes; operating costs, including payments to suppliers; and member and community distributions. What we retain is reinvested in the business. Details of operating expenses and salaries and employee benefits are provided in Table 1 on page 25.

### Net interest income

Net interest income is interest and investment income earned on assets, less interest expense incurred on deposits and other liabilities. Net interest income is sensitive to changes in the mix and volumes of assets and liabilities, and to changes in interest rates. In 2009, our net interest income increased by 1.5 per cent to \$290 million, which is positive, considering the current low interest rate environment and the loss of interest income from selling \$969 million of loans to The Toronto-Dominion Bank (TD) as part of the Citizens Bank retail portfolio divestiture.

In 2009, interest expense decreased by more than 37 per cent to \$294 million as interest paid on deposits declined with the overall drop in interest rates. Interest paid on third-party borrowings decreased by almost \$53 million.

In 2009, other income decreased from \$138 million to \$109 million. A key reason is reduced fee income as a result of lower securitization of loans during 2009. With increased liquidity being driven by increased member deposits, we had no need to securitize loans during the past year. Securitization income is generated when we sell loans to third parties. We do this to raise money to fund loans, and/or to transfer risk. The mortgages are sold into the Canadian Mortgage Bond Program.

A further write-down of our investment in asset-backed commercial paper (ABCP) continued to impact other income during 2009. In 2007, as a result of the sub-prime mortgage issue in the United States, the non-bank-sponsored ABCP market in Canada was frozen following an agreement between the major market participants. Vancity holds two categories of impaired ABCP investments: \$31.3 million of third-party non-bank-sponsored ABCP with a current face value of \$64.2 million, and bank-sponsored ABCP of \$2.2 million with a face value of \$3.0 million (see Note 6 to the Consolidated Financial Statements). In 2009 we recorded \$4.9 million for impairment and fair value adjustment, and in 2008 we recorded \$10.7 million for impairment. The fair value at December 31, 2009 is calculated using a discounted cash flow valuation model, and management will evaluate this fair value on an ongoing basis.

### Provision for credit losses

Actual loan losses incurred during 2009 increased \$6 million to \$19.5 million. The increase came directly from personal (consumer) loans and reflects the difficulties members are having with the weakened economy. Our provision for credit losses in 2009 was \$18.5 million and represented a decrease from \$27.1 million in 2008. Although this provision was lower than the previous year, a reduced loan portfolio coupled with other risk mitigation activities (e.g., utilizing government bulk insurance programs) ensured our overall allowance for credit losses was adequate. The allowance for credit losses decreased marginally from \$87.3 million to \$85.6 million, but as a percentage of total loans, the allowance for credit losses increased to 0.75 per cent in 2009 compared to 0.71 per cent in 2008 (see Note 7(b) to the Consolidated Financial Statements).

### Sources of other income (millions of dollars)



1	\$22.8	Account services fees	6	\$13.8	Trust & investment fees
2	\$28.0	Credit card fees	7	\$7.6	Loan insurance fees
3	\$11.2	Foreign exchange	8	\$7.5	Real estate
4	\$7.8	Insurance service fees	9	\$7.5	Securitization income
5	\$2.8	Loan fees	10	\$4.8	Other

Other income above excludes the impairment of securities included in other income in the Consolidated Statement of Earnings.

### Operating expenses

In 2009, total operating expenses decreased by 3.6 per cent to \$305 million. The main reason for reduced operating expenses was a 16 per cent decrease in salaries and employee benefits (\$29 million), primarily as a result of our insurance division employees (other than life insurance agents) transferring to The Co-operators Group Ltd. as part of the sale of Vancity Insurance Services Ltd. transaction, and workforce reductions. These reductions, related to business realignment, represented four per cent of our workforce. Expenses related to occupancy and equipment, and general operating expenses, increased by just over \$6 million and \$12 million respectively, mainly due to the costs associated with the three sales transactions that occurred during the year. Managing expenses prudently relative to revenues resulted in an efficiency ratio—which measures operating efficiency—of 78 per cent, surpassing our 2009 efficiency ratio target of 79 per cent. The efficiency ratio is a measure of expenses incurred to generate one dollar in revenue.

### Income and other taxes

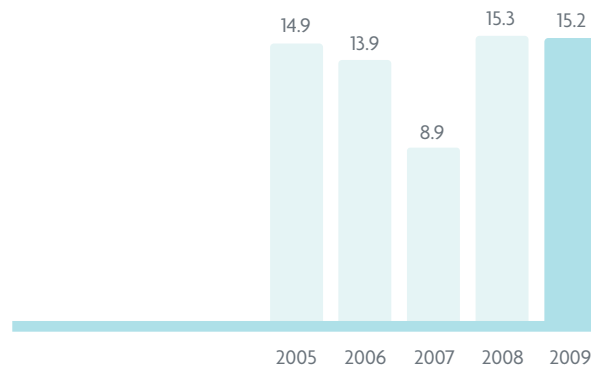
We pay a variety of federal, provincial, and municipal taxes. The major taxes payable are reported in Table 2 on page 25, which shows that the overall level of taxes decreased relative to the prior year. The majority of the decrease was due to lower corporate tax rates on capital gains from selling the shares of Vancity Insurance Services Ltd., coupled with the utilization of tax loss carry forwards in Citizens Bank of Canada and Inhance Investment Management Inc. Further information regarding corporate income taxes is provided in Note 14 to the Consolidated Financial Statements.

### Distributions to community and members

Distributions to community and members equalled \$16.5 million in 2009 (including \$1.3 million in investment shares) compared with \$17.0 million in 2008. In 2008 an additional Shared Success contribution was made as a result of the restatement of 2007 earnings, so contributions in 2008 were slightly higher than the targeted 30 per cent of net earnings we distribute to community and members.

Note 12 to the Consolidated Financial Statements shows distributions by major categories. Membership share dividends of \$2.4 million represent a 4.0 per cent dividend payment while patronage rebates of \$4.4 million consist of a bonus on deposit interest paid to our members, a rebate on loan interest paid by our members, and a dividend based on investments held by our members with Credential Asset Management.

### Shared Success distributions to members and community (millions of dollars)



Excludes investment share dividends.

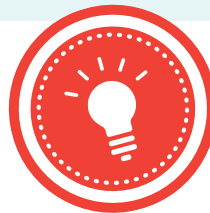
## Consolidated Balance Sheet

The balance sheet provides a snapshot of our financial condition on a given date, including our ability to meet financial obligations and the degree to which we are leveraged. Our balance sheet is made up of assets, liabilities, and members' equity:

- Assets represent things of value that we own, including loans to members
- Liabilities are what we owe to others, including members' deposits
- Members' equity represents retained earnings

### Making the connection

Our Consolidated Statement of Earnings and Consolidated Balance Sheet are linked through the net earnings we generate in a particular year and the subsequent increase, or decrease, in members' equity that results. The net earnings that we retain show up in the members' equity portion of the Consolidated Balance Sheet as retained earnings.



### Assets

Total assets remained relatively flat with a slight decrease in 2009 to \$14.4 billion from \$14.5 billion in 2008. An increase in cash and securities was offset by an eight per cent decrease in the loan portfolio (primarily from the sale of the Citizens Bank retail loan portfolio) and a reduction in other assets.

Total impaired loans, as defined in Note 2(f) to the Consolidated Financial Statements, were \$84 million at the end of 2009, an increase of almost \$25 million over 2008. The commercial and business loan portfolios were the main drivers of this increase as the impacts of the current economic environment worked their way through the economy. Our oversight processes have been instrumental in assisting members through these tough times and we continue to employ effective measures of due diligence and oversight to ensure appropriate collateral is maintained. We believe our allowance for credit losses of \$85.6 million at December 31, 2009 is adequate.

### Liabilities

Total deposits increased by more than three per cent to \$12.3 billion, despite the sale of the Citizens Bank retail banking portfolio. This overall increase in deposits reaffirms members' confidence in the Credit Union and reflects their desire to save during the tough economic times and uncertain periods experienced during 2009. Members' preferences continued to be for demand and cashable term products, which provide them with added flexibility.

Because member deposits increased at a greater rate than loans, we were able to reduce our third-party borrowings and fund member loans directly from deposits, leading to reduced interest expenses.

Our capital ratio continues to increase and currently sits at 13.6 per cent, well above the regulatory minimum of eight per cent. The increase is the result of a combination of a conservative balance sheet, retained earnings growth (members' equity), and capital repatriation from the three sales transactions.

In addition to our balance sheet items, Vancity administers assets under administration (AUA) that are beneficially owned by members or clients and are therefore not reported on the Consolidated Balance Sheet. These are member investments in mutual funds, stocks, bonds, etc. In 2009, AUA increased by 10 per cent to \$2.2 billion, providing fee income for Vancity of \$13.8 million.

Key earnings and financial position measures are presented in the five year summary of Consolidated Financial Highlights on page 18.

### Managing risk

#### Enterprise risk management

Central to risk management at Vancity are the Standards of Sound Business and Financial Practices for BC credit unions and the application of an economic capital model. In 2004 we implemented a formal enterprise risk management framework. Since then, and during 2008 and 2009, we have refined elements of the risk framework. For example, we formally redefined and documented our risk tolerances and began to better integrate them into the risk framework. Further development of the effectiveness of our risk framework continues as part of our Three Year Plan.

Our approach is to enable all parts of our business to understand, examine, and assess the impact and likelihood of risks. We use scenario-based planning tools to help anticipate and mitigate future risks, particularly in managing credit, market, and liquidity risk. We also learned from our experience with repricing our lines of credit: we reviewed our decision-making process and committed to ensuring our major decisions in future include a full working of all scenarios to balance financial, legal, reputation, member, and employee engagement considerations.

