2025 Annual Report.

Consolidated Financial Statements.

Vancity

Consolidated Financial Statements
(Expressed in thousands of dollars)

Vancouver City Savings Credit Union

And Independent Auditor's Report thereon

Year ended December 31, 2025

Management's responsibility for financial reporting

Vancity

These consolidated financial statements were prepared by the management of Vancouver City Savings Credit Union ("Vancity") who are responsible for their integrity, objectivity and reliability. They have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board and include amounts that are based on estimates and judgments of management with appropriate consideration to materiality.

In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating and system controls. Systems of internal control and reporting procedures are designed and maintained to provide reasonable assurance that the financial records are complete and accurate and that the assets of Vancity are safeguarded against loss from unauthorized use or disposition. The procedures 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.

The Board of Directors has approved the consolidated financial statements. The Audit Committee of the Board, comprising directors who are not officers or employees of Vancity, has reviewed the consolidated financial statements and received regular reports on internal control findings. KPMG LLP, the external auditors appointed by the membership, have examined the consolidated financial statements of Vancity and their report follows. They have had full and free access to the records of Vancity, the internal audit staff, other management staff, and the Audit Committee of the Board.

Wellington Holbrook

Wellington Holbrook
President and Chief Executive Officer

Frances Yip

Frances Yip
Chief Financial Officer

March 30, 2026

KPMG LLP
777 Dunsmuir Street, 11th floor
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INDEPENDENT AUDITOR'S REPORT

To the members of Vancouver City Savings Credit Union

Opinion

We have audited the consolidated financial statements of Vancouver City Savings Credit Union ("Vancity"), which comprise:

- the consolidated statement of financial position as at December 31, 2025
- the consolidated statement of income for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in members' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Vancity as at December 31, 2025, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of Vancity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditor's report thereon, included in Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditor's report thereon, included in the Annual Report as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Vancity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Vancity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Vancity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Vancity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Vancity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Vancity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada

March 30, 2026

Vancouver City Savings Credit Union

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

Vancity

December 31, 2025, with comparative information for 2024

	Notes	2025	2024
Assets			
Cash and cash equivalents		$ 154,257	$ 136,034
Interest bearing deposits with financial institutions	29(c)	247,519	64,918
Financial investments	7	4,609,524	3,338,800
Derivative assets	8	24,795	6,989
Loans and advances to members	9, 30(a)	26,139,480	24,566,393
Current tax assets		6,088	-
Premises, equipment and right-of-use assets	11(a), 11(b)	118,304	111,986
Intangible assets	11(c)	47,671	42,941
Deferred tax assets	12(c)	35,514	31,504
Other assets	14, 29(c)	81,367	60,542
Total assets		$ 31,464,519	$ 28,360,107
Liabilities and Equity			
Deposits from members	15, 30(a)	$ 26,848,027	$ 24,869,375
Derivative liabilities	8	12,109	37,081
Wholesale borrowings	17(b)	798,496	529,532
Secured borrowings	17(a), 17(b)	1,697,499	1,001,032
Accounts payable and accrued liabilities	18	264,184	205,648
Current tax liabilities		-	2,130
Lease liabilities	11(d), 17(b)	41,273	45,617
Retirement benefit obligation	13(a)	55,935	48,535
Other liabilities		4,841	2,724
Total liabilities		29,722,364	26,741,674
Members' equity:			
Capital and reserves attributable to members:			
Contributed surplus		72,568	29,275
Retained earnings		1,658,113	1,588,196
Accumulated other comprehensive income		11,474	962
Total members' equity		1,742,155	1,618,433
Total liabilities and equity		$ 31,464,519	$ 28,360,107

Commitments and contingencies (note 29)

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Board on March 30, 2026:

Rita Parikh

Heather O'Hara

Vancouver City Savings Credit Union

Consolidated Statement of Income
(Expressed in thousands of dollars)

Vancity

Year ended December 31, 2025, with comparative information for 2024

	Notes	2025	2024
Interest income		$ 1,223,100	$ 1,278,069
Interest expense		695,458	896,201
Net interest income	19	527,642	381,868
Impairment expense on financial instruments	10(b)	32,357	16,579
Fee and commission income		166,269	158,830
Fee and commission expense		31,475	30,716
Net fee and commission income	20	134,794	128,114
Net gains on financial instruments	21	8,335	4,849
Other income		4,664	10,102
Total operating income		643,078	508,354
Operating expenses:			
Salary and employee benefits	22, 30(b)	330,539	323,920
Occupancy and equipment		50,789	50,889
General and administrative	2, 23	148,398	119,419
		529,726	494,228
Income before distribution and tax		113,352	14,126
Distribution to community and members	24	23,191	4,359
Income before income taxes		90,161	9,767
Income tax expense	12(a)	20,244	4,001
Net income attributable to members		$ 69,917	$ 5,766

The accompanying notes form an integral part of these consolidated financial statements.

Vancouver City Savings Credit Union

Consolidated Statement of Comprehensive Income
(Expressed in thousands of dollars)

Vancity

Year ended December 31, 2025, with comparative information for 2024

		2025		2024
Net income attributable to members	$	69,917	$	5,766
Other comprehensive income for the year that was or may be reclassified to the consolidated statement of income, net of tax:				
Net gains on financial assets measured at FVOCI:				
Unrealized gains (losses) arising during the year, net of tax recovery of $477 (2024 – tax of $1,461)		(2,451)		19,090
Reclassification of realized losses (gains) to the consolidated statement of income, net of tax recovery of $2,197 (2024 - tax of $80)		10,977		(19)
		8,526		19,071
Cash flow hedges:				
Effective portion of changes in fair value, net of tax of $1,094 (2024 – tax recovery of $2,823)		5,370		(19,422)
Items that will never be reclassified to the consolidated statement of income:				
Actuarial gain (loss) on pension and other retirement benefits, net of tax recovery of $1,141 (2024 - tax of $1,159)		(3,384)		5,221
Other comprehensive income for the year		10,512		4,870
Comprehensive income attributable to members	$	80,429	$	10,636

The accompanying notes form an integral part of these consolidated financial statements.

Vancouver City Savings Credit Union

Consolidated Statement of Changes in Members' Equity
(Expressed in thousands of dollars)

Year ended December 31, 2025, with comparative information for 2024

	Contributed surplus	AOCI Hedging reserve	AOCI Fair value reserve	AOCI Employee benefits	Retained earnings	Total equity
Balance as at January 1, 2024	$ 29,275	$ (1,576)	$ (20,738)	$ 18,406	$1,582,430	$1,607,797
Net income for the year	-	-	-	-	5,766	5,766
Other comprehensive income (loss) for the year, net of tax:						
Net gains on financial assets measured at FVOCI	-	-	19,071	-	-	19,071
Cash flow hedges	-	(19,422)	-	-	-	(19,422)
Actuarial gain on defined benefit pension plan	-	-	-	5,221	-	5,221
Other comprehensive income (loss) for the year	-	(19,422)	19,071	5,221	-	4,870
Total comprehensive income (loss) for the year	-	(19,422)	19,071	5,221	5,766	10,636
Balance as at December 31, 2024	$ 29,275	$ (20,998)	$ (1,667)	$ 23,627	$ 1,588,196	$1,618,433
Net income for the year	$ -	$ -	$ -	$ -	$ 69,917	$ 69,917
Other comprehensive income (loss) for the year, net of tax:						
Net gains on financial assets measured at FVOCI	-	-	8,526	-	-	8,526
Cash flow hedges	-	5,370	-	-	-	5,370
Actuarial loss on defined benefit pension plan	-	-	-	(3,384)	-	(3,384)
Other comprehensive income (loss) for the year	-	5,370	8,526	(3,384)	-	10,512
Total comprehensive income (loss) for the year	-	5,370	8,526	(3,384)	69,917	80,429
Impact of business combination (note 2)	43,293	-	-	-	-	43,293
Balance as at December 31, 2025	$ 72,568	$ (15,628)	$ 6,859	$ 20,243	$ 1,658,113	$1,742,155

The accompanying notes form an integral part of these consolidated financial statements.

