

**2005 ANNUAL REPORT**



## **BOARD and STAFF**

### **2005 BOARD of DIRECTORS**

#### **Chair**

Glenn McLaughlin

#### **1st Vice-Chair**

Ken Sherwood

#### **2nd Vice-Chair**

Judi Corra

#### **Directors**

Phil Beall  
Gilles Deschenes  
Herb Gill  
Les Hausch  
Jim Pope  
Patrick Thierman

### **EXECUTIVE and CREDIT COMMITTEE**

#### **Chair**

Glenn McLaughlin

#### **Members**

Ken Sherwood  
Judi Corra  
Jim Pope

### **NOMINATING COMMITTEE**

#### **Chair**

Phil Beall

#### **Members**

Glenn McLaughlin  
Jim Pope

### **AUDIT COMMITTEE**

#### **Chair**

Ken Sherwood

#### **Members**

Gilles Deschenes  
Herb Gill

#### **Alternate**

Patrick Thierman

### **INVESTMENT and LENDING COMMITTEE**

#### **Chair**

Gilles Deschenes

#### **Members**

Ken Sherwood  
Herb Gill

### **HEAD OFFICE**

Phil Moore, General Manager  
Colleen Colonna  
Jacqueline Griffin  
Victoria Kowalski  
Linda Pereira  
Eman Raouf  
Theresa Van Grol  
Todd Wade  
Harj Wahid

### **VANCOUVER BRANCH**

Richard Rochard, Branch Manager  
Virginia Agujo  
Michelle Dela Luna  
Sandeep Grewal  
Antoinette Hage-Moussa  
Margaret Lau  
Aaron Lumb  
Greta Munro  
Eszter Nemeth  
Chanda Tum  
Nick Wong  
Victoria Wong

### **LOUGHEED BRANCH**

Tracy Sparkes, Branch Manager  
Arundeep Bains  
Julian Beckett  
Nancy Brooks  
Katherine Burgess  
Cindy Candusso  
Michaela Costa  
Diana Leslie  
Siobhan Lizée  
Valerie Ongkowidjojo  
Carey Soura  
Valerie Yiu

### **SURREY BRANCH**

Bob Hattrick, Branch Manager  
Deidra Derksen  
Greg Keall  
Sara MacLeod  
Kuldeep Sahota  
Andy Sanghera  
Sarbjit Singh  
Neena Tatla  
Mary van Someren

### **BRENTWOOD BRANCH**

Balbir Bains, Branch Manager  
Paulette Antoniuk  
Julia Austine  
Honka Lelkes  
Amber Marcheen  
Gabriella Pasek  
Gary Thind  
Katalin Trasolini

## BOARD of DIRECTORS' REPORT

2005 saw a continuation of the consolidation of credit unions across Canada and in particular in British Columbia. By the end of the year the number of credit unions in BC had shrunk to 52, down from 100 in 1996. This decline is being driven in part by the changing nature of our business and in part by the retirement of long time managers.

Your board of directors met for their annual planning meeting in June of 2005 and reviewed our credit unions long term prospects. We re-affirmed our belief that there is a place for smaller credit unions within the larger financial community. We see a continued need for traditional style services, focused in many cases on those not well served by the large financial institutions, be they banks or credit unions. Along with other smaller credit unions in the Vancouver area we believe this is our natural niche and that it is large and unique enough to provide for a vibrant future for our credit union.

For over thirty years the management of our credit union has been in the hands of Phil Moore, our General Manager and Richard Rochard, the Manager of our Vancouver branch. Fifteen years ago they were joined by Bob Hattrick who now manages our Surrey branch office. Of interest to your board of directors is the fact that each of these gentlemen were born in 1945! In short they will be retiring in the not too far distant future.

During the year your board commenced a succession plan for these managers. Our goal is to minimize the disruption to our organization, while doing all we can to ensure the continued growth and development of our credit union. I hasten to add that none of the three gentlemen has indicated a desire to retire early, so we should have a few years before the situation is upon us. The board's preferred approach is a gradual phase out. This means their knowledge and expertise will still be available to the credit union while the new team grows in experience. We also have a preference to promote from within, thus providing opportunities for our staff to grow within our organization.