### Financial risks

We have extensive, well-entrenched management controls in the areas of credit, market, and liquidity risk. We talk about these in detail in the Consolidated Financial Statements, starting with Note 5 of the Consolidated Financial Statements on page 38.

## Risks we manage

**Credit risk** is the risk of financial loss to Vancity if a member or counterparty of a financial instrument fails to meet their contractual obligations. It arises primarily from our loans, investments, securities, and derivative instruments with positive market values.

**Liquidity risk** is the risk that we may be unable to generate or obtain sufficient funding in a timely and cost-effective manner to meet commitments associated with our financial arrangements and operations.

**Market risk** is the risk that changes in market prices, such as interest rates, foreign exchange rates, and credit spreads, affect our income or the value of our holdings of financial instruments.

**Operational risk** is the risk that we may not be able to offer our products and services or perform vital functions that are required to conduct our business in a cost-effective manner.

**Regulatory/compliance risk** is the risk that we will not comply with legislative requirements, causing financial loss or interruptions to our business as a result of regulators' actions or damage to our reputation.

**Strategic risks** are risks we are exposed to due to external factors or broad changes in the business or social environment. They include external forces that could either put us out of business or significantly change the fundamentals that drive our overall objectives and strategies

table 1: operating expenses

(thousands of dollars)	2009	2008	2007	2006	2005
Salary and employee benefits					
Salaries and wages	\$ 129,320	\$ 151,486	\$ 142,415	\$ 132,978	\$ 121,720
Benefits and training	28,065	35,061	31,331	27,898	25,262
	<b>157,385</b>	186,547	173,746	160,876	146,982
Occupancy and equipment					
Rent	19,883	15,460	14,127	11,923	11,296
Equipment	1,405	1,575	1,510	1,250	1,508
Maintenance and security	4,798	4,241	4,085	3,783	3,859
Amortization	13,589	12,324	12,338	11,725	11,988
	<b>39,675</b>	33,600	32,060	28,681	28,651
General operating					
BC corporation capital tax	3,625	6,370	7,712	7,187	6,551
Advertising and promotion	6,531	10,962	13,159	13,092	14,415
Computer	4,673	6,401	6,536	6,082	6,366
Central dues and insurance	12,418	9,931	6,920	8,382	210
Meetings and travel	1,378	1,987	2,173	2,258	1,739
Postage	4,293	4,143	3,793	3,056	2,523
Professional services	25,569	13,300	12,537	9,934	11,702
Stationery	1,990	2,198	2,451	2,407	2,249
Telecommunications	3,862	3,896	3,881	3,977	3,669
Member services	14,825	15,113	13,593	18,255	19,054
Credit card services	20,199	17,033	15,192	13,021	10,021
Other	8,457	4,677	4,753	8,237	8,621
	<b>107,820</b>	96,011	92,700	95,888	87,120
Total operating expenses	\$ 304,880	\$ 316,158	\$ 298,506	\$ 285,445	\$ 262,753

table 2: income and other taxes

(thousands of dollars)	2009	2008	2007	2006	2005
Income taxes	\$ 8,286	\$ 11,762	\$ 6,136	\$ 10,885	\$ 16,012
BC corporation capital tax	3,625	6,370	7,712	7,187	6,551
Payroll taxes	7,071	7,119	6,691	6,282	5,763
Property taxes	3,631	3,077	2,842	2,287	1,976
Federal and provincial sales taxes	8,199	9,445	7,505	6,772	7,782
Total income and other taxes	\$ 30,812	\$ 37,773	\$ 30,886	\$ 33,413	\$ 38,084

## auditors' report to the members

We have audited the consolidated balance sheet of Vancouver City Savings Credit Union as at December 31, 2009 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, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**KPMG LLP**  
Chartered Accountants  
Vancouver, Canada  
February 12, 2010

## management's responsibility for financial reporting

These consolidated financial statements were prepared by the management of Vancouver City Savings Credit Union 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 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**  
President and Chief Executive Officer  
February 12, 2010



**Rob Malli**  
Vice-President, Finance

## consolidated balance sheet

VANCOUVER CITY SAVINGS CREDIT UNION  
December 31, 2009, with comparative figures for 2008

(thousands of dollars)	Note	2009	2008
<b>ASSETS</b>			
<b>Cash and securities</b>			
Cash and non-interest bearing deposits with financial institutions		\$ 132,637	\$ 148,478
Interest bearing deposits with financial institutions		2,119,602	958,357
Government and corporate securities	6	515,658	692,840
Accrued interest receivable		11,175	15,439
		<b>2,779,072</b>	<b>1,815,114</b>
<b>Loans</b>			
Residential mortgages	7	5,990,134	6,444,788
Commercial mortgages		1,272,422	1,574,906
Consumer loans		2,610,122	2,850,081
Business loans		1,527,471	1,473,524
Accrued interest receivable		20,755	24,706
Allowance for credit losses		(85,620)	(87,338)
		<b>11,335,284</b>	<b>12,280,667</b>
<b>Other</b>			
Derivative instruments	17	20,043	96,788
Premises and equipment	9	82,365	87,592
Other assets	10	193,764	251,514
		<b>296,172</b>	<b>435,894</b>
		<b>\$ 14,410,528</b>	<b>\$ 14,531,675</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>			
<b>Deposits</b>			
Demand		\$ 3,981,827	\$ 3,085,790
Term		8,145,344	8,599,501
Shares	11	101,105	100,840
Accrued interest and dividends payable		91,476	147,215
		<b>12,319,752</b>	<b>11,933,346</b>
<b>Wholesale borrowings</b>			
Demand loans and banker's acceptances		795,000	1,415,482
Bearer deposit notes		355,845	275,606
Accrued interest payable		4,319	9,111
		<b>1,155,164</b>	<b>1,700,199</b>
<b>Other liabilities</b>			
Accounts payable and other accrued liabilities		227,091	205,030
Derivative instruments	17	10,900	40,142
		<b>237,991</b>	<b>245,172</b>
<b>Members' equity</b>			
Contributed surplus		29,275	29,275
Retained earnings		656,399	602,765
Accumulated other comprehensive income		11,947	20,918
		<b>697,621</b>	<b>652,958</b>
Commitments and contingencies	20		
		<b>\$ 14,410,528</b>	<b>\$ 14,531,675</b>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

*Paine Pratt*  
Director

*Virginia Werlen*  
Director

## consolidated statement of earnings

VANCOUVER CITY SAVINGS CREDIT UNION

Year ended December 31, 2009, with comparative figures for 2008

(thousands of dollars)	Note	2009	2008
<b>Interest income</b>			
Loans		\$ 527,119	\$ 673,894
Cash and securities		26,119	42,423
Other		31,660	43,505
		<b>584,898</b>	<b>759,822</b>
<b>Interest expense</b>			
Deposits		239,711	378,670
Wholesale borrowings		9,696	62,494
Other		44,843	32,415
		<b>294,250</b>	<b>473,579</b>
<b>Net interest income</b>		<b>290,648</b>	<b>286,243</b>
<b>Provision for credit losses</b>	7	<b>18,457</b>	27,108
<b>Other income (loss)</b>			
Account service fees		22,826	23,277
Credit card fees		27,952	26,560
Foreign exchange		11,249	13,098
Insurance service fees		7,830	10,933
Loan fees		2,835	2,578
Trust and investment fees		13,827	15,404
Loan insurance fees		7,612	6,589
Impairment of securities	6	(4,960)	(10,741)
Real estate development income		7,450	4,656
Securitization income		7,541	43,816
Other		4,812	1,941
		<b>108,974</b>	<b>138,111</b>
<b>Net interest and other income</b>		<b>381,165</b>	<b>397,246</b>
<b>Operating expenses</b>			
Salaries and employee benefits		157,385	186,547
Occupancy and equipment		39,675	33,600
General operating		107,820	96,011
		<b>304,880</b>	<b>316,158</b>
<b>Gain (loss) from business reorganization and other</b>	4	<b>2,303</b>	(5,532)
<b>Earnings from operations</b>		<b>78,588</b>	75,556
<b>Distributions to community and members</b>	12	<b>16,477</b>	16,977
<b>Earnings before income taxes</b>		<b>62,111</b>	58,579
<b>Provision for income taxes</b>	14	<b>8,286</b>	11,762
<b>NET EARNINGS</b>		<b>\$ 53,825</b>	<b>\$ 46,817</b>

See accompanying notes to consolidated financial statements.

## consolidated statement of comprehensive income

VANCOUVER CITY SAVINGS CREDIT UNION

Year ended December 31, 2009, with comparative figures for 2008

(thousands of dollars)	Note	2009	2008
<b>Net earnings</b>		\$ 53,825	\$ 46,817
<b>Other comprehensive income, net of tax</b>			
Net change in cash flow hedges:			
Net unrealized (losses) gains on derivatives designated as cash flow hedges, net of tax of (\$3,007) (2008 - \$5,823)		(10,880)	18,896
Transfer of net realized gains (losses) on cash flow hedges to earnings, net of tax of \$1,990 (2008 - \$(29))		6,724	(93)
		(4,156)	18,803
Net change in available for sale securities:			
Net unrealized (losses) gains on available for sale securities, net of tax of (\$776) (2008 - \$652)		(1,986)	2,409
Transfer of net realized gains (losses) on available for sale securities to earnings, net of tax of \$292 (2008 - \$(457))		752	(1,237)
		(1,234)	1,172
<b>Total other comprehensive income</b>		(5,390)	19,975
<b>COMPREHENSIVE INCOME</b>		\$ 48,435	\$ 66,792

See accompanying notes to consolidated financial statements.