Vancouver City Savings Credit Union

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Vancity

Year ended December 31, 2025, with comparative information for 2024

	2025	2024
Cash provided by (used in):		
Cash flows from operating activities:		
Net income	$ 69,917	$ 5,766
Items not involving cash:		
Net interest income	(527,642)	(381,868)
Impairment expense on financial instruments	32,357	16,579
Amortization, depreciation and impairment	33,485	34,853
Loss (gain) on sale of premises and equipment	260	(4,643)
Gain on sale of investment property	-	(4,565)
Net gain on financial instruments	(8,335)	(4,849)
Income tax expense	20,244	4,001
	(379,714)	(334,726)
Changes in non-cash operating working capital:		
Derivative instruments	(42,463)	(1,735)
Interest bearing deposits with financial institutions	(182,557)	(22,500)
Loans and advances to members	(1,021,033)	29,640
Other assets	(10,509)	(11,283)
Deposits from members	1,461,803	(332,013)
Accounts payable and accrued liabilities	55,286	(69,260)
Retirement benefit obligation	4,016	3,523
Other liabilities	2,117	13
	(113,054)	(738,341)
Interest received	1,216,412	1,271,937
Interest paid	(749,837)	(878,318)
Income tax refund received (taxes paid)	(32,917)	12,749
Net cash provided by (used in) operating activities	320,604	(331,973)
Cash flows from investing activities:		
Cash acquired on business combination	19,357	-
Acquisition of financial investments	(10,144,426)	(4,260,339)
Proceeds from sale and redemption of financial investments	8,944,617	4,675,652
Purchase of premises and equipment	(16,506)	(5,434)
Proceeds from the sale of premises and equipment	30	6,830
Purchase of intangibles	(9,222)	(1,538)
Proceeds from the sale of intangibles	281	-
Proceeds from the sale of investment property	-	7,303
Net cash provided by (used in) investing activities	(1,205,869)	422,474
Cash flows from financing activities:		
Issuance of investment shares	2,152	2,629
Redemption of investment shares	(5,005)	(5,519)
Proceeds from issue of secured borrowings	4,054,229	871,608
Repayment of secured borrowings	(3,390,053)	(851,474)
Proceeds from wholesale borrowings	4,037,813	4,184,915
Repayment of wholesale borrowings	(3,783,775)	(4,348,399)
Repayment of lease liabilities	(11,873)	(11,754)
Net cash provided by (used in) financing activities	903,488	(157,994)

(Expressed in thousands of dollars)

	2025	2024
Increase (decrease) in cash and cash equivalents	$ 18,223	$ (67,493)
Cash and cash equivalents, beginning of the year	136,034	203,527
Cash and cash equivalents, end of the year	$ 154,257	$ 136,034
Cash and cash equivalents are comprised of:		
Cash	$ 147,574	$ 130,388
Cash equivalents	6,683	5,646
	$ 154,257	$ 136,034

The accompanying notes form an integral part of these consolidated financial statements.

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1. General information

Vancouver City Savings Credit Union ("VCS") is incorporated under the *Credit Union Incorporation Act* of British Columbia and its operations are subject to the *Financial Institutions Act of British Columbia* ("FIA"). VCS is a member-owned, community-based, full-service financial institution with branches in Metro Vancouver and Squamish, the Fraser Valley, the Sunshine Coast, the Vancouver and Gulf Islands and Alert Bay. VCS's primary lines of business include retail and business banking (deposit-taking and lending), commercial lending, and investment and advisory services. Vancity Community Investment Bank (the "Bank"), a wholly-owned subsidiary of VCS, is federally incorporated and its operations are regulated by the Office of the Superintendent of Financial Institutions ("OSFI"). The Bank serves customers across Canada with its main operations in British Columbia and Ontario. The Bank's primary lines of business include business banking (deposit-taking and lending), Visa credit card and prepaid card services.

These consolidated financial statements as at and for the year ended December 31, 2025 comprise VCS and its subsidiaries (hereinafter together referred to as "Vancity"). Operating on the territories of the Coast Salish and Kwakwaka'wakw people and headquartered on the lands belonging to the Musqueam, Squamish and Tsleil-Waututh Nations in Vancouver, British Columbia ("B.C."), Vancity is domiciled in Canada, and its registered office is 183 Terminal Avenue, Vancouver, B.C.

These consolidated financial statements were approved for issue by the Board of Directors (the "Board") on March 30, 2026.

2. Business combination

On June 23, 2025, Vancity and First Credit Union ("FCU") submitted an application for consent to merge the respective credit unions to the BC Financial Services Authority ("BCFSA"). The merger transaction was structured as an asset transfer under Section 16 of the Credit Union Incorporation Act of British Columbia, whereby Vancity would acquire all of the assets and assume all of the liabilities of FCU. On September 25, 2025, consent was issued by BCFSA and between November 12 and 18, 2025, FCU members voted on and approved the Asset Transfer Agreement.

On December 1, 2025 (the "acquisition date"), Vancity and FCU created a combined entity that will deliver enhanced member value, expanded services, and an even greater positive impact on communities.

On the acquisition date, one Class B membership share of Vancity was exchanged for each fully paid Class A membership equity share of FCU. Following the merger, each member is required to have five Class B membership shares. On the acquisition date, the fair values of the assets and liabilities of FCU were determined on the basis set out below.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

Vancity

2. Business combination (continued)

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition:

December 1, 2025	Valuation technique		FCU
Cash and cash equivalents	Discounted cash flow	$	19,357
Interest bearing deposits with financial institutions	Discounted cash flow		16
Financial investments	Quoted market price		56,103
Loans and advances to members	Discounted cash flow		583,428
Premises, equipment and right-of-use assets	Appraisals and discounted cash flow		7,932
Core deposit intangible asset	Cost savings approach		4,790
Deferred tax assets	Asset-liability method		241
Other assets	Discounted cash flow		10,316
Total assets acquired		$	682,183
Deposits from members	Discounted cash flow	$	605,209
Secured borrowings	Discounted cash flow		28,277
Accounts payable and accrued liabilities	Discounted cash flow		3,250
Current tax liabilities	Asset-liability method		686
Lease liabilities	Discounted cash flow		875
Total liabilities assumed		$	638,297
Total identifiable net assets acquired		$	43,886
Member shares issued on acquisition			593
Contributed surplus on acquisition		$	43,293

The following valuation methodologies were used for measuring the fair value of assets acquired and liabilities assumed:

- *Discounted cash flow*: Present value of expected future cash flows, discounted using market or risk-adjusted rates.
- *Quoted market price*: Fair values based on quoted prices in active markets.
- *Appraisal and cost approach*: Fair value of buildings and land based on independent appraisals with depreciated replacement cost used for other equipment.
- *Cost savings approach*: Discounted cash flow derived as the spread between servicing core deposits acquired and the cost of an alternative funding source.
- *Asset-liability method*: Based on the tax-effected expected reversal of temporary differences.

2. Business combination (continued)

The estimated net assets acquired of $43,886 from FCU, less $593 in member shares issued, comprise the balance of contributed surplus as of December 1, 2025 on the consolidated statement of changes in members' equity. The business combination was accounted for using the acquisition method under IFRS 3, Business Combinations ("IFRS 3"), with Vancity acquiring 100% of the net assets of FCU. Management judgment was required in the determination of the acquirer in accordance with IFRS 3 and IFRS 10, Consolidated Financial Statements ("IFRS 10"). The fair value of the net assets acquired were subsequently measured in accordance with the accounting policies disclosed in note 4.

For the one month ended December 31, 2025, FCU contributed $1,867 in net interest income and net loss of $102 to Vancity's results. The amounts of net interest income and net income reported in the consolidated statement of income for the year ended December 31, 2025 reflect the combined entity after the acquisition date.