Turning to the year just past, we are pleased to note the credit union enjoyed both healthy growth and strong earnings, albeit membership growth was flat. During the latter part of 2005 we worked with a marketing firm with the goal of refreshing our image. This resulted in the "Real People" campaign we are now running. We see this as fitting our goal of providing financial services to those preferring traditional personal service, or those not well served by larger financial institutions.

We were very pleased to see six well qualified candidates run for the three board of director positions up for election in 2006. This indicates a strong interest in the credit union and I thank all candidates for their interest.

Your credit union continued to put back into the community through donations and sponsorships to, among others, The UBC Centre for Depression Research, The Credit Union Foundation, a number of societies focused on helping people around the GVRD as well as providing support for Hurricane Katrina and the Pakistan earthquake relief.

In closing, I wish to thank my fellow directors for the time and effort they have devoted over the past year on behalf of your credit union. Further, on behalf of our directors, I wish to thank our dedicated employees for all the work they have done in providing service to our members.

Respectively submitted on behalf of the Board of directors,



Glenn McLaughlin, Chair

## GENERAL MANAGERS' REPORT

Operating in an industry dominated at the national level by five chartered banks and at the regional level by a few large credit unions, is not easy. Large organizations have economies of scale which are not available to smaller ones. This means the large institutions can price more aggressively.

On the other hand small credit unions can offer a greater level of personal service. They are also in a position to provide services to those the larger institutions tend to exclude. However all members expect similar pricing as is available at the larger institutions.

For over thirty years we have focused on providing simple basic services to our members. For example we specialize in providing credit to consumers who do not easily qualify at the major banks. Many of the members we help get started, or help through a bad patch, have gone on to become some of our most valuable supporters.

We focus on managed growth in business that is within our capabilities. Besides individual members this now includes a vibrant group of small and micro business accounts which today make up almost 10% of our total membership.

In 2005 our assets grew by 5.7% while loans grew by 7.8%. Loan growth was helped by the strong real estate market Vancouver and the lower mainland enjoyed throughout the year. We read the reports that this market may be overheating. However we feel that while price increases may moderate soon, the underlying strength of the BC economy will underpin the market. We doubt we will see a repeat of 1982 when house prices dropped by about 28%.

The Vancouver deposit and loan market is very competitive. We have seen a gradual decline in our financial margin since 2001. We anticipate a further decline in 2006 as we respond to a new round of competitive pricing. This is great for consumers as

it means lower relative prices on loans and higher relative returns on deposits. To meet this challenge we have for many years strived to contain our operating costs. We are pleased to note these have steadily decreased as a percentage of our total assets.

In 2006 we have introduced a new suite of attractively priced chequing, savings and term deposit products as part of the new "Real People" marketing program mentioned by our Chair. In addition we significantly expanded our staff training and development programs in 2005. As credit unions have grown, the availability of these programs on a shared basis through our Central credit union has declined. We have developed partnerships with trainers to provide these services directly to our credit union.

Earnings from operations in 2005 were \$632,821, up modestly from 2004. Net earnings after bad debt provisions, taxes and dividends at \$482,286 were down from 2004. However, we note that in 2004 we enjoyed an unusual "earnings benefit" of \$188,218 from an accounting change. Our net earnings of \$482,286 were added to our retained earnings increasing them by 9.96% to \$5,324,026.

In closing, on behalf of myself and our staff, I wish to thank your elected representatives, our board of directors, for their dedicated service to the credit union during the year.

Respectfully submitted,



J. Philip Moore, General Manager

**Greater Vancouver Community Credit Union**  
**Financial Statements**  
December 31, 2005

Grant Thornton 

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## Auditors' Report

To the Members of  
Greater Vancouver Community Credit Union

We have audited the balance sheet of Greater Vancouver Community Credit Union as at December 31, 2005 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the credit union as at December 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Grant Thornton LLP*

New Westminster, Canada  
February 23, 2006

Chartered Accountants

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# Greater Vancouver Community Credit Union

## Balance Sheet

December 31

2005

2004

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### Assets

|                                 |                       |                       |
|---------------------------------|-----------------------|-----------------------|
| Cash resources (Note 4)         | \$ 13,430,809         | \$ 14,897,437         |
| Loans (Note 5)                  | 125,819,116           | 116,658,805           |
| Investments and other (Note 6)  | 764,962               | 761,572               |
| Premises and equipment (Note 7) | <u>1,130,473</u>      | <u>1,166,496</u>      |
|                                 | <u>\$ 141,145,360</u> | <u>\$ 133,484,310</u> |