## consolidated statement of changes in members' equity

VANCOUVER CITY SAVINGS CREDIT UNION

December 31, 2009, with comparative figures for 2008

(thousands of dollars)	Note	2009	2008
<b>Contributed surplus</b>			
Balance, beginning of year		\$ 29,275	\$ 22,470
Net assets acquired		-	6,805
Balance, end of year		<u>29,275</u>	<u>29,275</u>
<b>Retained earnings</b>			
Balance, beginning of year		602,765	555,948
Transition adjustment due to the adoption of EIC-173		(191)	-
Net earnings		53,825	46,817
Balance, end of year		<u>656,399</u>	<u>602,765</u>
<b>Accumulated other comprehensive income</b>			
	22		
Balance, beginning of year		20,918	943
Transition adjustment on the adoption of EIC-173		(3,581)	-
Other comprehensive income (loss)		(5,390)	19,975
Balance, end of year		<u>11,947</u>	<u>20,918</u>
<b>MEMBERS' EQUITY, END OF YEAR</b>		<u>\$ 697,621</u>	<u>\$ 652,958</u>

See accompanying notes to consolidated financial statements.

## consolidated statement of cash flows

VANCOUVER CITY SAVINGS CREDIT UNION

Year ended December 31, 2009, with comparative figures for 2008

(thousands of dollars)	Note	2009	2008
<b>CASH PROVIDED BY (USED IN)</b>			
<b>Operations</b>			
Net earnings		\$ 53,825	\$ 46,817
Other comprehensive income (loss)		(5,390)	19,975
Provision for credit losses		18,457	27,108
Amortization of premises and equipment		13,298	12,053
Impairment of property under development, inventory and goodwill		30,289	-
Write-down on available for sale securities		1,332	10,741
Realized and unrealized (gain) loss on government and corporate securities		5,318	(1,532)
Net change in derivative financial instruments		47,503	(61,880)
Changes in operating assets and liabilities:			
Future income tax assets		(1,304)	(10,602)
Other assets		(17,046)	(16,932)
Accounts payable and other accrued liabilities		22,061	(14,618)
Other		(3,772)	-
		<b>164,571</b>	<b>11,130</b>
<b>Financing</b>			
Demand and term deposits		441,880	581,485
Shares		265	(3,743)
Loans payable		(540,243)	(218,460)
Accrued interest		(60,531)	(11,581)
Sales and securitizations	8	-	841,632
		<b>(158,629)</b>	<b>1,189,333</b>
<b>Investments</b>			
Interest bearing deposits with financial institutions		(1,161,245)	(225,782)
Government and corporate securities		170,532	(429,681)
Loans, net of repayments		922,975	(540,869)
Accrued interest		8,215	12,865
Premises and equipment		(8,071)	(28,595)
Other assets		45,811	4,595
Non-cash net assets acquired from business combinations		-	(2,812)
Cash and cash equivalents acquired from business combinations		-	9,617
		<b>(21,783)</b>	<b>(1,200,662)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(15,841)</b>	<b>(199)</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>148,478</b>	<b>148,677</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>		<b>\$ 132,637</b>	<b>\$ 148,478</b>
<b>Supplementary information</b>			
Interest paid		\$ 357,268	\$ 451,350
Income taxes paid		12,186	13,908

See accompanying notes to consolidated financial statements.

## notes to consolidated financial statements

VANCOUVER CITY SAVINGS CREDIT UNION

Year ended December 31, 2009

Tabular amounts expressed in thousands of dollars

### 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 (GAAP). 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 GAAP. 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. 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., Vancity Life Insurance Services Ltd., SCU Insurance Services Ltd., Squamish Insurance Agencies Ltd., Inhance Investment Management Inc., Vancity Investment Management Ltd. and Dockside Green Limited Partnership. During 2009, Vancity Insurance Services Ltd. was sold and Inhance Investment Management Inc. was dissolved (Note 4). The assets and liabilities of each were not included in the 2009 financial statements and the results of operations and cash flows were only included until the date of sale or dissolution respectively. 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: (i) the total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others;

(ii) 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 Energy Limited Partnership qualifies as a VIE and is fully consolidated in the results of 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 rate method.

#### (d) Financial instruments

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. 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, maximizing the use of observable market inputs.

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 rate method.

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, certain corporate securities and derivatives 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 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 rate 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 financial 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 rate basis;
- interest on AFS securities on an effective interest rate basis; and
- the gain or loss relating to the effective portion of qualifying hedging derivatives designated as cash flow hedges released from AOCI (i) as the hedged item is recorded in interest income (expense) or (ii) the anticipated cash flows associated with the hedged item are no longer deemed probable to occur.

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 rate method. Trade date accounting is used for all assets.

#### (e) Securities

Vancity has designated government and corporate securities as AFS, except for certain assets disclosed in Note 6. 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 rate 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.

#### 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 within 180 days from the date a payment has become contractually in arrears; or the account is contractually in arrears less than 90 days, but there has been a deterioration in credit quality to the extent there is a reasonable doubt about the ultimate collectability of principal and interest; or the account is contractually 180 days in arrears. *Visa* accounts are considered impaired when they are 180 days in arrears. 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.

#### Allowance for credit losses

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

#### Loan fees

The accounting treatment for loan fees varies depending on the transaction. Fees that are considered to be adjustments to loan yield are recognized using the effective interest rate method. The effective interest rate method capitalizes fees and transaction costs on the consolidated balance sheet and amortizes them to interest income over the expected life of the related loan. Retail loan fees, except for application fees, are recognized using the effective interest rate 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 rate 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 rate 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 rate method are included with loan balances on the consolidated balance sheet.

#### Loan securitizations and sales

Vancity periodically sells loans to special purpose entities or other unrelated third parties. These transactions are accounted for as sales and the related loans are removed from the consolidated 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 securitization income. 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 relative 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 AFS assets. These retained interests are recorded at their fair value at the time of sale and are periodically revalued with changes in fair value flowing through other comprehensive income and changes in estimates 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 servicing liability for securitizations for which the compensation received for servicing the transferred loans is below a market rate, and will record a servicing asset when revenue received for servicing from the transferred loans is above a market rate. 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. Servicing revenue at a market rate is recorded as the servicing is performed.

#### (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 consolidated 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 derivatives used in hedging relationships are effective in offsetting changes 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 (a) the hedged cash flows affect income or (b) the forecasted cash flows associated with the hedged item are no longer probable. 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 rate 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 to 40 years
Leasehold improvements	10 years
Computer equipment and software	3 to 7 years
Furniture and equipment	3 to 5 years

#### (j) Other assets

Investments in shares of Central 1 are classified as AFS, but are recorded at cost as there is no active market where fair values can be reliably measured. Investment in Visa Shares are classified as AFS and are recorded at fair values through OCI based on active market quotes. 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 licences. 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 pro-rated 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**

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

**3. Changes in accounting policies****(a) Current year changes**

Goodwill and intangible assets

Effective January 1, 2009, Vancity adopted 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 is not material to Vancity's results from operations or financial position.

Credit risk and the fair value of financial assets and financial liabilities

Effective January 1, 2009, Vancity adopted EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The abstract clarifies the inclusion of credit risk in determining the fair value of financial assets and financial liabilities. Application of EIC-173 is to be applied retroactively without restatement of prior periods. The impact of applying the guidance to Vancity was as follows:

	As at December 31, 2008	Transition adjustment on the adoption of EIC-173	As at January 1, 2009
Derivative assets	\$ 96,788	\$ (4,903)	\$ 91,885
Future income tax asset	26,778	882	27,660
<b>Impact on total assets</b>	\$ 123,566	\$ (4,021)	\$ 119,545
Derivative liabilities	\$ 40,142	\$ (249)	\$ 39,893
Retained earnings	602,765	(191)	602,574
Accumulated other comprehensive income	20,918	(3,581)	17,337
<b>Impact on liabilities and members' equity</b>	\$ 663,825	\$ (4,021)	\$ 659,804

#### Financial instruments – disclosures

Effective January 1, 2009, Vancity adopted the amendments to Section 3862, *Financial Instruments – Disclosures*. The amendments to this standard require enhanced disclosures over fair value measurements of financial instruments and liquidity risks. The additional fair value measurement disclosures require the categorization of fair value measurements into one of three levels, ranging from fair value measurements obtained from quoted market prices in active markets to fair value measurement based on inputs that are not obtained from observable sources. The additional disclosures over liquidity risks require greater clarification over the application of liquidity risk as well as the maturity analysis of derivative financial liabilities.

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

##### International Financial Reporting Standards

The CICA is transitioning from Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS). Vancity's consolidated financial statements will be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011 and will include comparative information.

During 2008, Vancity commenced a three phase conversion project to identify and evaluate the impact of the transition to IFRS on the consolidated financial statements and develop a plan to complete this transition. The project plan includes the following phases: diagnostic, design and planning, and development and implementation. The first two phases: diagnostic, and design and planning, are complete, and development and implementation phase will be completed in 2010.

The impact of the transition to IFRS on Vancity's consolidated financial statements for current applicable standards is not yet determinable as the International Accounting Standards Board is in the process of reviewing many of the standards. Vancity continues to monitor the proposed changes to these standards during Canada's transition period to IFRS. In anticipation of moving to IFRS, Vancity has moved its actuarial pension accounting valuation date from October 31 to November 30. This accounting policy change did not have a material effect on the financial position or results from operations for Vancity. These changes may have a significant impact on Vancity's implementation plans and future financial statements.

#### 4. Business reorganization and other

During the year, Vancity entered into a number of transactions to improve overall operating efficiencies by reducing the complexity of the organization and to generate long-term financial benefits.

On April 27, 2009, Vancity purchased for cash \$174.9 million of mortgages previously sold to Smart Trust, of which \$59.9 million were subsequently sold to the Toronto Dominion Bank (TD) as part of the transaction with TD discussed further below.