In 2025, Vancity incurred $4,246 related to acquisition and ongoing integration efforts for this merger (2024 - nil). These costs were recognized under general and administrative in the consolidated statement of income.

3. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB") and as required by the FIA. Vancity has consistently applied the accounting policies set out in note 4 below to all periods presented in these consolidated financial statements, except if mentioned otherwise.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- financial investments at fair value through profit or loss ("FVTPL") and derivative financial instruments, which are measured at fair value;
- financial investments at fair value through other comprehensive income ("FVOCI") and derivative financial instruments measured at fair value for the effective portion of changes in fair value; and
- the retirement benefit obligation, which is measured at the net of the fair value of the plan assets and the present value of the defined benefit obligation, plus or minus unrecognized actuarial gains or losses, less unrecognized past service costs and unrecognized actuarial losses.

3. Basis of presentation (continued)

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is Vancity's functional currency.

(d) Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information on significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 6.

4. Material accounting policy information

(a) Basis of consolidation

These consolidated financial statements include the assets, liabilities and the results of operations and cash flows of Vancity. The active subsidiaries are Vancity Community Investment Bank, Citizens Trust Company, CoPower Inc., CoPower Finance Inc., Vancity Capital Corporation, Vancity Life Insurance Services Ltd., SCU Insurance Services Ltd., Vancity Investment Management Ltd. ("VCIM"), First Wealth Management Ltd., and First Group of Companies Realty Holdings Ltd. All inter-entity transactions and balances have been eliminated in preparing these consolidated financial statements.

Subsidiaries are entities controlled by VCS. The following circumstances may indicate a relationship in which, in substance, VCS controls the entity:

- VCS has power over the entity whereby VCS has the ability to direct the relevant activities (*i.e.*, the activities that affect the entity's returns);
- VCS is exposed, or has rights, to variable returns from its involvement with the entity; and
- VCS has the ability to use its power over the entity to affect the amount of the entity's returns.

An entity is consolidated if VCS concludes that it controls the entity. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements have been prepared using uniform accounting policies across all subsidiaries for like transactions and other events in similar circumstances.

4. Material accounting policy information (continued)

(b) Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars, which is Vancity's functional currency, at the spot exchange rate on the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies on the reporting date are re-translated into Canadian dollars at the spot exchange rate on that date.

Foreign currency differences arising on translation are recognized in the consolidated statement of income, except for differences arising on the translation of qualifying cash flow hedges or equity instruments measured at FVOCI, which are recognized in other comprehensive income ("OCI"). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate on the date of the transaction.

(c) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the original date of acquisition, including cash on hand, cheques and other items in transit. Cash is carried at amortized cost in the consolidated statement of financial position.

(d) Financial instruments

(*i*) Recognition, classification and measurement

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, FVOCI, or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost consist of loans and advances to members, securities issued or guaranteed by the federal and provincial government, other securities, and other financial assets such as accounts receivable.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4. Material accounting policy information (continued)

(d) Financial instruments (continued)

(*i*) Recognition, classification and measurement (continued)

On initial recognition of an equity instrument that is not held for trading, Vancity may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Financial assets designated at FVOCI consist of Central 1 shares and other equity, and corporate bonds, as well as securities issued or guaranteed by the federal and provincial government.

All financial assets not measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition Vancity may irrevocably elect to measure financial assets that otherwise meet the requirements to be measured at amortized cost or at FVOCI as at FVTPL when doing so results in more relevant information. Financial assets classified as measured at FVTPL consist of investments in private equity funds and derivative assets.

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, Vancity may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities, or financial assets and financial liabilities, is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

Financial liabilities measured at amortized cost consist of deposits, borrowings, lease liabilities and other financial liabilities such as accounts payable. Financial liabilities classified as measured at FVTPL consist of derivative liabilities.

For financial assets classified as measured at FVTPL, or designated at FVTPL, changes in fair value are recognized in the consolidated statement of income. For financial assets classified as measured at FVOCI, or an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive income. For debt securities measured at FVOCI, gains and losses on disposal and impairment losses (recoveries) are recorded in the consolidated statement of income. For equity securities designated at FVOCI, gains or losses on these instruments will never be recognized in profit or loss.

4. Material accounting policy information (continued)

(d) Financial instruments (continued)

(*i*) Recognition, classification and measurement (continued)

For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense are calculated using the effective interest method and are recognized in the consolidated statement of income.

Business model assessment

Vancity makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and the expectations about future sale activity.

Contractual cash flow characteristics assessment

In assessing whether the contractual cash flows are solely payments of principal and interest, ‘principal’ is defined as the fair value of the financial asset on initial recognition and ‘interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

Vancity considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

(*ii*) Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after Vancity changes its business model for managing those assets.

4. Material accounting policy information (continued)

(d) Financial instruments (continued)

(*iii*) Impairment

The expected credit loss ("ECL") model applies to amortized cost financial assets, debt instruments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

Loss allowances are measured on either of the following bases:

- 12-month ECL (Stage 1): these are expected losses that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECL (Stage 2 and 3): these are expected losses that result from all possible default events over the expected life of a financial instrument.

Stage 2 comprises assets which have shown a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. Stage 3 comprises credit-impaired assets that have shown objective evidence of impairment at the reporting date.

ECL is measured as 12-month ECL unless the credit risk on a financial instrument has increased significantly since initial recognition, the financial instrument is credit-impaired at initial recognition, or constitutes trade and lease receivables, for which Vancity has elected to take the simplified approach by using lifetime ECL to measure the loss allowance.

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk ("SICR") considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, management judgment, delinquency, risk ratings and monitoring. The importance and relevance of each specific macroeconomic factor depends on the portfolio, characteristics of the financial instruments, and the borrower's credit profile. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

In determining the amount of loss allowance for ECLs to recognize, Vancity assesses at each reporting date whether there has been a SICR for a financial asset. In assessing whether a SICR has occurred, Vancity considers quantitative factors, qualitative factors and a rebuttable presumption.

A SICR is considered to have occurred when any of three conditions are met. The conditions include a change in the probability of default in excess of predetermined thresholds which would move the loan to Stage 2, the backstop criterion for the portfolio has been met which would move the loan to Stage 2 or 3, or other portfolio specific considerations which would move the loan to Stage 2 or 3.

4. Material accounting policy information (continued)

(d) Financial instruments (continued)

(*iii*) Impairment (continued)

Assessment of significant increase in credit risk (continued)

The predetermined thresholds are specific to each portfolio and the initial credit quality of the account. Generally, accounts with higher credit quality would require relatively larger changes in the probability of default to trigger a SICR, while lower credit quality accounts would require relatively smaller changes to trigger a SICR.

For all loans and advances to members, the Stage 2 backstop criterion is met when an account is 30 or more days in arrears and will be transferred to Stage 2.

For all loans and advances, the Stage 3 backstop criterion is met when an account is 90 or more days in arrears.

Loans and advances to members are assessed and measured on a collective basis in groups of financial assets that share credit risk characteristics. For this purpose, Vancity has grouped its financial assets into product types on the basis of shared credit risk characteristics for each component of the ECL calculation.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short- and long-term, including periods of adverse changes in the economic or business environment.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default (“PD”), loss given default (“LGD”), and exposure at default (“EAD”).

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The LGD is an estimate of the amount that may not be recovered in the event of default. The EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions, where appropriate.

4. Material accounting policy information (continued)

(d) Financial instruments (continued)

(iii) Impairment (continued)

Probability of default

To calculate the 12-month (Stage 1) PDs (except for the Visa portfolio), the number of performing loans is counted at the beginning of the year and monitored throughout the year. At the end of the reporting period, the number of defaults during the year is divided by the total number of loans within the set. Any loan that originated during the course of the year will be considered in the subsequent year's calculation of 12-month PDs. Lastly, the calculated PDs are refined to consider the cure rate, which is the rate at which members that default correct themselves. Any loan that defaulted during the year but is no longer delinquent at the end of the year is considered cured.