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### Liabilities and equity

|                         |                       |                       |
|-------------------------|-----------------------|-----------------------|
| Deposits (Note 8)       | \$ 135,049,206        | \$ 127,976,897        |
| Payables and accruals   | 317,161               | 260,718               |
| Equity shares (Note 10) | 454,967               | 404,955               |
| Retained earnings       | <u>5,324,026</u>      | <u>4,841,740</u>      |
|                         | <u>\$ 141,145,360</u> | <u>\$ 133,484,310</u> |

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Commitments (Note 17)

On behalf of the Board

Glenn McLaughlin

Director

Ken Sherwood

Director

See accompanying notes to the financial statements

# Greater Vancouver Community Credit Union

## Statements of Earnings and Retained Earnings

Year Ended December 31

2005

2004

|  |                     |                     |
|--|---------------------|---------------------|
| Financial income                               |                     |                     |
| Loans  | \$ 7,041,132        | \$ 6,469,732        |
| Cash resources and investments                 | <u>446,239</u>      | <u>437,282</u>      |
|  | <u>7,487,371</u>    | <u>6,907,014</u>    |
| Financial expense                              |                     |                     |
| Deposits                                       | 3,426,236           | 3,149,273           |
| Share dividends                                | 115,133             | 104,561             |
| Other  | <u>17,028</u>       | <u>82,256</u>       |
|  | <u>3,558,397</u>    | <u>3,336,090</u>    |
| Financial margin                               | 3,928,974           | 3,570,924           |
| Provision for credit losses (Note 5)           | (89,088)            | (126,944)           |
| Other income (Note 14)                         | <u>790,859</u>      | <u>851,722</u>      |
| Operating margin                               | 4,630,745           | 4,295,702           |
| Operating expense (Note 15)                    | <u>3,997,924</u>    | <u>3,734,079</u>    |
| Earnings from operations                       | 632,821             | 561,623             |
| Patronage rebates                              | <u>44,346</u>       | <u>46,000</u>       |
| Earnings before unusual items and income taxes | 588,475             | 515,623             |
| Unusual items (Note 3)                         | <u>(17,021)</u>     | <u>188,218</u>      |
| Earnings before income taxes                   | 571,454             | 703,841             |
| Income taxes (Note 16)                         | <u>89,168</u>       | <u>116,295</u>      |
| Net earnings                                   | <u>\$ 482,286</u>   | <u>\$ 587,546</u>   |
| <hr/>  |                     |                     |
| Retained earnings, beginning of year           | \$ 4,841,740        | \$ 4,254,194        |
| Net earnings                                   | <u>482,286</u>      | <u>587,546</u>      |
| Retained earnings, end of year                 | <u>\$ 5,324,026</u> | <u>\$ 4,841,740</u> |

See accompanying notes to the financial statements

# Greater Vancouver Community Credit Union

## Statement of Cash Flows

Year Ended December 31

2005

2004

Cash flows provided by (used in)

### Operating activities

|                                      |    |                  |    |                |
|--------------------------------------|----|------------------|----|----------------|
| Net earnings                         | \$ | 482,286          | \$ | 587,546        |
| Adjustments to determine cash flows: |    |                  |    |                |
| Provision for credit losses          |    | 89,088           |    | 126,944        |
| Gain on sale of investments          |    | -                |    | (27,380)       |
| Amortization                         |    | 262,325          |    | 235,440        |
| Change in interest accruals          |    | 243,261          |    | 6,409          |
| Future income tax                    |    | (13,000)         |    | 22,300         |
| Other                                |    | 86,641           |    | (221,961)      |
|                                      |    | <u>1,150,601</u> |    | <u>729,298</u> |

### Financing activities

|                              |  |                  |  |                   |
|------------------------------|--|------------------|--|-------------------|
| Deposits, net of withdrawals |  | 6,794,867        |  | 11,068,309        |
| Equity shares                |  | 50,012           |  | 53,582            |
|                              |  | <u>6,844,879</u> |  | <u>11,121,891</u> |