On July 21, 2009, Vancity entered into an agreement to sell 100% of the shares in Vancity Insurance Services Ltd. (VISL) to The Co-operators Group Ltd., effective September 1, 2009. The Co-operators Group Ltd. acquired Vancity's home, auto, travel and business insurance. At the date of sale, VISL had net assets of \$8.4 million. At December 31, 2009, \$3.2 million has been accrued relating to the costs to exit facility lease agreements and severance for impacted employees.

On July 28, 2009, Vancity formed a new wholly owned subsidiary Vancity Life Insurance Services Ltd. (VLISL) to continue to offer life, creditor and title insurance to its customers. VLISL bought the life insurance business from VISL for \$1.5 million.

On August 5, 2009, Citizens Bank announced it was moving to a new business model focused on *Visa* card services and foreign exchange services for non-retail members. As part of this reorganization, the bank sold \$969.4 million of its residential mortgages, personal loans and secured real estate lines of credit to The Toronto-Dominion Bank.

On December 4, 2009, Inhance investment Management Inc. (Inhance) sold its mutual fund business, which had \$65.3 million of assets under administration, to IA Clarington (IAC). Inhance also sold its sub-advisory business to Vancity Investment Management Ltd. (VCIM). Under the terms of the sale agreement Vancity, through VCIM, will provide socially responsible investing advisory services and fund management services to IAC. On December 31, 2009, Inhance was dissolved.

On December 21, 2009, Vancity purchased the remaining 25% interest in Dockside Green Limited Partnership (DGLP). As a result of this purchase, Vancity now owns 100% of DGLP.

Due to continuing adverse developments in the real estate market in Victoria, Vancity has decided to defer further real estate development in Dockside Green Limited Partnership and has recorded an additional impairment charge of \$30.3 million (2008 - \$5.1 million), consisting of \$4.0 million (2008 - \$3.5 million) related to finished inventory, \$23.3 million (2008 - \$1.6 million) for property under development and \$3.0 million for impairment of goodwill.

As a result of the transactions, Vancity recorded the following amounts in the Consolidated Statement of Earnings.

	2009	2008
Purchase of Smart Trust mortgages	\$ 2,421	\$ -
Sale of VISL, mutual funds, business, and loans	30,171	-
Write-down of property under development, inventory, goodwill, and other	(30,289)	(5,532)
<b>Gain (loss) from business reorganization and other</b>	<b>\$ 2,303</b>	<b>\$ (5,532)</b>

## 5. Nature and extent of risks arising from financial instruments

### (a) 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, 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 set appropriate risk limits and controls. Management's responsibility is to identify and analyze the risks faced by Vancity 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 Financial Policy Committee's (FPC) role is to provide effective oversight of Vancity's risk management activities related to market risk, credit risk, liquidity risk, and capital management.

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.

### (b) Credit risk management

#### 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. This is discussed further in Note 19.

#### 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 FPC, in conjunction with the Management Credit 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 and 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 for derivatives and securities, 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 10 grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving officer/committee as appropriate. Risk grades are subject to regular review by the Vancity 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 SVP, Risk Management and Operations. 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.
- Over-the-counter derivative instruments and securities entered into by Vancity are subject to credit risk arising from the possibility that counterparties may default on their obligations to Vancity. Derivative credit risk is typically represented by the positive fair value of the derivative instrument and is usually a small fraction of the notional amount. Credit risk on securities is the risk that the principal investment will not be repaid. Vancity controls derivative and securities credit risk by dealing with counterparties that are believed to be creditworthy (i.e., based on external credit ratings) and managed using the same due diligence and/or review process that is applied to all other credit risk instruments. Where possible, Vancity further reduces exposure to credit losses on derivative instruments by entering into master netting agreements and collateral agreements with counterparties.

### (c) 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 arrangements 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 as described further below and in Note 5(c) Exposure to liquidity risk.

Vancity's liquidity risk is subject to extensive risk management controls and is managed within the framework, policies and limits approved by the Board. On an annual basis, the Board of Directors through the FPC reviews and approves the liquidity policy presented by management to ensure adherence to regulatory requirements. The Asset 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, investments with counterparties, 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 on a weekly and monthly basis, and by developing channels for a diverse source of funding. Vancity's primary sources of funding are wholesale and retail deposits, securitization 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.

Due to regulatory requirements, the Bank measures liquidity risk by monitoring its liquid assets to total assets. Because of this difference in calculation, Vancity's consolidated liquidity ratio does not include the Bank. The Bank's liquidity ratio has been disclosed separately below.

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 of A, government 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. Asset-backed commercial paper (ABCP) is not categorized as liquid assets, given their illiquidity during the market disruption.

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

	2009	2008
At December 31	<b>22.62%</b>	16.99%
Average for the period	<b>14.97%</b>	14.69%
Maximum for the period	<b>22.62%</b>	16.99%
Minimum for the period	<b>12.85%</b>	13.64%
Cash and deposits with Central 1	\$ <b>2,182,015</b>	\$ 1,032,542
Securities*	<b>514,937</b>	717,745
Accrued interest	<b>7,137</b>	12,316
<b>Total liquid assets</b>	<b>\$ 2,704,089</b>	\$ 1,762,603
<b>Total liquid assets as a percentage of deposits</b>	<b>22.62%</b>	16.99%

\*Securities include Mortgage Backed Securities (MBS) pools which are Vancity loans that have been securitized under MBS but not yet sold externally. They are classified as a liquid asset due to Vancity's ability to readily convert them to cash if required.

The Bank's ratio of liquid assets to total assets at the reporting date and during the year were as follows:

	2009	2008
At December 31	<b>42.29%</b>	19.43%
Average for the period	<b>29.72%</b>	13.04%
Maximum for the period	<b>64.77%</b>	19.47%
Minimum for the period	<b>10.70%</b>	10.08%
Cash	\$ <b>15,358</b>	\$ 24,310
Interest bearing deposits with financial institutions	<b>10,000</b>	24,000
Government and corporate securities	<b>150,897</b>	268,870
Accrued interest on investment portfolio	<b>147</b>	617
Liquid assets	<b>176,402</b>	317,797
Securities pledged as collateral	<b>(5,974)</b>	(5,881)
Total liquid assets	<b>170,428</b>	311,916
Total assets	\$ <b>403,037</b>	\$ 1,605,407
<b>Liquid assets as a percentage of total assets</b>	<b>42.29%</b>	19.43%

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

<b>December 31, 2009</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Retail deposits	\$ 8,752,767	\$ 1,430,563	\$ 198,098	\$ 434	\$10,381,862
Wholesale deposits	1,914,606	88,782	410	-	2,003,798
Borrowings	1,155,610	-	-	-	1,155,610
Other financial liabilities	196,939	-	-	-	196,939
Derivatives	9,737	18,460	7,674	-	35,871
	<b>\$12,029,659</b>	<b>\$ 1,537,805</b>	<b>\$ 206,182</b>	<b>\$ 434</b>	<b>\$13,774,080</b>

December 31, 2008	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
Retail deposits	\$ 8,956,769	\$ 937,165	\$ 279,514	\$ 411	\$ 10,173,859
Wholesale deposits	1,624,810	201	-	-	1,625,011
Borrowings	1,698,172	-	-	-	1,698,172
Other financial liabilities	318,170	-	-	-	318,170
Derivatives	16,374	17,352	-	-	33,726
	<b>\$ 12,614,295</b>	<b>\$ 954,718</b>	<b>\$ 279,514</b>	<b>\$ 411</b>	<b>\$ 13,848,938</b>

**(d) 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.

*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 the Enterprise Risk Management Committee, 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 FPC'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 modelling.

*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.

#### 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.

#### 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, are based on economic conditions, member behaviour, capital levels, liquidity levels and policies that limit exposure by instrument and counterparty.

Note 17 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.

#### 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 net assets and financial margin. Based on Vancity's interest rate positions as at December 31, 2009, the following table shows the potential before tax impact on Vancity's financial margin over the next 12 months of an immediate and sustained 25 basis points increase and decrease in interest rates across all currencies.

	2009		2008	
	Market value impact	Financial margin impact	Market value impact	Financial margin impact
Interest rate sensitivity				
Before tax impact of:				
25 bps decrease in rates	\$ 12,743	\$ (1,129)	\$ 15,747	\$ (1,086)
25 bps increase in rates	(12,624)	1,072	(6,719)	673

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.

#### 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. Note 16 discloses Vancity's gap position at December 31.

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.

#### 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 member 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.

#### 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 17 discloses details on foreign currency forwards and futures used to manage foreign exchange risk.

Vancity had \$704,000 (2008 - \$1 million) of net assets exposed to foreign currency risk. The impact on net assets from the Canadian dollar strengthening (weakening) by 5% in relation to all foreign currencies, with all other factors remaining constant would be a decrease (increase) of approximately \$30,505 (2008 - \$59,850). In practice, actual results may differ from this sensitivity analysis.