The Visa portfolio uses a roll rate methodology that estimates the percentage of credit card users who are in different stages of delinquency on their accounts. The difference of the roll rate methodology from the 12-month PD calculation is the use of dollar amounts rather than counts.

The Stage 2 PD is a lifetime PD based on the average life of the asset.

Loss given default

The LGD reflects Vancity's estimate of cash shortfalls in the event of default. The LGD input to the ECL calculation for Stage 1 and Stage 2 financial assets is estimated to be equal. The LGD input, expressed as a percentage of EAD, is primarily estimated based on the shortfall in the current collateral values of the financial assets compared to the current book value of the financial asset discounted for the time to obtain and collect on the collateral upon default and the estimated costs to obtain and collect on the collateral.

Forward-looking information and macroeconomic factors

The forward-looking information ("FLI") component of the ECL calculation represents management's estimate of the impacts of FLI and forecasts of macroeconomic conditions to Vancity's ECL. In determining the FLI input to the ECL calculation, Vancity identifies macroeconomic factors that are deemed to be applicable to various loan portfolios. Vancity runs a regression analysis against each product type to determine which macroeconomic factors will be applied in determining FLI. Vancity uses forecasts for multiple external sources and management applies a probability-weighted factor for each of the macroeconomic scenarios.

Exposure at default

The EAD is an estimate of a loan exposure amount at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and payments of interest, prepayments, expected drawdowns on committed facilities or any other terms that may alter the cash flow characteristics of the loan or lease receivable.

4. Material accounting policy information (continued)

(d) Financial instruments (continued)

(iii) Impairment (continued)

Exposure at default (continued)

The starting point for determining EAD is the amortization schedule (principal and interest payments) of each loan within the portfolio as set out in the contractual terms of the financial asset. The EAD is adjusted by the expected prepayments (partial or full) prior to maturity on a portfolio basis. For lines of credit, the EAD is determined based on Vancity's expectations of renewals, drawdowns and repayments on the outstanding loan commitments on a portfolio basis.

Credit-impaired and restructured financial assets

At each reporting date, Vancity assesses whether financial assets measured at amortized cost or FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

When identifying loans and advances to members that are credit-impaired for which the loss allowance for ECLs is calculated individually, as the difference between the gross carrying amount of the financial assets and the present value of estimated future cash flows, Vancity determines whether indicators of a borrower's unlikeliness to pay exist.

In addition to qualitative considerations, Vancity applies quantitative thresholds for identifying loans and advances to members that are credit-impaired. The quantitative threshold for all loans and advances to members is 90 days past due to be considered credit-impaired. Accounts that have exceeded the quantitative threshold will be transferred to Stage 3.

If the terms of a financial asset are renegotiated or modified, or a financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and how ECL is measured. If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow of the existing asset at the time of its derecognition.

4. Material accounting policy information (continued)

(d) Financial instruments (continued)

(*iii*) Impairment (continued)

Cash and cash equivalents and investments

Vancity is required to recognize a loss allowance for ECLs on cash and cash equivalents and interest-bearing deposits with financial institutions measured at amortized cost and financial investments measured at FVOCI at each reporting date. The 12-month ECLs for Stage 1 financial assets and lifetime ECLs for Stage 2 financial assets are primarily based on the instrument's credit rating and historical data of recoveries on similar instruments that have defaulted in the past.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For financial assets measured at FVOCI, the loss allowance is recognized in OCI instead of reducing the carrying amount of the asset. For assets that include both a drawn and an undrawn component, and Vancity cannot identify the ECL on the undrawn component separately from the drawn component, the combined loss allowance for both components is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Definition of default and write-off policy

Vancity considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated.

This includes events such as material breaches of covenants, significant financial difficulty of the borrower, or the deterioration of the instrument's security. Vancity considers that default has occurred and classifies the instrument as impaired when it is more than 90-days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

Vancity writes off an impaired financial asset and the related impairment allowance, either partially or in full, when there is no realistic prospect of recovery.

(*iv*) Derecognition of financial instruments

Vancity derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which Vancity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

4. Material accounting policy information (continued)

(d) Financial instruments (continued)

(*iv*) Derecognition of financial instruments

Vancity derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. Vancity also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

When Vancity sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (repurchase obligation), the consideration received is accounted for in borrowings, and the underlying asset continues to be recognized in the financial statements.

Vancity periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities, such as programs sponsored by Canada Mortgage and Housing Corporation that issue bonds to third party investors.

Vancity also securitizes insured residential mortgages by participating in the National Housing Act mortgage-backed securities ("MBS") program. Through the program, Vancity issues securities backed by residential mortgages that are insured against the borrower's default. Once the mortgages are securitized, Vancity may periodically transfer these MBS to Canada Housing Trust under the Canada Mortgage Bonds ("CMB") Program or other MBS third party investor programs.

Vancity reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether Vancity's rights to contractual cash flows have expired or transferred or whether an obligation has been undertaken by Vancity to pay the cash flows collected on the underlying transferred assets over to a third party. An assessment is also made to determine whether substantially all the risks and rewards of ownership have been transferred.

In instances where Vancity's securitizations and other transfers of receivables do not result in a transfer of contractual cash flows of the receivables or an assumption of an obligation to pay the cash flows of the receivable to a transferee, Vancity has not derecognized the transferred receivables and has instead recorded a secured borrowing with respect to any consideration received.

Securitization Retained Interest and Servicing Liability

For certain securitization transactions that qualify for derecognition, Vancity has a continuing involvement in the securitized asset that is limited to retained rights in future excess interest and the liability associated with servicing these assets. As required under IFRS, this retained interest is classified at amortized cost. During the term of the securitization as cash is received for the underlying loans, the retained interest and servicing liability are amortized and recognized on the consolidated statement of income.

4. Material accounting policy information (continued)

(d) Financial instruments (continued)

(*v*) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts with the same counterparty and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(e) Derivative instruments and hedge accounting

Derivative instruments are financial contracts whose value changes in response to a change in a specified interest rate, exchange rate or other variable, provided in the case of a non-financial variable, the variable is not specific to a party to the contract. Derivative contracts usually have no initial net investment or a net investment which would be smaller than a non-derivative contract and are settled at a future date. Derivatives are initially recognized at fair value on the date which a derivative contract is entered into. They are subsequently re-measured at their fair value and reported as assets where they have a positive fair value or as liabilities where they have a negative fair value.

Derivatives may also be embedded in other financial instruments and are treated as separate derivatives when (*i*) their economic characteristics and risks are not closely related to those of the host contract; (*ii*) a separate instrument with the same terms would meet the definition of a derivative instrument; and (*iii*) the host contract is not designated as FVTPL or classified as FVTPL. Changes in fair value on derivative instruments not qualifying for hedge accounting are recognized in interest income or expense as appropriate in the consolidated statement of income.

Vancity has classified embedded derivatives related to index-linked term deposits as FVTPL. Vancity has presented these separable embedded derivative liabilities together with the host term deposits on the basis that the term deposits and the embedded options are subject to the same contract.

Vancity designates derivatives as either hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecast transaction (cash flow hedges), or hedges of the change in fair value of recognized assets or liabilities or firm commitments (fair value hedges), or FVTPL derivatives in instances where the derivative does not qualify or has not been designated as a hedge in a hedge accounting relationship. Vancity periodically uses derivatives for economic hedging purposes to mitigate an identified financial instrument risk.

When applicable, Vancity discloses a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur.

IFRS 9 *Financial Instruments* includes an accounting policy choice to retain IAS 39, *Financial Instruments: Recognition and Measurement* for hedge accounting requirements until an amended standard is effective. Vancity has elected to continue applying hedge accounting under IAS 39.