### Investing activities

|                                 |  |                    |  |                     |
|---------------------------------|--|--------------------|--|---------------------|
| Loans, net of repayments        |  | (9,215,218)        |  | (14,577,772)        |
| Proceeds on sale of investments |  | -                  |  | 69,434              |
| Purchase of investments         |  | (20,588)           |  | (28,731)            |
| Premises and equipment          |  | (226,302)          |  | (450,001)           |
|                                 |  | <u>(9,462,108)</u> |  | <u>(14,987,070)</u> |

Net decrease in cash resources (1,466,628) (3,135,881)

Cash resources, beginning of year 14,897,437 18,033,318

Cash resources, end of year \$ 13,430,809 \$ 14,897,437

### Supplemental cash flow information

|               |    |           |    |           |
|---------------|----|-----------|----|-----------|
| Interest paid | \$ | 3,148,794 | \$ | 3,192,505 |
| Taxes paid    |    | 88,668    |    | 107,642   |

See accompanying notes to the financial statements

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# Greater Vancouver Community Credit Union

## Notes to the Financial Statements

December 31, 2005

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### 1. Governing legislation

The credit union is incorporated under the Credit Union Incorporation Act of British Columbia; the operation of the credit union is subject to the Financial Institutions Act of British Columbia.

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### 2. Significant accounting policies

#### Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting practices. In preparing these financial statements management has made estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and contingent assets and liabilities. Actual results could differ from those estimates.

#### Loans

Loans are stated net of unearned income and allowance for credit losses.

##### *Loan interest*

Interest income from loans is recorded on the accrual method, except where a loan is impaired. Interest received on an impaired loan is recognized in earnings only if there is no doubt as to the collectibility of the carrying value of the loan; otherwise, the interest received is credited to the principal.

##### *Loan fees*

Loan prepayment fees are recognized in interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized over the remaining period of the original mortgage.

##### *Allowance for credit losses*

The credit union maintains allowances for credit losses that reduce the carrying value of loans identified as impaired to their estimated realizable amounts. A loan is classified as impaired generally at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectibility of principal and interest, or when interest is 90 days past due. Specific allowances are supplemented by general allowances determined by judgement of management based on historical loan loss experience, known risks in the portfolio and current economic conditions and trends.

#### Investments

Investments are recorded at the lower of cost and net realizable value.

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# Greater Vancouver Community Credit Union

## Notes to the Financial Statements

December 31, 2005

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### 2. Significant accounting policies (Continued)

#### Premises and equipment

Premises and equipment are recorded at cost less accumulated amortization. Amortization is recorded as follows:

|                           |                                    |
|---------------------------|------------------------------------|
| Automated teller machines | 5 years, straight-line             |
| Data processing equipment | 10% per quarter, declining balance |
| Furniture and equipment   | 5% per quarter, declining balance  |
| Vaults                    | 10 years, straight line            |
| Leasehold improvements    | term of lease up to ten years      |

#### Income taxes

The credit union follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Net future income tax assets and liabilities are included in other assets.

#### Shares

Shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the credit union board of directors, the shares are classified as equity.

#### Distributions to members

Patronage rebates and dividends on shares are charged against earnings.

#### Comparative figures

Certain of the prior year's figures have been reclassified to conform with the current year's financial statement presentation.

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# Greater Vancouver Community Credit Union

## Notes to the Financial Statements

December 31, 2005

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### 3. Unusual items

#### Current year

##### *Stabilization Central Credit Union dividend*

Stabilization Central Credit Union (Stab Central) is a central credit union under the *Credit Union Incorporation Act* and is owned by all of the credit unions of British Columbia. Stab Central had accumulated a depositor insurance fund but no longer needed to maintain the fund at its historic levels. In 2005, Stab Central declared dividends from retained earnings to all of the credit unions of British Columbia including dividends of \$344,868 paid to the credit union.

##### *Special deposit insurance assessment*

The Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) is a statutory corporation continued under the *Financial Institution Act* and has a mandate to guarantee deposits and non-equity shares of depositors' of British Columbia's credit unions. To maintain a deposit insurance fund, CUDIC is empowered to assess the credit unions on the basis of each individual credit union's deposit balances. In 2005, CUDIC assessed all credit unions of British Columbia including an assessment to the credit union of \$361,889.