## 6. Securities

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

					2009	2008
	Effective yield	Within 1 year	1 to 5 Years	Over 5 years	Total fair value	Total fair value
Securities held as HFT assets:						
Asset backed commercial paper	0.00%	\$ -	\$ -	\$ 28,167	\$ 28,167	\$ -
Bank-sponsored commercial paper	0.00%	-	-	2,237	2,237	-
Total securities held as HFT assets		-	-	30,404	30,404	-
Securities held as AFS assets:						
Securities issued or guaranteed by:						
Canadian federal government	0.27%	129,012	-	-	129,012	491,087
Canadian provinces and municipalities		-	-	-	-	35,162
Mortgage-backed securities		-	-	-	-	1,752
Bank-sponsored commercial paper		-	-	-	-	102,229
Asset backed commercial paper	0.00%	-	-	3,125	3,125	62,610
Other securities	0.37%	330,700	22,417	-	353,117	-
Total securities held as AFS assets		459,712	22,417	3,125	485,254	692,840
<b>Total securities</b>		\$ 459,712	\$ 22,417	\$ 33,529	\$ 515,658	\$ 692,840

**(b) Impairment of securities***Investment in Asset Backed Commercial Paper*

Asset backed commercial paper (ABCP) is a short term investment typically issued with a term to maturity of between 30 to 90 days. It differs from other types of commercial paper in that it is issued by trusts, either structured by banks (bank-sponsored ABCP) or by independent brokers (third-party-sponsored or non-bank-sponsored ABCP). In January 2009, third-party-sponsored ABCP in Canada was restructured under the Montreal Accord. Pursuant to the terms of the restructuring plan, holders of third-party-sponsored ABCP exchanged their short term notes for longer term notes in order to more closely match the maturities of the underlying assets.

Immediately prior to the restructuring of ABCP, Vancity held a portfolio of ABCP investments issued by several trusts with an overall face value of \$79.4 million. Of this amount, investments with a face value of \$76.4 million were subject to the restructuring. In 2008, this was valued at \$54.8 million with \$10.7 million recognized in the consolidated statement of earnings as an impairment.

One of the key outcomes of the restructuring was that three new legal structures in the form of replacement notes were created (called Master Asset Vehicle Notes - MAV I, MAV II and MAV III). These ABCP trusts, supported in whole or in part by synthetic assets, were pooled in either MAV I or MAV II. MAV I was formed for investors who elected to self fund the required margin-funding facility (MFF). MAV I was formed for investors who elected to obtain the required MFF from a third party for a fee. The MAV III series of ABCP are secured exclusively by either traditional or ineligible assets in the form of tracking notes.

On January 21, 2009, in exchange for its third-party-sponsored ABCP notes, Vancity received \$76.4 million of MAV II and MAV III notes. The MAV II notes had a face value of \$55.5 million and MAV III had a face value of \$20.9 million. The MAV II notes are classified as HFT. The MAV III notes are classified as AFS.

Throughout 2009, Vancity received \$12.2 million in principal payments. As there continues to be no active market for these notes, Vancity has developed a discounted cash flow valuation model to determine its best estimate of the fair value of these investments as at December 31, 2009. 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. In 2009, Vancity recognized an impairment charge of \$1.3 million in the income statement on MAV III notes and a \$3.6 million decrease in fair value on MAV II notes.

Vancity also has an investment in Superior Trust, Merrill Lynch's bank-sponsored ABCP. Superior Trust was restructured in December 2009, classified as HST, and revalued using the same methodology used above.

Vancity's investment in third-party-sponsored ABCP restructured under the Montreal Accord and bank-sponsored ABCP is comprised of the following:

<b>December 31, 2009</b>	<b>Book value</b>	<b>Interest payments received</b>	<b>Fair value</b>
MAV II Notes	\$ 55,066	\$ 2,851	\$ 28,167
MAV III Notes	9,105	1,254	3,125
Superior Trust	3,002	13	2,237
	<b>\$ 67,173</b>	<b>\$ 4,118</b>	<b>\$ 33,529</b>

## 7. Loans

## (a) Loan maturities and rate sensitivities

	Maturity term				Rate sensitivity		
	Under 1 year	1 to 5 Years	5 to 10 Years	Total	Floating	Fixed rate	Total
<b>December 31, 2009</b>							
Residential mortgages	\$ 3,452,541	\$ 2,507,040	\$ 30,553	\$ 5,990,134	\$ 2,159,641	\$ 3,830,493	\$ 5,990,134
Commercial loans	391,122	568,606	312,694	1,272,422	266,735	1,005,687	1,272,422
Consumer loans	2,604,857	5,202	63	2,610,122	2,358,145	251,977	2,610,122
Business loans	626,397	850,387	50,687	1,527,471	326,274	1,201,197	1,527,471
Accrued interest	13,064	6,974	717	20,755	9,337	11,418	20,755
Total loans	7,087,981	3,938,209	394,714	11,420,904	5,120,132	6,300,772	11,420,904
Allowance for credit losses	53,890	28,771	2,959	85,620	38,518	47,102	85,620
<b>Total loans, net of allowance for credit losses</b>	<b>\$ 7,034,091</b>	<b>\$ 3,909,438</b>	<b>\$ 391,755</b>	<b>\$ 11,335,284</b>	<b>\$ 5,081,614</b>	<b>\$ 6,253,670</b>	<b>\$ 11,335,284</b>
	Maturity term				Rate sensitivity		
December 31, 2008	Under 1 year	1 to 5 Years	5 to 10 Years	Total	Floating	Fixed rate	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	711,840	563,029	300,037	1,574,906	592,290	982,616	1,574,906
Consumer loans	2,713,760	134,917	1,404	2,850,081	2,678,175	171,906	2,850,081
Business loans	575,693	837,000	60,831	1,473,524	294,423	1,179,101	1,473,524
Accrued interest	14,767	9,099	840	24,706	11,063	13,643	24,706
Total loans	7,392,397	4,554,913	420,695	12,368,005	5,538,163	6,829,842	12,368,005
Allowance for credit losses	52,202	32,165	2,971	87,338	39,108	48,230	87,338
Total loans, net of allowance for credit losses	\$ 7,340,195	\$ 4,522,748	\$ 417,724	\$ 12,280,667	\$ 5,499,055	\$ 6,781,612	\$ 12,280,667

**(b) Allowance for credit losses**

	Residential	Commercial	Consumer	Business	2009 Total	2008 Total
Balance, beginning of year	\$ 11,670	\$ 16,405	\$ 16,556	\$ 42,707	\$ 87,338	\$ 71,969
Provision for credit losses:						
Loan sales	(2,534)	-	-	-	(2,534)	-
Normal credit factors	(4,429)	14,987	20,918	(13,019)	18,457	27,108
	(6,963)	14,987	20,918	(13,019)	15,923	27,108
Loans written-off	(546)	(726)	(16,531)	(1,701)	(19,504)	(13,460)
Recoveries of loans written-off	105	-	1,169	589	1,863	1,721
<b>Balance, end of year</b>	\$ 4,266	\$ 30,666	\$ 22,112	\$ 28,576	\$ 85,620	\$ 87,338
Loans with specific allowances:						
Loan balance	\$ 1,985	\$ 26,993	\$ 688	\$ 14,381	\$ 44,047	\$ 31,849
Related allowance	(1,724)	(14,247)	(773)	(6,862)	(23,606)	(8,442)
<b>Carrying amount</b>	\$ 261	\$ 12,746	\$ (85)	\$ 7,519	\$ 20,441	\$ 23,407
Loans with general allowances:						
Loan balance	\$ 5,988,149	\$ 1,245,429	\$ 2,609,434	\$ 1,513,090	\$ 11,356,102	\$ 12,311,450
Related allowance	(2,542)	(16,419)	(21,339)	(21,714)	(62,014)	(78,896)
<b>Carrying amount</b>	\$ 5,985,607	\$ 1,229,010	\$ 2,588,095	\$ 1,491,376	\$ 11,294,088	\$ 12,232,554
<b>Loans on which the accrual of interest has been discontinued</b>	\$ 22,408	\$ 35,848	\$ 11,509	\$ 14,696	\$ 84,461	\$ 59,234

**(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.

December 31, 2009	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 28,056	\$ 12,683	\$ 20,795	\$ 61,534
Commercial mortgages	14,206	1,770	17,918	33,894
Consumer loans	8,516	2,946	9,351	20,813
Business loans	569	24	18	611
	\$ 51,347	\$ 17,423	\$ 48,082	\$ 116,852

December 31, 2008	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, 2009 was \$621 million (2008 - \$1,315 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 securitization income in the period the sale occurs.

New activity during the year:

	2009	2008
Residential mortgages:		
Loans sold	\$ -	\$ 835,063
Net cash proceeds received	-	841,632
Retained rights: cash reserves	-	-
future excess (deficit) interest	-	16,584
Pre-tax gain (loss) on sale	-	20,025
Key assumptions at date of sale:		
Average term to maturity	-	4.0 years
Prepayment rate (%/year)	-	20%
Excess spread	-	2.65%
Discount rate	-	2.14% - 4.69%

## 9. Premises and equipment

	2009			2008
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 12,266	\$ -	\$ 12,266	\$ 13,505
Buildings	56,246	20,321	35,925	36,237
Leasehold improvements	28,822	13,253	15,569	17,322
Computer equipment and software	26,051	12,611	13,440	15,093
Furniture and fixtures	12,898	7,733	5,165	5,435
	\$ 136,283	\$ 53,918	\$ 82,365	\$ 87,592

## 10. Other assets

	Note	2009	2008
Central 1 shares		\$ 32,270	\$ 32,684
Accounts receivable, prepayments and other		133,412	192,052
Future income tax assets	14	28,082	26,778
		\$ 193,764	\$ 251,514

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 British Columbia and Ontario.

## 11. Shares

	2009	2008
Membership shares	\$ 58,234	\$ 57,290
Investment shares	38,860	39,287
Savings shares	4,011	4,263
	\$ 101,105	\$ 100,840

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.

Savings shares can no longer be purchased by members and additional deposits are not permitted to these accounts. These shares have endowment insurance as a product feature and are paid an annual dividend.

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

## 12. Distributions to community and members

	2009	2008
Donations to community and Vancity Community Foundation	\$ 8,318	\$ 6,160
Membership share dividends	2,434	5,396
Patronage rebates	4,443	3,768
Total shared success	15,195	15,324
Investment share dividends	1,282	1,653
<b>Total distributions to community and members</b>	<b>\$ 16,477</b>	<b>\$ 16,977</b>

Patronage rebates paid to members are calculated based on loan interest received by Vancity, deposit interest paid by Vancity, and member funds under administration with Credential Asset Management (CAM). The rebates relating to loan interest received amounted to \$0.7 million (2008 - \$0.8 million), to deposit interest paid amounted to \$3.0 million (2008 - \$2.1 million), and to member funds under administration with CAM amounted to \$0.7 million (2008 - \$0.7 million).