4. Material accounting policy information (continued)

(e) Derivative instruments and hedge accounting (continued)

Vancity mitigates the credit risk of derivatives by entering into master netting agreements and holding collateral in the form of cash and marketable securities. Derivative transactions are transacted on exchanges, with central clearing counterparties or entered into under International Swaps and Derivatives Association ("ISDA") master netting agreements. In general, under these agreements, in certain circumstances - e.g., when a credit event such as a default occurs - all outstanding transactions under the agreement with the counterparty are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions with the counterparty.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of Vancity or the counterparties or following other predetermined events. In addition, Vancity and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Cash flow hedges

Vancity uses hedge accounting for derivatives designated as cash flow hedges provided certain criteria are met. Vancity documents, at the inception of the relationship, the relationship between hedged items and hedging instruments, as well as identifying the risk being hedged and its risk management objective and strategy for undertaking various hedge transactions. Vancity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the cash flows of the hedged items that are attributable to the risk being hedged.

The effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recognized in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in other income in the consolidated statement of income. Amounts accumulated in hedging reserve are reclassified to the consolidated statement of income in the periods when the hedged item affects net income. When a hedging instrument is sold, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting ceases and any cumulative gain or loss existing in members' equity at that time remains in members' equity and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of income.

Fair value hedges

Fair value hedges modify exposure to changes in a fixed rate instrument's fair value caused by changes in interest rates. These hedges economically convert fixed rate assets and liabilities to floating rate. Interest rate swaps are used to hedge interest rate risk. A derivative is used to measure the hedge risk of the hedged instrument. It matches the critical terms of the hedged items identically, and it offsets the hedged cash flow. To the extent that the change in the fair value of the derivative does not offset changes in the fair value of the hedged item for the risk being hedged, the ineffective portion is recorded directly in the consolidated statement of income.

4. Material accounting policy information (continued)

(f) Interest income and expense

Interest income and expense for all interest-bearing financial instruments is recognized within interest income and interest expense in the consolidated statement of income using the effective interest method. The effective interest method is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the gross carrying amount of the financial asset or the amortized cost of the financial liability. When calculating the effective interest rate, Vancity estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation of the effective interest method includes all transaction costs and fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Mortgage prepayment fees are recognized in interest income over the expected remaining term of the original mortgage using the effective interest method. Commitment fees are considered to be adjustments to loan yield and are deferred and amortized to interest income over the expected term of the loans. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expenses presented in the consolidated statement of income include:

(*i*) interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis;

(*ii*) investment securities measured at FVOCI calculated on an effective interest basis;

(*iii*) the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income / expense;

(*iv*) the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows when the forecast cash flows of the hedged item are no longer probable (as a release from accumulated other comprehensive income (“AOCI”));

(*v*) fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk;

(*vi*) gains or losses on economic interest income on lease; and

(*vii*) interest on investment securities measured at FVTPL.

4. Material accounting policy information (continued)

(g) Fee and commission income and expense

The accounting treatment for loan fees varies depending on the transaction. Loan fees that are considered to be an integral part of the effective interest method are capitalized within loans and advances to members and amortized into interest income over the expected life of the loan, as described in note 4(f).

Loan fees that are not an integral part of the effective interest method are recorded in fee and commission income. These fees include loan discharge fees, administration fees and loan syndication fees. Loan discharge and administration fees are recognized when the loan transaction is complete. Loan syndication fees are recognized when the syndication is completed and Vancity has retained no part of the package for itself or, if part has been retained, it bears the same effective interest as other participants.

Credit card and prepaid card fees primarily consist of load fees, interchange fees, maintenance fees and annual membership fees. Vancity recognizes revenues over time for providing access over a contractual period and recognizes revenues at a point in time for transactional services performed.

Account service fees, which may be fixed or variable, relate to fees charged to personal and business members for processing transactions on the member's bank account. Vancity recognizes these revenues at a point in time when the related services are performed.

Trust and investment fees consist primarily of investment management fees, which are variable fees charged to personal and business members for providing wealth management services. Vancity recognizes revenues over time as the performance obligation is satisfied as time passes.

Other fee and commission income, including foreign exchange and insurance broker commissions and fees, is recognized as the related services are performed.

Fee and commission expense primarily relate to transaction and service fees, which are expensed as the service is received.

(h) Premises and equipment

(*i*) Recognition and measurement

All premises and equipment used by Vancity are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

(*ii*) Subsequent costs

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Vancity and the cost of the item can be measured reliably.

All other repair and maintenance costs are charged to general and administrative expenses during the financial period in which they are incurred.

4. Material accounting policy information (continued)

(h) Premises and equipment (continued)

(*iii*) Depreciation

Land is carried at cost and is not depreciated. Asset classes are further categorized for depreciation where significant differences in the estimated useful life of the various components of individually significant assets are identified. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset	Rate
Buildings	20 to 40 years
Leasehold improvements	5 to 10 years
Computer equipment	3 to 7 years
Furniture and fixtures	5 to 10 years

The residual values and useful lives of premises and equipment are reviewed, and adjusted if appropriate, at each financial reporting date.

(*iv*) Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in other income in the consolidated statement of income.

(i) Intangibles

(*i*) Computer software

Computer software costs are capitalized when the future economic benefit is expected to exceed a period of one year. Otherwise, software costs are expensed when incurred. Capitalized software costs are initially recognized at cost and amortized using the straight-line method over the expected useful life. The expected useful life ranges from 3 to 15 years. Amortization expense is recognized in the consolidated statement of income as part of occupancy and equipment expense. Computer software is assessed for impairment when impairment indicators are identified.

4. Material accounting policy information (continued)

(i) Intangibles

(ii) Core deposit asset

The core deposit intangible asset was acquired through business combination. The core deposit asset is amortized on a straight-line basis over its estimated useful life of 10 years and amortization expense is recognized in the consolidated statement of income.

(j) Leases

At inception of a contract, Vancity assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract allows the right to control the use of an identified asset in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, Vancity allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Vancity recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Vancity's incremental borrowing rate. Generally, Vancity uses its incremental borrowing rate as the discount rate.

4. Material accounting policy information (continued)

(j) Leases (continued)

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that Vancity is reasonably certain to exercise, lease payments in an optional renewal period if Vancity is reasonably certain to exercise an extension option, and penalties for early termination unless Vancity is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Vancity's estimate of the amount expected to be payable under a residual value guarantee or if Vancity changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to nil.

(k) Income taxes

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in members' equity or in OCI.

(*i*) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

4. Material accounting policy information (continued)

(k) Income taxes (continued)

(*ii*) Deferred tax

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Employee benefits

Vancity operates various post-retirement benefit plans. The plans are generally funded through contributions to trustee-administered funds determined by periodic actuarial calculations. Vancity has both defined benefit and defined contribution plans.

(*i*) Defined benefit plans

A defined benefit plan is a post-retirement benefit plan that defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. Vancity has one defined benefit pension plan that is registered with OSFI and regulated under the *Federal Pension Benefit Standards Act*, *1985* and one defined benefit plan that is registered with the Canada Revenue Agency and the British Columbia Financial Services Authority and regulated under the *British Columbia Pension Benefits Standards Act*. Vancity's other defined benefit plans are unregistered arrangements.

The retirement benefit obligation recognized in Vancity's consolidated statement of financial position in respect of its defined benefit plans is the present value of the defined benefit obligation at the financial reporting date less the fair value of plan assets and the effect of the asset ceiling (if any).

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability.

4. Material accounting policy information (continued)

(l) Employee benefits (continued)

(i) Defined benefit plans (continued)

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plans assets and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. Net interest expense and other expenses related to defined benefit plans are recognized in the consolidated statement of income.

(ii) Defined contribution plans

For defined contribution plans, Vancity pays a specified flat rate for employer contributions. Vancity has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12-months after the end of the period in which the employees render the service are discounted to their present value.

(iii) Participation in multi-employer plans (the “Plan”)

Vancity provides retirement benefits to certain employees through a multi-employer plan administered by Credit Union Pension & Benefits Trust. Each member credit union is exposed to the actuarial risks of the other employers. Vancity’s participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis.

