

Our core activities and how they create long-term value

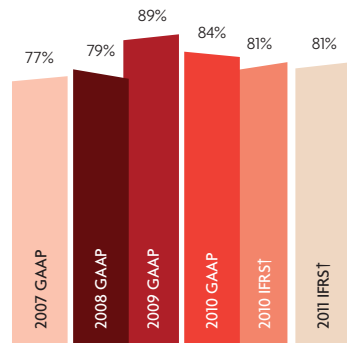
The following table presents our core activities as a financial institution and their impact on earnings as per the Statement of Operations in our Consolidated Financial Statements. We've heard that both members and employees like this simple way of explaining the key ways we make, spend or invest our money. The remainder of this business review focuses on these activities and explains how we create value for our members and their communities by putting their long-term needs first, and how this affects our bottom line.

Core activity	Earnings impact	How we create long-term value	Page
Receiving deposits and raising funds	- Interest expense	We offer deposit products to help members save and meet their financial goals, and use those deposits to fund loans that benefit members' communities.	40
Making loans and investments	+ Interest income	We lend and invest responsibly and offer advice to meet members' long-term needs. Our goal is to increase the proportion of loans that have positive community impact.	41
Taking calculated risks	- Loan impairment expense	We take a prudent but innovative approach that supports community impact and balances risk with reward.	71
Providing investment products and advice, and other services	+ Net fee and commission income	We offer other services and advice that are in our members' best interests and we're committed to offering socially responsible investment (SRI) options.	52
We earn revenue	+ Total operating income		
Investing in employees	- Salary, employee benefits and profit share expenses	We invest in key areas such as talent management and total rewards to create a diverse and engaged workforce. We are committed to paying all employees a living wage.	55
Managing and purchasing buildings, systems and equipment	- Occupancy, equipment and general operating expenses	We aim to minimize our use of resources, remain carbon neutral and seek values-aligned suppliers. We are developing living wage language for use in requests for proposal and supplier contracts.	59
We add up expenses	= Total operating expenses		76
We deduct expenses from revenue	= Net earnings from operations before distribution and tax		75
Giving back to members and the community	- Distributions to the community and members (Shared Success)	We distribute 30 per cent of net earnings from operations to the community and our members.	67
Paying taxes	- Income tax expense	We pay taxes.	70
We reinvest what's left in our business	= Net (retained) earnings from operations	We draw on our profits to operate as a business and to grow sustainably.	75

Receiving deposits and raising funds

Our goal is to maximize the percentage of loans we fund through members' deposits—81 per cent in 2011. This approach reduces our expenses as other wholesale means of raising funds may cost more. It also helps connect the deposits we receive from members with the loans we make to members—loans that benefit members and their communities.

Percentage of member loans funded by member deposits



¹See note on page 26.

Other ways we raise funds include wholesale borrowings from cities, municipalities and other large entities, borrowings from outside investors via brokers, or by accessing capital markets. In 2011, the Dominion Bond Rating Service reaffirmed our short-term debt rating as “R-1 (low) – satisfactory credit quality.” This third-party rating enables our debt instruments to be eligible investments for institutional or corporate investors, enabling us to obtain financing. We can also sell off loan

portfolios, a practice called securitization. While we did not do any securitizations in 2011, this practice enables us to fund balance sheet growth more quickly and on a larger scale than by gathering traditional deposits. Our practice is to securitize only insured residential mortgages of good quality—we don't securitize sub-prime mortgages.

Deposit products

Like all BC credit unions, members' deposits are 100-per-cent protected by unlimited deposit insurance provided by the Credit Union Deposit Insurance Corporation. We offer a variety of deposit products to help members achieve their financial goals, as well as deposit products with social and environmental benefits. To align with our focus on positive community impact, we're exploring ways to help members understand the connection between their deposits and Vancity loans that create healthy communities. We believe this will encourage more members to do more business with us, which will allow us to invest more in their communities.

Deposits totalled \$13.4 billion in 2011, up from \$12.7 billion in 2010. In the second half of 2011, we began to see a significant increase in our deposit base, likely as a result of members seeking a safe haven for their investments and savings given the continued uncertainty in global equity markets. In 2011, our interest expense (the cost of borrowing money) was \$246.8 million, an increase of 13 per cent over 2010. The increase was largely due to more interest paid to members as a result of the growth in our deposit base.

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