## 13. Regulatory capital

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 consists 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.

The capital ratio is calculated by dividing total capital by RWA, which are the assets weighted according to relative risk (0% to 150%) as 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, 2009, Vancity's capital ratio was greater than the minimum requirement.

	2009	2008
Capital:		
Tier 1 Capital:		
Equity shares	\$ 107,690	\$105,880
Vancity's retained earnings	656,399	602,765
Future income tax credits (debits)	(13,539)	(17,559)
Other	29,275	29,275
Total Tier 1 Capital	779,825	720,361
Tier 2 Capital		
50% of Vancity's proportion of retained earnings in CUDIC, Central 1 and Stabilization Central Credit Union	86,433	66,143
Total Tier 2 Capital	86,433	66,143
Total capital	866,258	786,504
Deductions from capital	(35,419)	(69,698)
<b>Total capital less deductions (capital base)</b>	<b>\$ 830,839</b>	<b>\$716,806</b>

#### 14. Income taxes

	2009	2008
Components of the provision of income taxes:		
Current income tax expense	\$ 9,590	\$ 22,364
Future income tax (recovery) expense	(1,304)	(10,602)
	\$ 8,286	\$ 11,762

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:

	2009	2008
Combined federal and provincial statutory income tax rate	30.0%	31.0%
Credit union rate reduction	(8.6)	(21.7)
Reduced tax rate on sale of subsidiary	(4.5)	-
Tax carry forward benefit from windup of subsidiary	(4.0)	-
Non-deductible and other items	0.4	10.7
	13.3%	20.0%

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

	2009	2008
Future income tax assets:		
Allowance for impairment of loans	\$ 9,015	\$ 18,258
Deferred revenue	2,024	3,759
Accrued employee future benefits	4,111	4,620
Other accrued expenses	3,368	2,999
Premises and equipment	2,758	1,516
Tax loss carry forward	10,296	4,408
	31,572	35,560
Future income tax liabilities:		
Deferred expenses	(1,270)	(8,782)
Deferred revenue	(2,220)	-
	(3,490)	(8,782)
<b>Net future income tax assets</b>	<b>\$ 28,082</b>	<b>\$ 26,778</b>

#### 15. 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 November 30, 2009 (prior period was measured at October 31, 2008). 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	
	2009	2008	2009	2008
<b>Accrued retirement plan obligations:</b>				
Opening balance, actuarial benefit liabilities	\$ 14,539	\$ 18,393	\$ 13,749	\$ 16,955
Benefits paid	(704)	(1,785)	(560)	(832)
Current service cost	799	1,104	1,264	1,733
Contributions paid by employees	57	49	-	-
Interest cost on accrued benefit obligation	1,059	994	1,023	957
Actuarial losses (gains)	3,475	(4,216)	3,999	(5,064)
<b>Actuarial benefit liabilities at measurement date</b>	<b>\$ 19,225</b>	<b>\$ 14,539</b>	<b>\$ 19,475</b>	<b>\$ 13,749</b>
<b>Fair value of retirement benefit plan assets:</b>				
Opening balance, fair value of plan assets	\$ 11,994	\$ 14,949	\$ -	\$ -
Employer contributions	1,840	901	560	832
Employee contributions	57	49	-	-
Benefits paid	(704)	(1,785)	(560)	(832)
Actual return on plan assets	1,426	(2,120)	-	-
<b>Fair value of plan assets at measurement date</b>	<b>\$ 14,613</b>	<b>\$ 11,994</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Funded status – plan deficits:</b>				
Contributions for December	\$ (4,612)	\$ (2,545)	\$ (19,475)	\$ (13,749)
Unamortized net actuarial loss (gain)	159	121	-	-
Unamortized past service cost	3,156	144	-	(3,239)
	202	252	903	-
<b>Accrued benefit liabilities at December 31<sup>1</sup></b>	<b>\$ (1,095)</b>	<b>\$ (2,028)</b>	<b>\$ (18,572)</b>	<b>\$ (16,988)</b>
<b>Total retirement benefit plan expense:</b>				
Defined benefit plans	\$ 958	\$ 1,045	\$ 2,026	\$ 2,631
Multi-employer defined benefit plans	2,187	1,996	-	-
Defined contribution plans	5,581	5,159	-	-
<b>Retirement benefit plan expenses</b>	<b>\$ 8,726</b>	<b>\$ 8,200</b>	<b>\$ 2,026</b>	<b>\$ 2,631</b>

(1) The net accrued benefit liabilities (assets) are 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.

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

	Pension plans		Other benefit plans	
	2009	2008	2009	2008
Estimated average service period of active employees (in years)	<b>7</b>	8	<b>13</b>	13
Discount rate at end of year (1)	<b>6.00%</b>	7.25%	<b>6.00%</b>	7.25%
Expected long-term rate of return on plan assets	<b>7.00%</b>	7.00%	-	-
Rate of compensation increase	<b>3.00%</b>	3.75%	-	-
Assumed overall health care cost trend (2)	-	-	<b>10.00%</b>	10.00%

(1) The discount rate is based on the market interest rates as of November 30, 2009 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			
	Accrued benefit obligation 2009	Benefit expense 2009	Accrued benefit obligation 2008	Benefit expense 2008
Discount rate	<b>6.00%</b>	<b>6.00%</b>	7.25%	5.50%
Impact of: 1% increase	\$ <b>(2,456)</b>	\$ <b>(132)</b>	\$ (1,709)	\$ (200)
1% decrease	<b>3,063</b>	<b>161</b>	2,107	244
Rate of compensation increase	<b>3.00%</b>	<b>3.00%</b>	3.00%	3.75%
Impact of: 0.25% increase	\$ <b>3</b>	\$ <b>3</b>	3	24
0.25% decrease	<b>(2)</b>	<b>(1)</b>	(2)	(20)
Expected rate of return on assets	-	<b>7.00%</b>	-	7.00%
Impact of: 1% increase	\$ -	\$ <b>(126)</b>	\$ -	\$ (146)
1% decrease	-	<b>126</b>	-	145

	Other benefit plans			
	Accrued benefit obligation 2009	Benefit expense 2009	Accrued benefit obligation 2008	Benefit expense 2008
Discount rate	6.00%	6.00%	7.25%	5.50%
Impact of: 1% increase	\$ (2,593)	\$ (191)	\$ (1,597)	\$ (260)
1% decrease	3,146	219	1,989	286
Assumed overall health care cost trend rate <sup>1</sup>	10.00%	10.00%	10.00%	10.00%
Impact of: 1% increase	\$ 2,142	\$ 244	\$ 1,382	\$ 292
1% decrease	(2,090)	(263)	(1,226)	(328)

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

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

	2009	2008
Equity securities	50%	56%
Debt securities	42%	38%
Other	8%	6%
	100%	100%

## 16. 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 behaviour and the application of Vancity's asset and liability management policies.

The assumptions for the year ended December 31, 2009 and 2008 were as follows:

### 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 less-than-three-month category.

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

### Liabilities

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

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 behaviour.

## Yields

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

December 31, 2009	Yield	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets:									
Cash		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132,637	\$ 132,637
Interest bearing deposits	0.92%	997,202	631,302	229,748	241,350	20,000	-	-	2,119,602
Government and Corporate Securities	0.96%	445,429	47,292	617	20,681	-	-	1,639	515,658
Accrued interest	0.96%	11,175	-	-	-	-	-	-	11,175
Loans	4.09%	5,838,463	1,357,459	1,235,103	1,180,906	642,196	1,166,777	(85,620)	11,335,284
Other		33,121	-	-	-	-	-	263,051	296,172
		\$ 7,325,390	\$ 2,036,053	\$ 1,465,468	\$ 1,442,937	\$ 662,196	\$ 1,166,777	\$ 311,707	\$14,410,528
Liabilities and Equity:									
Deposits	1.40%	\$ 7,244,407	\$ 3,457,113	\$ 772,378	\$ 670,256	\$ 115,945	\$ 50,030	\$ 9,623	\$ 12,319,752
Debentures and loans payable	0.84%	1,155,164	-	-	-	-	-	-	1,155,164
Other		-	-	-	-	-	-	935,612	935,612
		\$ 8,399,571	\$ 3,457,113	\$ 772,378	\$ 670,256	\$ 115,945	\$ 50,030	\$ 945,235	\$14,410,528
Balance sheet mismatch		\$ (1,074,181)	\$ (1,421,060)	\$ 693,090	\$ 772,681	\$ 546,251	\$ 1,116,747	\$ (633,528)	
Notional amounts of derivatives		(75,998)	15,014	34,645	37,095	(10,756)	-	-	
<b>Net mismatch</b>		<b>\$ (1,150,179)</b>	<b>\$ (1,406,046)</b>	<b>\$ 727,735</b>	<b>\$ 809,776</b>	<b>\$ 535,495</b>	<b>\$ 1,116,747</b>	<b>\$ (633,528)</b>	
December 31, 2008									
	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 sensitive	Total
Assets:									
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
Accrued interest	3.17%	-	-	-	-	-	-	15,439	15,439
Loans	4.87%	5,949,261	1,799,520	1,557,997	1,187,274	917,288	844,621	24,706	12,280,667
Other		33,170	6,070	14,339	28,509	1,680	36,774	315,352	435,894
		\$ 7,094,548	\$ 2,114,650	\$ 1,679,310	\$ 1,310,859	\$ 946,938	\$ 881,395	\$ 503,975	\$ 14,531,675
Liabilities and Equity:									
Deposits	2.85%	\$ 4,289,056	\$ 4,992,980	\$ 912,799	\$ 855,208	\$ 385,784	\$ 350,304	\$ 147,215	\$ 11,933,346
Borrowings	2.91%	1,691,087	-	-	-	-	-	9,111	1,700,198
Other		-	-	-	-	-	-	898,131	898,131
		5,980,143	4,992,980	912,799	855,208	385,784	350,304	1,054,457	14,531,675
Asset/liability gap		1,114,405	(2,878,330)	766,511	455,651	561,154	531,091	(550,482)	-
Notional amounts of derivatives		85,000	(320,000)	(695,000)	(95,000)	-	1,025,000	-	-
Interest rate gap position		\$ 1,199,405	\$ (3,198,330)	\$ 71,511	\$ 360,651	\$ 561,154	\$ 1,556,091	\$ (550,482)	\$ -