(m) Provisions

A provision is recognized if, as a result of a past event, Vancity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Distribution to members

Dividends are expensed when declared and classified as distribution to community and members in the consolidated statement of income.

(o) Shares

Membership, investment, and savings shares do not meet the definition of equity as they contain contractual obligations to deliver cash. These shares are classified as financial liabilities and are included in deposits on the statement of financial position.

5. Future changes in accounting policy

As at December 31, 2025, the following standards and amendments to standards had been issued by IASB but were not yet effective for these consolidated financial statements.

(a) Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure in Financial Statements* (IFRS 18), which replaces the guidance in IAS 1, *Presentation of Financial Statements* and sets out requirements for presentation and disclosure of information, focusing on providing relevant information to users of the financial statements. IFRS 18 introduces changes to the structure of the consolidated statement of operations, aggregation and disaggregation of financial information, and management-defined performance measures to be disclosed in the notes to the financial statements. The standard will be effective for Vancity on January 1, 2027. Vancity is currently assessing the impact of adopting this standard.

(b) Amendments to the Classification and Measurement of Financial Instruments

In May 2024, the IASB issued *Amendments to the Classification and Measurement of Financial Instruments*, which amended IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*. The amendments address matters related to the classification of financial assets and accounting for settlement by electronic payments. The amendments clarify how to assess the contractual cash flow characteristics of financial assets that include environmental, social, and governance linked features and other similar contingent features. The amendments also clarify the treatment of non-recourse assets and contractually linked instruments. Furthermore, the amendments clarify that a financial liability is derecognized on the settlement date and provide an accounting policy choice to derecognize a financial liability settled using an electronic payment system before the settlement date if certain conditions are met. Finally, the amendments introduce additional disclosure requirements for financial instruments with contingent features and equity instruments classified at FVOCI. The amendments are effective for Vancity on January 1, 2026, and Vancity has assessed the impact to be immaterial.

6. Use of estimates and judgments

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying Vancity's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

6. Use of estimates and judgments (continued)

While there is a higher level of uncertainty due to the changing macroeconomic and interest rate environments, estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets and liabilities, and most critical judgments in applying accounting policies.

(c) The principal areas where critical estimates and assumptions have been applied, are described below:

(*i*) Expected credit loss allowance

The ECL model requires the recognition of credit losses based on 12-months of expected losses for performing loans (Stage 1) and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2). Credit impaired assets requires lifetime losses (Stage 3). The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment, which requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of the ECL, Vancity must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the ECL allowance.

The calculation of ECL includes explicit incorporation of forecasted economic conditions. Vancity has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Experienced credit judgment is required to incorporate multiple probability-weighted forward-looking scenarios in the determination of the ECL allowance. The allowance is sensitive to changes in economic forecasts and the probability-weight assigned to each forward-looking scenario. Management overlays to loss allowance for ECL are adjustments which are used in circumstances where management determines that existing inputs, assumptions and model techniques do not capture all relevant risk factors. Examples of such circumstances are the emergence of new macroeconomic factors, along with expected changes to data that are not incorporated in current inputs or forward-looking information. Details of Vancity's ECL are provided in note 10 and note 25(a).

6. Use of estimates and judgments (continued)

(a) The principal areas where critical estimates and assumptions have been applied, are described below (continued):

(*ii*) Pension and other retirement benefits

The determination of expense and obligations associated with pension and other retirement benefit plans require the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with pension and other retirement benefit plans require the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results will differ from results which are estimated based on assumptions.

Vancity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, Vancity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension and other retirement benefit obligations are based in part on current market conditions. Details of Vancity's pension and other retirement benefits are provided in note 13.

(*iii*) Fair value of financial instruments

The fair value of financial instruments, where no active market exists or where quoted prices are not otherwise available, is determined by using specific valuation techniques with observable data of similar financial instruments. Where market observable data is not available, in areas such as credit risk and correlations, Vancity uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of Vancity's financial investments are provided in notes 7 and 28.

(*iv*) Securitizations

In applying its policies on securitized financial assets, Vancity has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by Vancity over the other entity. Details of Vancity's securitization activities are provided in note 17(a).

(Amounts expressed in thousands of dollars, unless otherwise indicated)

7. Financial investments

An analysis of the fair value of financial investments is as follows:

	2025		2024	
	Effective yield	Total fair value	Effective yield	Total fair value
Financial investments classified as FVOCI:				
Securities issued or guaranteed by the Canadian federal and provincial government	3.28%	$ 3,451,373	2.06%	$ 512,150
Financial investments designated as FVOCI:				
Central 1 shares	n/a	7,631	n/a	7,669
Other equity	n/a	511	n/a	390
Other securities	4.19%	7,635	4.35%	351,576
Financial investments measured at FVTPL:				
Other securities	n/a	73,635	n/a	62,041
Financial investments measured at amortized cost:				
Securities issued or guaranteed by the Canadian federal or provincial government	3.14%	1,045,601	3.67%	2,377,305
Non-government securities	n/a	-	4.53%	7,658
Accrued interest		23,138		20,011
Total financial investments		$ 4,609,524		$ 3,338,800

During the year ended December 31, 2025, Vancity implemented a fair value hedge strategy (see note 8). As part of this strategy, Vancity designated a portfolio of financial instruments measured at FVOCI as hedged items.

8. Derivative instruments

The following table summarizes the notional amounts and fair values of derivative assets and liabilities:

December 31, 2025	Notional amounts			Fair values	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate swap contracts					
Cash flow hedges	$ 4,360,000	$ 3,354,000	$ 7,714,000	$ 5,985	$ 8,882
Fair value hedges	-	2,564,300	2,564,300	15,086	2,699
Economic hedges	498,000	-	498,000	-	12
Interest rate bond forwards	301,540	-	301,540	-	486
Foreign exchange forward contracts	25,527	-	25,527	201	30
Equity linked options	4,434	22,697	27,131	3,523	-
Total derivative contracts	5,189,501	5,940,997	11,130,498	24,795	12,109
Amounts subject to master netting agreements				(10,925)	(10,925)
Net exposure on derivatives				$ 13,870	$ 1,184

(Amounts expressed in thousands of dollars, unless otherwise indicated)

8. Derivative instruments (continued)

December 31, 2024	Notional amounts			Fair values	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate swap contracts Cash flow hedges	$ 2,217,000	$ 1,555,500	$ 3,772,500	$ 4,570	$ 36,480
Foreign exchange forward contracts	20,156	-	20,156	130	601
Equity linked options	5,305	11,279	16,584	2,289	-
Total derivative contracts	2,242,461	1,566,779	3,809,240	6,989	37,081
Amounts subject to master netting agreements				(6,860)	(6,860)
Net exposure on derivatives				$ 129	$ 30,221

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.

The carrying amount of hedged items recognized on the statement of financial position was $10.2 billion (2024 - $7.6 billion) related to cash flow hedges and $2.6 billion (2024 – nil) related to fair value hedges.

Vancity is subject to master netting agreements in the form of International Swaps and Derivatives Association agreements with derivative counterparties.

Vancity uses derivative financial instruments primarily to manage exposure to interest rate and fair value risk.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statement of income. For the year ended December 31, 2025, the ineffective portion of changes in the fair value of the derivative recognized in other income was a gain of $1.3 million (2024 - loss of $1.1 million). Further information on Vancity's interest rate risk management is provided in note 25(c)(*i*).

Fair value hedges

When a derivative is designated as a fair value hedging instrument, changes in the fair value of the derivative are recognized in the consolidated statement of income along with changes in the fair value of the item being hedged. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statement of income. For the year ended December 31, 2025, the ineffective portion of the changes in the fair value of the derivative recognized in other income was a gain of $0.7 million (2024 – nil). Further information on Vancity's interest rate risk management is provided in note 25(c)(*i*).