The net amount of \$17,021 in unusual items is reported on the statements of earnings and retained earnings for 2005.

#### Prior year

Prior to January 1, 2004, the credit union deferred and amortized loan prepayment fees over the average remaining term of the related mortgages. Commencing in 2004, loan prepayment fees are recognized in financial income when received. Prepayment fees of \$188,218, which were deferred at December 31, 2003, were recognized in 2004 income as an unusual item on the statement of earnings and retained earnings.

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| 4. Cash resources                            | 2005                 | 2004                 |
|--|----------------------|----------------------|
| Cash and current accounts                    | \$ 1,507,069         | \$ 1,083,786         |
| Term deposits and accrued interest           |                      |                      |
| Callable or maturing in three months or less | 2,979,576            | 3,575,851            |
| Maturing after three months                  | 8,944,164            | 10,237,800           |
|  | <u>\$ 13,430,809</u> | <u>\$ 14,897,437</u> |

Under governing legislation, the credit union must maintain, for liquidity purposes, deposits with Credit Union Central of British Columbia (Credit Union Central) of at least 9% of deposits and borrowings. At December 31, 2005, the credit union liquidity deposits exceed the minimum requirement by \$1,197,000 (2004: \$2,174,000).

# Greater Vancouver Community Credit Union

## Notes to the Financial Statements

December 31, 2005

| 5. Loans                    | 2005                  | 2004                  |
|-----------------------------|-----------------------|-----------------------|
| Personal loans              |                       |                       |
| Residential mortgages       | \$ 99,478,526         | \$ 89,864,543         |
| Other                       | 5,708,929             | 6,614,524             |
| Commercial loans            |                       |                       |
| Mortgages                   | 20,015,078            | 19,669,545            |
| Other                       | 894,438               | 811,549               |
| Accrued interest            | 341,694               | 307,513               |
|                             | <u>126,438,665</u>    | <u>117,267,674</u>    |
| Allowance for credit losses |                       |                       |
| Specific                    | 139,549               | 173,869               |
| General                     | 480,000               | 435,000               |
|                             | <u>619,549</u>        | <u>608,869</u>        |
|                             | <u>\$ 125,819,116</u> | <u>\$ 116,658,805</u> |

| Allowance for credit losses |                      |                  |                                  | 2005              | 2004              |
|-----------------------------|----------------------|------------------|----------------------------------|-------------------|-------------------|
|                             | Beginning<br>balance | Provision        | Write-offs<br>less<br>recoveries | Ending<br>balance | Ending<br>balance |
| Personal loans              |                      |                  |                                  |                   |                   |
| Mortgages                   | \$ 335,691           | \$ 25,000        | \$ -                             | \$ 360,691        | \$ 335,691        |
| Other                       | 264,363              | 59,088           | 78,408                           | 245,043           | 264,363           |
| Commercial loans            | 8,815                | 5,000            | -                                | 13,815            | 8,815             |
|                             | <u>\$ 608,869</u>    | <u>\$ 89,088</u> | <u>\$ 78,408</u>                 | <u>\$ 619,549</u> | <u>\$ 608,869</u> |

|  |              |              |
|--|--------------|--------------|
| Percentage of total loans and accrued interest | <u>0.49%</u> | <u>0.52%</u> |
|--|--------------|--------------|

| Impaired loans and related allowances |                     |                        |                     | 2005               | 2004 |
|---------------------------------------|---------------------|------------------------|---------------------|--------------------|------|
|                                       | Loan<br>balances    | Specific<br>allowances | Carrying<br>amount  | Carrying<br>amount |      |
| Personal loans                        |                     |                        |                     |                    |      |
| Mortgages                             | \$ 1,059,939        | \$ -                   | \$ 1,059,939        | \$ 771,691         |      |
| Other                                 | 178,701             | 139,549                | 39,152              | 124,577            |      |
|                                       | <u>\$ 1,238,640</u> | <u>\$ 139,549</u>      | <u>\$ 1,099,091</u> | <u>\$ 896,268</u>  |      |