## 17. Derivative instruments

	Notional amounts				Current Replacement cost		Fair values	
	Maturities of Derivatives		Total	Total				
	Within 1 year	1 to 5 years	2009	2008	2009	2008	2009	2008
Derivatives used to manage interest rate risk								
Receive fixed interest current swaps	\$ 100,000	\$ 150,000	\$ 250,000	\$ 720,000	\$ 2,806	\$ 14,474	\$ 2,806	\$ 14,474
Receive fixed interest forward starting swaps	-	1,950,000	1,950,000	2,221,680	13,413	73,984	8,997	73,984
Pay fixed interest current swaps	50,000	650,000	700,000	930,000	2,062	-	(3,780)	(36,948)
	150,000	2,750,000	2,900,000	3,871,680	18,281	88,458	8,023	51,510
Other derivatives								
Foreign currency future/forward sell contracts	26,353	-	26,353	16,972	417	413	361	(158)
Foreign currency future/forward buy contracts	17,597	-	17,597	22,118	7	2,095	(275)	1,283
Forward rate deposit agreements	-	-	-	140,000	-	6,643	-	6,643
Index-linked call options purchased	2,815	11,030	13,845	11,813	1,033	212	1,033	374
	46,765	11,030	57,795	190,903	1,457	9,363	1,119	8,142
Total derivative contracts	\$ 196,765	\$ 2,761,030	\$ 2,957,795	\$ 4,062,583	19,738	97,821	\$ 9,143	\$ 59,652
Less impact of master agreements					7,510	27,642		
<b>Net credit risk on derivatives</b>					\$ 12,228	\$ 70,179		

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.

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

Forward rate deposit agreements are contracts to deposit an amount with a counterparty at a future date for a specific term and rate.

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 \$19.7 million as at December 31, 2009 (2008 - \$97.8 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.

Interest income and expense include the release from AOCI of gains or losses relating to the effective portion of qualifying hedging derivatives designated as cash flow hedges either (i) as the hedged item is recorded in interest income (expense) or (ii) the forecasted cash flow of the hedged item are no longer probable. The amount released is reported as a reclassification from AOCI to net 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 2009, \$28.9 million (2008 - \$60.6 million) was recorded in net interest income as unrealized changes in fair value of these derivatives. In addition, net interest income contains \$16.1 million (2008 - \$22.4 million) in realized losses on derivatives.

## 18. Fair value of financial instruments

Due to the judgment 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 methods 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.

**(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.

The table below sets out the fair values of financial instruments, including derivatives, using the valuation methods and assumptions referred to above. The table does not include assets and liabilities that are not considered financial instruments.

	2009					
	HFT	AFS	Amortized cost	Total	Total carrying value	Variance
Assets:						
Cash and cash equivalents	\$ 132,637	\$ -	\$ -	\$ 132,637	\$ 132,637	\$ -
Interest-bearing deposits	-	-	2,125,329	2,125,329	2,119,602	5,727
Securities	30,404	485,254	-	515,658	515,658	-
Accrued interest	-	-	11,175	11,175	11,175	-
Loans:						
Residential mortgages	-	-	6,027,850	6,027,850	5,990,134	37,716
Commercial mortgages	-	-	1,287,419	1,287,419	1,272,422	14,997
Consumer loans	-	-	2,633,596	2,633,596	2,610,122	23,474
Business loans	-	-	1,516,896	1,516,896	1,527,471	(10,575)
Accrued interest	-	-	20,755	20,755	20,755	-
Allowance for credit losses	-	-	(85,620)	(85,620)	(85,620)	-
Total loans net of allowance for credit losses			11,400,896	11,400,896	11,335,284	65,612
Derivative instruments	20,043	-	-	20,043	20,043	-
Other financial assets	-	52,840	66,005	118,845	118,845	-
Liabilities						
Deposits	-	-	12,235,270	12,235,270	12,319,752	84,482
Wholesale borrowings	-	-	1,155,114	1,155,114	1,155,164	50
Derivative instruments	10,900	-	-	10,900	10,900	-
Other financial liabilities	-	-	196,939	196,939	196,939	-
<b>Total fair value adjustment</b>						<b>\$ 155,871</b>

2008						
	HFT	AFS	Amortized Cost	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	-
Accrued interest	-	-	15,439	15,439	15,439	-
<b>Loans:</b>						
Residential mortgages	-	-	6,571,337	6,571,337	6,444,788	126,549
Commercial mortgages	-	-	1,660,255	1,660,255	1,574,906	85,349
Consumer loans	-	-	2,879,219	2,879,219	2,850,081	29,138
Business loans	-	-	1,515,711	1,515,711	1,473,524	42,187
Accrued interest	-	-	24,706	24,706	24,706	-
Allowance for credit losses	-	-	(87,338)	(87,338)	(87,338)	-
Total loans net of allowance for credit losses	-	-	12,563,890	12,563,890	12,280,667	283,223
Derivative instruments	96,788	-	-	96,788	96,788	-
Other financial assets	-	59,454	87,451	146,905	146,905	-
<b>Liabilities</b>						
Deposits	-	-	12,032,452	12,032,452	11,933,346	(99,106)
Wholesale borrowings	-	-	1,700,204	1,700,204	1,700,199	(5)
Derivative instruments	40,142	-	-	40,142	40,142	-
Other financial liabilities	-	-	318,170	318,170	318,170	-
Total fair value adjustment						\$ 189,280

The fair value measurements are analyzed according to a fair value hierarchy with three levels as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices in Level 1 that are observable for the asset or liability either directly or indirectly;

Level 3: Inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The following table illustrates the classification of Vancity's financial instruments within the fair value hierarchy as at December 31, 2009:

Financial assets at fair value	Valuation Technique		
	Level 1	Level 2	Level 3
December 31, 2009			
Financial assets			
Derivative financial instruments			
Interest rate swaps	-	18,924	-
Equity linked options	-	1,033	-
Forward foreign exchange contracts	-	86	-
Financial instruments available for sale			
Treasury bills	-	129,012	-
Short term investments	-	326,987	-
Long term bonds	-	21,298	-
Investment in <i>Visa</i>	3,464	-	-
Investment in Calvert	-	-	2,594
Investment in Tridos	-	-	2,238
Investment in Ficanex	-	223	-
Asset backed commercial paper	-	-	3,125
Retained interests in securitizations	-	-	13,410
Financial instruments held for trading			
Asset backed commercial paper	-	-	28,167
Bank-sponsored commercial paper	-	-	2,237
<b>Total financial assets</b>	<b>3,464</b>	<b>497,563</b>	<b>51,771</b>
Financial Liabilities			
Interest rate swaps	-	10,900	-
<b>Total financial liabilities</b>	<b>-</b>	<b>10,900</b>	<b>-</b>

During the year ended December 31, 2009 there were no transfers between Level 1 and Level 2.

The following table reconciles Vancity's Level 3 fair value measurements from December 31, 2008 to December 31, 2009:

Fair value measurements using Level 3 inputs	
Balance at December 31, 2008	\$ 86,517
Gain (loss) included in net income <sup>1</sup>	(9,246)
Gain (loss) included in OCI	(251)
Write off of retained interest in repurchase of loans	(5,596)
Sales	-
Settlements	(19,653)
Transfers in (out)	-
<b>Balance at December 31, 2009</b>	<b>\$ 51,771</b>

(1) Gain (loss) included in net income is included as part of securitization income and impairment of securities in the Consolidated Statement of Earnings.

## 19. Credit risk

### (a) 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.

	2009	2008
On-balance sheet exposures:		
Cash and securities	\$ 2,779,072	\$ 1,815,114
Loans	11,335,284	12,280,667
Other	99,458	321,524
Off-balance sheet exposures:		
Undrawn Lines of Credit	2,604,176	3,746,657
Commitments to Extend Credit	177,963	380,095
Undrawn credit on credit cards issued	810,522	1,105,029
Documentary Letters of Credit	31,792	45,776
<b>Maximum exposure</b>	<b>\$17,838,267</b>	<b>\$ 19,694,862</b>

### (b) 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 modelling is customer-based rather than product-based. Vancity reviews the customer's 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 retail loans by Beacon score; however, it does not take into consideration other factors that may mitigate exposure to credit risk:

Risk category	Beacon score range	2009	2008
High	less than 620	\$ 992,117	\$ 825,641
Medium	620 - 720	2,463,904	3,166,359
Low	more than 720	5,144,235	5,302,640
<b>Total</b>		<b>\$ 8,600,256</b>	<b>\$ 9,294,640</b>

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 cumulate 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, and the availability of collateral or other credit enhancements. These risk ratings can be grouped as follows:

Risk rating	Risk rating descriptions
11 - 21	Minimal to normal risk: Account is identified to be low or normal risk, requires minimal monitoring and has a low risk of default.
22 - 32	Acceptable or qualified risk: 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	Account requires management involvement or is substandard: 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 loans, expressed in terms of the internal risk ratings discussed above, is shown in the table below:

Internal risk ratings	2009	2008
11 - 21	\$ 500,928	\$ 460,021
22 - 32	2,182,891	2,551,180
41 - 52	116,074	37,458
	<b>\$ 2,799,893</b>	<b>\$ 3,048,659</b>

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 and 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. At December 31, 2009, Vancity held \$5.1 million in commercial property held for resale.