(Amounts expressed in thousands of dollars, unless otherwise indicated)

8. Derivative instruments (continued)

Economic hedges

From time to time, Vancity uses interest rate swaps not designated in a qualifying hedging relationship to manage its exposure to interest rate. During the year ended December 31, 2025, Vancity recognized $12 (2024 - nil) in unrealized losses from changes in the fair value of economic swaps. As at December 31, 2025, Vancity had economic swaps outstanding, which are recorded at fair value in the consolidated statement of financial position. For more information about how Vancity manages its market risks, see note 25(c).

9. Loans and advances to members

Loan balances measured at amortized cost:

	2025	2024
Retail:		
Residential mortgages	$ 17,083,871	$ 15,801,815
Personal loans	782,902	691,617
	17,866,773	16,493,432
Business:		
Commercial mortgages and loans	8,321,438	8,113,249
	$ 26,188,211	$ 24,606,681
Loans and advances to members classified as:		
Stage 1	$ 22,164,214	$ 20,971,429
Stage 2	3,876,296	3,518,589
Stage 3	147,701	116,663
	26,188,211	24,606,681
Accrued interest receivable	51,632	50,648
Less: Allowance for expected credit losses on loans and advances to members (note 10(a))	(100,363)	(90,936)
	$ 26,139,480	$ 24,566,393

At December 31, 2025, the business loan portfolio included loans of $1.5 million (2024 - nil) whose cash flows are not solely payments of principal and interest on the principal amount outstanding, and which have been accounted for as FVTPL.

At December 31, 2025, Vancity had $1,268.6 million (2024 - $1,021.8 million) of loans which had been securitized in the CMB and MBS programs and included in the consolidated statement of financial position as the securitization transactions did not meet the requirements for derecognition.

Loans that have been securitized through the CMB program and pledged as collateral for secured borrowings are disclosed in note 17(a).

(Amounts expressed in thousands of dollars, unless otherwise indicated)

10. Expected credit losses on financial instruments

(a) Reconciliation of allowance for expected credit losses

2025	Stage 1	Stage 2	Stage 3	Total
ECL on loans and advances to members - Retail:				
Balance at January 1, 2025	$ 7,933	$ 32,951	$ 6,916	$ 47,800
Net remeasurement	(7,596)	11,314	6,954	10,672
Originations	1,436	-	-	1,436
Derecognitions and maturities	(405)	(3,765)	(4,231)	(8,401)
Transfers to Stage 1	8,636	(8,506)	(130)	-
Transfers to Stage 2	(1,025)	1,560	(535)	-
Transfers to Stage 3	-	(751)	751	-
Balance at December 31, 2025	8,979	32,803	9,725	51,507
ECL on loans and advances to members - Business:				
Balance at January 1, 2025	22,569	15,502	5,065	43,136
Net remeasurement	(7,168)	7,711	9,232	9,775
Originations	4,819	-	-	4,819
Derecognitions and maturities	(2,712)	(3,169)	(2,993)	(8,874)
Transfers to Stage 1	4,236	(4,100)	(136)	-
Transfers to Stage 2	(1,045)	1,430	(385)	-
Transfers to Stage 3	(303)	(461)	764	-
Balance at December 31, 2025	20,396	16,913	11,547	48,856
Total ECL on loans and advances to members (note 9)				
Balance at December 31, 2025	29,375	49,716	21,272	100,363
ECL on other financial instruments:				
Balance at January 1, 2025	396	-	4	400
Net remeasurement	44	-	-	44
Originations	289	-	-	289
Derecognitions and maturities	(389)	-	-	(389)
Balance at December 31, 2025	340	-	4	344
Total ECL:				
Balance at January 1, 2025	30,898	48,453	11,985	91,336
Net remeasurement	(14,720)	19,025	16,186	20,491
Originations	6,544	-	-	6,544
Derecognitions and maturities	(3,506)	(6,934)	(7,224)	(17,664)
Transfers to Stage 1	12,872	(12,606)	(266)	-
Transfers to Stage 2	(2,027)	2,947	(920)	-
Transfers to Stage 3	(346)	(1,169)	1,515	-
Balance at December 31, 2025	$ 29,715	$ 49,716	$ 21,276	$ 100,707

(Amounts expressed in thousands of dollars, unless otherwise indicated)

10. Expected credit losses on financial instruments (continued)

(a) Reconciliation of allowance for expected credit losses (continued)

2024	Stage 1	Stage 2	Stage 3	Total
ECL on loans and advances to members – Retail:				
Balance at January 1, 2024	$ 7,617	$ 40,808	$ 4,902	$ 53,327
Net remeasurement	(9,116)	5,794	4,679	1,357
Originations	948	-	-	948
Derecognitions and maturities	(362)	(4,481)	(2,989)	(7,832)
Transfers to Stage 1	9,820	(9,654)	(166)	-
Transfers to Stage 2	(943)	1,283	(340)	-
Transfers to Stage 3	(31)	(799)	830	-
Balance at December 31, 2024	7,933	32,951	6,916	47,800
ECL on loans and advances to members – Business:				
Balance at January 1, 2024	23,602	9,831	3,232	36,665
Net remeasurement	(7,628)	14,030	3,843	10,245
Originations	4,969	-	-	4,969
Derecognitions and maturities	(3,649)	(2,543)	(2,551)	(8,743)
Transfers to Stage 1	6,751	(6,732)	(19)	-
Transfers to Stage 2	(1,196)	1,281	(85)	-
Transfers to Stage 3	(280)	(365)	645	-
Balance at December 31, 2024	22,569	15,502	5,065	43,136
Total ECL on loans and advances to members (note 9)				
Balance at December 31, 2024	30,502	48,453	11,981	90,936
ECL on other financial instruments:				
Balance at January 1, 2024	463	-	4	467
Net remeasurement	5	-	-	5
Originations	126	-	-	126
Derecognitions and maturities	(198)	-	-	(198)
Balance at December 31, 2024	396	-	4	400
Total ECL:				
Balance at January 1, 2024	31,682	50,639	8,138	90,459
Net remeasurement	(16,739)	19,824	8,522	11,607
Originations	6,043	-	-	6,043
Derecognitions and maturities	(4,209)	(7,024)	(5,540)	(16,773)
Transfers to Stage 1	16,571	(16,386)	(185)	-
Transfers to Stage 2	(2,139)	2,564	(425)	-
Transfers to Stage 3	(311)	(1,164)	1,475	-
Balance at December 31, 2024	$ 30,898	$ 48,453	$ 11,985	$ 91,336

(Amounts expressed in thousands of dollars, unless otherwise indicated)

10. Expected credit losses on financial instruments (continued)

(b) Impairment expense on financial instruments

	2025	2024
Total change in allowance for ECL recognized in impairment expense on financial instruments	$ 9,371	$ 877
Write-offs	26,414	19,065
Recoveries	(3,428)	(3,363)
Total impairment expense on financial instruments	$ 32,357	$ 16,579

(c) Significant changes in the gross carrying amount of loans and advances

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount of loans and advances				
Balance at January 1, 2025	$ 21,013,691	$ 3,525,680	$ 117,958	$ 24,657,329
Net repayments	(559,181)	(27,412)	(4,266)	(590,859)
Loan originations	4,466,723	-	-	4,466,723
Acquired on business combination (note 2)	583,428	-	-	583,428
Derecognitions and maturities	(2,315,043)	(470,966)	(64,355)	(2,850,364)
Write-offs	(4,874)	(12,110)	(9,430)	(26,414)
Transfers to Stage 1	1,026,177	(1,024,670)	(1,507)	-
Transfers to Stage 2	(2,004,575)	2,011,778	(7,203)	-
Transfers to Stage 3	-	(116,867)	116,867	-
Balance at December 31, 2025	$ 22,206,346	$ 3,885,433	$ 148,064	$ 26,239,843

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount of loans and advances				
Balance at January 1, 2024	$ 14,908,066	$ 9,749,074	$ 44,958	$ 24,702,098
Net repayments	(445,005)	(41,270)	(4,075)	(490,350)
Loan originations	2,721,408	-	-	2,721,408
Derecognitions and maturities	(1,373,957)	(856,061)	(26,744)	(2,256,762)
Write-offs	(4,346)	(9,652)	(5,067)	(19,065)
Transfers to Stage 1	6,408,531	(6,406,357)	(2,174)	-
Transfers to Stage 2	(1,131,258)	1,133,956	(2,698)	-
Transfers to Stage 3	(69,748)	(44,010)	113,758	-
Balance at December 31, 2024	$ 21,013,691	$ 3,525,680	$ 117,958	$ 24,657,329

(Amounts expressed in thousands of dollars, unless otherwise indicated)

11. Premises, equipment and intangibles

(a) Premises and equipment

Premises and equipment comprise owned and leased assets that do not meet the definition of investment property.