# Greater Vancouver Community Credit Union

## Notes to the Financial Statements

December 31, 2005

| 6. Investments and other   | 2005              | 2004              |
|----------------------------|-------------------|-------------------|
| Shares                     |                   |                   |
| Credit Union Central       | \$ 468,478        | \$ 457,507        |
| Stabilization Central      | 204               | 155               |
| BC Cooperative Association | 1,200             | -                 |
| CUPP Services Ltd.         | 31,841            | 23,473            |
| Receivables and prepaids   | 183,441           | 213,639           |
| Future income taxes        | 79,798            | 66,798            |
|                            | <u>\$ 764,962</u> | <u>\$ 761,572</u> |

Investment in shares of Credit Union Central is required by governing legislation and as a condition of membership in Credit Union Central.

| 7. Premises and equipment       |                     |                             | 2005                | 2004                |
|---------------------------------|---------------------|-----------------------------|---------------------|---------------------|
|                                 | Cost                | Accumulated<br>amortization | Net<br>book value   | Net<br>book value   |
| Data processing<br>and licenses | \$ 714,622          | \$ 481,027                  | \$ 233,595          | \$ 200,973          |
| Furniture and<br>equipment      | 1,041,064           | 788,714                     | 252,350             | 297,723             |
| Leasehold<br>improvements       | 1,414,180           | 769,652                     | 644,528             | 667,800             |
|                                 | <u>\$ 3,169,866</u> | <u>\$ 2,039,393</u>         | <u>\$ 1,130,473</u> | <u>\$ 1,166,496</u> |

| 8. Deposits                        | 2005                  | 2004                  |
|------------------------------------|-----------------------|-----------------------|
| Demand                             | \$ 29,464,632         | \$ 27,200,961         |
| Membership equity shares (Note 10) | 1,953,051             | 1,932,918             |
| Term                               | 78,597,720            | 74,459,791            |
| Registered savings plans           | 23,407,275            | 23,034,141            |
| Accrued interest and dividends     | 1,626,528             | 1,349,086             |
|                                    | <u>\$ 135,049,206</u> | <u>\$ 127,976,897</u> |

Demand deposits include \$788,877 (2004: \$818,075) of class "A" savings shares.

Under agreements with the trustee of the registered savings plans, members' contributions to the plans are deposited with the credit union at rates of interest determined by the credit union.

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# Greater Vancouver Community Credit Union

## Notes to the Financial Statements

December 31, 2005

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### 9. Borrowings

The credit union has an operating line of credit and a term loan arrangement with Credit Union Central. A debenture charge on certain assets of the credit union has been provided as security.

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### 10. Equity shares

Capital of the credit union is divided into three classes of equity shares designated as follows:

- Class "B" equity shares (membership)
- Class "C" preferred equity shares (voluntary)
- Class "P" patronage equity shares

The credit union is authorized to issue an unlimited number of non-transferable, voting equity shares, with a par value of \$1. With certain exceptions, all members are required to own twenty-five membership equity shares which, under certain occurrences, are redeemable.

Equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia; class "P" shares are redeemable only with the consent of the Board of Directors of the credit union.

| Equity shares issued                                      | 2005                     | 2004                     |
|---|--------------------------|--------------------------|
| Class "B" shares  | \$ 520,863               | \$ 518,105               |
| Class "C" shares  | 1,432,188                | 1,414,813                |
| Class "P" shares  | <u>454,967</u>           | <u>404,955</u>           |
|   | <b>2,408,018</b>         | 2,337,873                |
| Class "B" and "C" shares included as liabilities (Note 8) | <u>(1,953,051)</u>       | <u>(1,932,918)</u>       |
| Equity shares   | <b>\$ <u>454,967</u></b> | <b>\$ <u>404,955</u></b> |

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### 11. Capital requirements

The credit union is required under governing legislation to maintain a capital base equal to 8% of the total risk-weighted value of assets; each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset. At December 31, 2005, the credit union had a capital base approximating 14.9% (2004: 11.6%) of the risk-weighted value.

Contributing to the credit union's increased capital base ratio during 2005 was a change in risk weighing of certain instruments from 50% to 35%.