### (c) 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 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 98.36% (2008 - 95.20%) in British Columbia. Loans outside of British Columbia are composed of 1.31% (2008 - 3.40%) in Ontario and 0.33% (2008 - 1.40%) in Alberta.

To reduce the impact of the geographic credit risk, Vancity has insured approximately 22% (2008 - 17%) of its residential mortgages.

## 20. 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.

	2009	2008
Undrawn lines of credit	\$ 2,604,176	\$ 3,746,657
Commitments to extend credit	177,963	380,095
Undrawn credit on credit cards issued	810,522	1,105,029
Documentary letters of credit	31,792	45,776
	<b>\$ 3,624,453</b>	<b>\$ 5,277,557</b>

### (b) Deposit commitments

Under governing legislation, Vancity maintains, for liquidity purposes, deposits with Central 1. Liquidity deposits totalled \$2.1 billion at December 31, 2009 (2008 - \$0.9 billion). From time to time, Vancity enters into deposit commitments with Central 1 to lock in future rates. At December 31, 2009, Vancity had no deposit commitments with Central 1 (2008 - \$140 million which were classified as derivatives with a fair value of \$6.6 million).

### (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.

	2009	2008
Cash	\$ 5,100	\$ -
Securities	5,974	5,881
Mortgages	165,000	341,500
General charge	1,654,000	1,654,000
<b>Total assets pledged</b>	<b>\$ 1,830,074</b>	<b>\$ 2,001,381</b>
Assets pledged to, or charged against by:		
Central 1 Credit Union	\$ 1,202,994	\$ 1,246,962
Other financial institutions	627,080	754,419
	<b>\$ 1,830,074</b>	<b>\$ 2,001,381</b>
Assets pledged in relation to:		
Clearing facilities	\$ 6,000	\$ 6,000
Standby credit facilities	1,577,000	1,732,000
Derivative contracts	5,100	-

**(d) Guarantees**

As part of its regular operations, Vancity issues performance guarantees for its development projects. At December 31, 2009, Vancity has an outstanding performance guarantee with the City of Victoria in the amount of \$7.2 million (2008 - \$13.2 million). In addition, Vancity has a commitment to the City of Victoria to subsidize affordable housing in a development project. At December 31, 2009, the value of this commitment is estimated at \$3.3 million (2008 - \$3.4 million).

**(e) Restricted cash**

In connection with its development projects, Vancity is holding restricted cash in the amount of \$1 thousand (2008 - \$2.7 million) related to construction holdbacks and \$186 thousand (2008 - \$2.3 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. Based on current knowledge, Vancity expects that final determination of these claims will not have a material adverse effect on its financial position or operating results.

**(g) 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:

2010	\$ 10,586
2011	9,180
2012	8,420
2013	6,848
2014 and thereafter	9,063
	<b>\$ 44,097</b>

**(h) Legacy fund commitment**

Vancity has committed to making a \$5.0 million contribution to the Greater Victoria Savings Credit Union Legacy Fund and has paid \$1.1 million as at December 31, 2009. A contribution of \$2.3 million will be made in 2010 and the remaining balance will be paid in eight annual instalments of \$194,000 commencing 2011.

**21. 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, 2009, the outstanding loans to employees amounted to:

	Fair value		Book value	
	2009	2008	2009	2008
Residential mortgages	\$ 277,009	\$ 279,115	\$ 282,297	\$ 287,000
Personal loans	11,458	14,000	11,458	14,000
	\$ 288,467	\$ 293,115	\$ 293,755	\$ 301,000

## 22. Accumulated other comprehensive income (AOCI)

AOCI comprises the following:

	Opening balance	Adoption of EIC-173 (note 3)	Net change	Ending balance
<b>December 31, 2009</b>				
Gains (losses) on derivative instruments designated as cash flow hedges	\$ 18,803	\$ (3,581)	\$ (4,156)	\$ 11,065
Unrealized gains (losses) on available for sale securities	2,115	-	(1,234)	882
<b>AOCI</b>	\$ 20,918	\$ (3,581)	\$ (5,390)	\$ 11,947
<b>December 31, 2008</b>		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
<b>AOCI</b>		\$ 943	\$ 19,975	\$ 20,918

# Vancity

## Board of Directors 2009 – 2010

Patrice Pratt, Chair  
 Virginia Weiler, Vice Chair  
 Lisa Barrett  
 Doreen Braverman  
 Ian Gill  
 Wendy Holm  
 Catherine McCreary  
 Jan O'Brien  
 Bob Williams

## Executive Leadership Team

Tamara Vrooman  
 President and Chief Executive Officer

David Berge  
 Senior Vice President, Social Finance

Catherine Boivie  
 Senior Vice President, Information Technology Solutions  
 and Chief Executive Officer, Inventure Solutions

Chris Dobrzanski  
 Senior Vice President, Risk Management & Operations  
 and President and Chief Executive Officer, Citizens Bank  
 of Canada

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

Rob Malli  
 Vice President, Finance

Paula Martin  
 Senior Vice President, Member Engagement

Ellen Pেকেles  
 Vice President, Human Resources

Rick Sielski  
 Senior Vice President, Member Services

## Subsidiaries

Citizens Bank of Canada  
 Inventure Solutions Inc.  
 Vancity Investment Management Ltd.  
 Vancity Life Insurance Services Ltd.

## Associated organizations

Vancity Community Foundation

## Board of Directors attendance

In 2009, there were 11 regular Board meetings with attendance ranging from 82 per cent to 100 per cent, and 17 special Board meetings with attendance ranging from 75 per cent to 100 per cent. Special meetings may be called with 24 hours notice. Committee meeting attendance varied from 50 per cent to 100 per cent with an increase in the number of meetings held. Detailed attendance records are available on [vancity.com](http://vancity.com).

## Contact information

Vancouver City Savings Credit Union  
 PO Box 2120  
 Station Terminal  
 Vancouver, BC, Canada  
 V6B 5R8  
 604.877.7000 or 1. 888.Vancity (826.2489)  
[feedback@vancity.com](mailto:feedback@vancity.com)

### Vancity community branches and managers\*

#### Abbotsford

Michael Spuls

#### Burnaby

Brentwood  
Maria Michayluk

North Burnaby  
Josie Romeo & Peter Reale

North Road  
Patricia Sonier

Royal Oak  
Jennifer Pecknold

South Burnaby  
Peter Unadkat

South Slope  
Jas Parmar

Station Square  
Maryvonne Taft

Telus  
Zeenat Ali

#### Chilliwack

Ben Letkeman

#### Coquitlam

Maillardville  
Jag Gill

Pinetree  
Tony Ciulla

#### Delta

North Delta  
Mike Matsuo

#### Tsawwassen

Michelle Laviolette

#### Langley

Holly Harding

Walnut Grove  
Sandeep Mann

#### Maple Ridge

Vanita Dennis

#### Mission

Grace Saris

#### New Westminster

Jeanette Crocker

Kruger  
Christina Toth

#### North Vancouver

Greg Letham

Lynn Creek  
Arlene Urlacher

Lynn Valley  
Paul Herceg

Westview  
Babs Mann

#### Pitt Meadows

Jayne Perrault

#### Port Coquitlam

North Side  
Marie Lewthwaite

Shaughnessy Station  
Jenn Fahey

#### Port Moody

Jindy Bains

#### Richmond

Praveen Sidhu

#### Squamish

Chieftain Centre\*\*†  
Tracey Kliesch

#### Surrey

Cedar Hills  
Dean Webster

Guildford  
Rup Sumal

Morgan Crossing\*\*  
Barry Osman

Newton  
Jodh Dhaliwal

Surrey City Centre  
Sonny Nielsen

#### Vancouver

4th Avenue  
Hormus Karat

Chinatown  
Grace Wong

Collingwood  
Michael Sanders (interim)

Commercial Drive  
Phelan Jung

Downtown  
Jan Dean

Dunbar  
Christopher Singh

Fairview  
Duncan McGuffie

Fraser Street  
Jasvir Kheleh

Hastings  
Sheryl Ries

Kerrisdale  
Kristin Yakumo

Kitsilano  
Ross Lambert

Main Street  
Aldina Graziano

Marpole  
Gabriella Bogнар

Oakridge  
Lily Wong

Point Grey  
Susan Long

Vancity Centre  
Janette Hunter

Victoria Drive  
Elaine Kennedy

West End  
Kathryn Fitzgerald

#### Victoria

Maria McLeod

Blanshard Street  
Chris Tilden

Langford  
Jeremy Meckler

Scott Street  
Miriam Valois (interim)

#### West Vancouver

Cherie Devisser

#### White Rock

Semiahmoo  
Ana Sawatzky

#### Regional directors

Debbie Bywater  
Mohamed Ladak  
David Perri  
Keith Tongue

\* As of March 2010

\*\* Opening May 2010

† Squamish Savings, a division of Vancity



### Environmental Benefits Statement

By using paper made from 100% post-consumer recycled content, the following resources have been saved.

trees fully grown	water litres	energy million BTU	solid waste kilograms	greenhouse gases kilograms
55	95,834	18	693	2,369

Environmental impact estimates were made using the Environmental Defense Paper Calculator. For more information visit <http://papercalculator.org>.