# Greater Vancouver Community Credit Union

## Notes to the Financial Statements

December 31, 2005

### 12. Interest rate sensitivity

The credit union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets and liabilities scheduled to reprice on particular dates.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within one year, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

The table below does not incorporate management's expectation of future events where repricing or maturity dates of certain loans and deposits differ significantly from the contractual dates.

|   | Interest sensitive balances |                        |                      | Not<br>interest<br>sensitive | Total              |
|---|-----------------------------|------------------------|----------------------|------------------------------|--------------------|
|   | Within<br>3 months          | 4 months<br>to 1 year  | Over 1 to<br>5 years |                              |                    |
| <b>Assets</b>                                     |                             |                        |                      |                              |                    |
| Cash resources                                    | \$ 4,459,319                | \$ 6,877,500           | \$ 1,950,000         | \$ 143,990                   | \$ 13,430,809      |
| Yield   | 3.02%                       | 3.16%                  | 3.48%                |                              |                    |
| Loans   | 33,501,069                  | 18,942,954             | 73,033,403           | 341,690                      | 125,819,116        |
| Yield   | 6.00%                       | 5.60%                  | 5.48%                |                              |                    |
| Other   | 468,478                     | -                      | -                    | 1,426,957                    | 1,895,435          |
| Yield   | 5.33%                       | -                      | -                    |                              |                    |
|   | <u>38,428,866</u>           | <u>25,820,454</u>      | <u>74,983,403</u>    | <u>1,912,637</u>             | <u>141,145,360</u> |
| <b>Liabilities</b>                                |                             |                        |                      |                              |                    |
| Deposits  | 53,335,280                  | 49,717,104             | 30,370,605           | 1,626,217                    | 135,049,206        |
| Yield   | 1.31%                       | 2.97%                  | 4.15%                |                              |                    |
| Other   | -                           | -                      | -                    | 6,096,154                    | 6,096,154          |
|   | <u>53,335,280</u>           | <u>49,717,104</u>      | <u>30,370,605</u>    | <u>7,722,371</u>             | <u>141,145,360</u> |
| <b>Interest<br/>sensitivity<br/>position 2005</b> | <b>\$ (14,906,414)</b>      | <b>\$ (23,896,650)</b> | <b>\$ 44,612,798</b> | <b>\$ (5,809,734)</b>        | <b>\$ -</b>        |
| Interest sensitivity<br>position 2004             | \$ (8,217,712)              | \$ (15,773,372)        | \$ 28,947,729        | \$ (4,956,645)               | \$ -               |

# Greater Vancouver Community Credit Union

## Notes to the Financial Statements

December 31, 2005

### 13. Fair values of financial instruments

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates.

No fair values have been determined for premises and equipment or any other asset or liability that is not a financial instrument. The fair values of cash resources, variable rate loans and deposits, other assets and liabilities are assumed to equal their book values. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

Changes in interest rates are the main cause of changes in the fair value of the credit union's financial instruments. The majority of the credit union's financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to interest rate changes.

|                       | 2005          |               |              | 2004       |
|-----------------------|---------------|---------------|--------------|------------|
|                       | Book value    | Fair value    | Difference   | Difference |
| <b>Assets</b>         |               |               |              |            |
| Cash resources        | \$ 13,431,000 | \$ 13,431,000 | \$ -         | \$ -       |
| Loans                 | 125,819,000   | 125,664,000   | (155,000)    | 1,074,000  |
| Investments           | 765,000       | 765,000       | -            | -          |
|                       |               |               | (155,000)    | 1,074,000  |
| <b>Liabilities</b>    |               |               |              |            |
| Deposits              | 135,049,000   | 135,476,000   | (427,000)    | (600,000)  |
| <b>Net difference</b> |               |               | \$ (582,000) | \$ 474,000 |

|                                | 2005       | 2004       |
|--------------------------------|------------|------------|
| <b>14. Other income</b>        |            |            |
| Account service fees           | \$ 538,828 | \$ 550,063 |
| Foreign exchange               | 75,882     | 66,365     |
| Other                          | 73,453     | 76,782     |
| Loan administration fees       | 70,354     | 79,940     |
| Insurance commissions and fees | 32,342     | 51,192     |
| Gain on sale of investments    | -          | 27,380     |
|                                | \$ 790,859 | \$ 851,722 |

# Greater Vancouver Community Credit Union

## Notes to the Financial Statements

December 31, 2005

| <b>15. Operating expense</b>     | <b>2005</b>         | <b>2004</b>         |
|----------------------------------|---------------------|---------------------|
| Salaries and benefits            | \$ 1,915,178        | \$ 1,817,536        |
| Premises, equipment and supplies | 748,685             | 722,819             |
| Data processing                  | 300,313             | 240,827             |
| Amortization                     | 262,325             | 235,440             |
| Advertising and member relations | 190,689             | 190,819             |
| Other                            | 183,349             | 151,482             |
| Service charges                  | 163,846             | 160,310             |
| Dues and assessments             | 70,898              | 68,509              |
| Professional services            | 85,276              | 85,111              |
| Meetings                         | 77,365              | 61,226              |
|                                  | <u>\$ 3,997,924</u> | <u>\$ 3,734,079</u> |

### 16. Income taxes

The components of income tax expense are as follows:

|         | <b>2005</b>      | <b>2004</b>       |
|---------|------------------|-------------------|
| Current | \$ 102,168       | \$ 93,995         |
| Future  | <u>(13,000)</u>  | <u>22,300</u>     |
|         | <u>\$ 89,168</u> | <u>\$ 116,295</u> |

The total income taxes in the statement of earnings is at a rate less than the combined federal and provincial statutory tax rates for the following reasons:

|   | <b>2005</b>   | <b>2004</b>   |
|---|---------------|---------------|
| Combined federal and provincial statutory income tax rate | 34.9 %        | 35.6 %        |
| Credit union rate reduction                               | (17.3)%       | (18.0)%       |
| Other   | <u>(2.0)%</u> | <u>(1.1)%</u> |
|   | <u>15.6 %</u> | <u>16.5 %</u> |

The components of future income tax balances are as follows:

|                             | <b>2005</b>      | <b>2004</b>      |
|-----------------------------|------------------|------------------|
| Allowance for credit losses | \$ 97,300        | \$ 79,500        |
| Premises and equipment      | (34,000)         | (27,000)         |
| Other                       | <u>16,498</u>    | <u>14,298</u>    |
|                             | <u>\$ 79,798</u> | <u>\$ 66,798</u> |

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# Greater Vancouver Community Credit Union

## Notes to the Financial Statements

December 31, 2005

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### 17. Commitments

#### Premises

The credit union leases branch premises. Minimum lease payments under existing lease contracts for each of the next five years are:

|      |    |         |
|------|----|---------|
| 2006 | \$ | 443,000 |
| 2007 |    | 447,000 |
| 2008 |    | 447,000 |
| 2009 |    | 449,000 |
| 2010 |    | 454,000 |

#### Banking system

The credit union is committed to acquire on line data processing services until November 2009. Data processing charges are based on the level of equipment and services utilized and on the number of credit union members.

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### 18. Other information

At December 31, 2005, loans to employees, directors, officers and members of a committee of the credit union amounted to \$1,150,500 (2004: \$1,079,890). Directors, in their capacity as directors, received \$14,000 (2004: \$14,000).

**VANCOUVER BRANCH**

100-4088 Cambie Street  
Vancouver BC V5Z 2X8  
**p** 604 876 7101  
**f** 604 876 0892  
**e** [vancouver@gvccu.com](mailto:vancouver@gvccu.com)

**LOUGHEED BRANCH**

9608 Cameron Street  
Burnaby BC V3J 1M2  
**p** 604 421 3456  
**f** 604 420 5526  
**e** [burnaby@gvccu.com](mailto:burnaby@gvccu.com)

**HEAD OFFICE**

1801 Willingdon Avenue  
Burnaby BC V5C 5R3  
**p** 604 298 3344  
**f** 604 421 8949  
**e** [admin@gvccu.com](mailto:admin@gvccu.com)

**BRENTWOOD BRANCH**

1801 Willingdon Avenue  
Burnaby BC V5C 5R3  
**p** 604 298 3344  
**f** 604 298 3417  
**e** [brentwood@gvccu.com](mailto:brentwood@gvccu.com)

**SURREY BRANCH**

1-9989 152<sup>nd</sup> Street  
Surrey BC V3R 4G5  
**p** 604 584 4434  
**f** 604 584 6038  
**e** [surrey@gvccu.com](mailto:surrey@gvccu.com)

**INTERNET BANKING**

[www.gvccu.com](http://www.gvccu.com)

**TELEPHONE BANKING**

604 444 5250