	2025	2024
Premises and equipment owned	$ 79,986	$ 69,203
Right-of-use assets (note 11(b))	38,318	42,783
	$ 118,304	$ 111,986

The movement of owned premises and equipment during the years ended December 31, 2025 and 2024 is as follows:

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
Cost:						
Balance, January 1, 2025	$ 5,884	$ 59,663	$ 48,836	$ 26,611	$ 17,934	$ 158,928
Impact of business combination (note 2)	1,441	4,615	305	524	172	7,057
Additions	-	3,793	3,770	7,010	1,643	16,216
Disposals	-	(226)	(1)	-	(63)	(290)
Balance, December 31, 2025	$ 7,325	$ 67,845	$ 52,910	$ 34,145	$ 19,686	$ 181,911
Accumulated depreciation and impairment losses:						
Balance, January 1, 2025	$ -	$ 35,453	$ 31,085	$ 12,917	$ 10,270	$ 89,725
Depreciation	-	2,755	4,089	4,033	1,613	12,490
Disposals	-	(226)	(1)	-	(63)	(290)
Balance, December 31, 2025	$ -	$ 37,982	$ 35,173	$ 16,950	$ 11,820	$ 101,925
Carrying amounts:						
Balance, December 31, 2025	$ 7,325	$ 29,863	$ 17,737	$ 17,195	$ 7,866	$ 79,986

(Amounts expressed in thousands of dollars, unless otherwise indicated)

11. Premises, equipment and intangibles (continued)

(a) Premises and equipment (continued)

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
Cost:						
Balance, January 1, 2024	$ 7,524	$ 60,755	$ 48,250	$ 26,456	$ 17,752	$ 160,737
Additions	-	1,219	685	3,194	303	5,401
Transfers	(33)	20	13	-	-	-
Disposals	(1,607)	(2,331)	(112)	(3,039)	(121)	(7,210)
Balance, December 31, 2024	$ 5,884	$ 59,663	$ 48,836	$ 26,611	$ 17,934	$ 158,928
Accumulated depreciation and impairment losses:						
Balance, January 1, 2024	$ -	$ 34,895	$ 26,728	$ 11,516	$ 8,563	$ 81,702
Depreciation	-	2,808	4,469	4,439	1,828	13,544
Impairment	-	-	-	49	-	49
Disposals	-	(2,250)	(112)	(3,087)	(121)	(5,570)
Balance, December 31, 2024	$ -	$ 35,453	$ 31,085	$ 12,917	$ 10,270	$ 89,725
Carrying amounts:						
Balance, December 31, 2024	$ 5,884	$ 24,210	$ 17,751	$ 13,694	$ 7,664	$ 69,203

(b) Right-of-use assets

Vancity leases a number of branch and office premises. These leases typically run for a period of five years, with an option to renew the lease after that date. The movement of right-of-use assets during the year ended December 31, 2025 and 2024 is as follows:

	2025	2024
Opening balance	$ 42,783	$ 43,092
Impact of business combination (note 2)	875	-
Additions to right-of-use assets	7,091	11,148
Depreciation	(11,994)	(11,457)
Derecognition – sublease	(437)	-
Ending balance	$ 38,318	$ 42,783

For the year ended December 31, 2025, Vancity received $87 (2024 - $147) of income from the sublease of right-of-use assets, which is included in other income.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

11. **Premises, equipment and intangibles (continued)**

(c) Intangibles

The movement of intangibles during the years ended December 31, 2025 and 2024 is as follows:

	Software	Core deposit asset	Other	Total
Cost:				
Balance, January 1, 2025	$ 100,806	$ –	$ 25	$ 100,831
Impact of business combination (note 2)	–	4,790	–	4,790
Additions	9,222	–	–	9,222
Disposals	(5,066)	–	–	(5,066)
Balance, December 31, 2025	$ 104,962	$ 4,790	$ 25	$ 109,777
Accumulated amortization:				
Balance, January 1, 2025	$ 57,890	$ –	$ –	$ 57,890
Amortization	8,961	40	–	9,001
Disposals	(4,785)	–	–	(4,785)
Balance. December 31, 2025	$ 62,066	$ 40	$ –	$ 62,106
Carrying amounts:				
Balance, December 31, 2025	$ 42,896	$ 4,750	$ 25	$ 47,671

	Software	Other	Total
Cost:			
Balance, January 1, 2024	$ 99,268	$ 25	$ 99,293
Additions	1,538	–	1,538
Balance, December 31, 2024	$ 100,806	$ 25	$ 100,831
Accumulated amortization and impairment losses:			
Balance, January 1, 2024	$ 48,087	$ –	$ 48,087
Amortization	9,803	–	9,803
Balance, December 31, 2024	$ 57,890	$ –	$ 57,890
Carrying amounts:			
Balance, December 31, 2024	$ 42,916	$ 25	$ 42,941

(Amounts expressed in thousands of dollars, unless otherwise indicated)

11. Premises, equipment and intangibles (continued)

(d) Lease liabilities

The expense relating to interest on lease liabilities was $1.6 million (2024 - $1.5 million) for the year ended December 31, 2025.

The following table sets out a maturity analysis of lease payments, showing the contractual undiscounted lease payments:

	2025	2024
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	$ 12,372	$ 12,307
One to five years	30,168	33,962
More than five years	2,355	3,350
Total undiscounted lease liabilities at December 31	$ 44,895	$ 49,619
Current portion of lease liabilities	$ 10,970	$ 10,840
Non-current portion of lease liabilities	30,303	34,777
Total lease liabilities at December 31	$ 41,273	$ 45,617

12. Income taxes

(a) Income tax expense

	2025	2024
Current tax expense	$ 22,872	$ 7,883
Deferred tax expense (recovery):		
Origination and reversal of temporary differences	(5,049)	(4,350)
Change in tax rate	2,421	468
	(2,628)	(3,882)
	$ 20,244	$ 4,001

(Amounts expressed in thousands of dollars, unless otherwise indicated)

12. Income taxes (continued)

(b) Reconciliation of effective tax rate

The effective tax rate of 22.5% (2024 - 41.0%) differed from the combined federal and provincial tax rate for the following reasons:

	2025	2024
Combined federal and provincial statutory tax rate	27.0%	27.0%
Credit union preferred rate reduction	(9.7)	(0.7)
Change in predicted future tax rates	2.8	13.6
Non-taxable portion of gain from sale of property	0.0	(8.9)
True-up of prior period tax expense	(0.1)	11.3
Non-taxable and other items	2.5	(1.3)
	22.5%	41.0%

(c) Deferred tax assets and liabilities

	Balance, January 1, 2025	Impact of business combination	Recognized in net income	Recognized in OCI	Balance, December 31, 2025
Deferred tax assets:					
Pensions and post-retirement benefits	$ 10,287	$ -	$ (845)	$ 1,141	$ 10,583
Contract liability	3,469	-	314	-	3,783
Lease liabilities	8,607	(149)	(1,531)	-	6,927
Allowance for expected credit losses	15,244	244	(834)	-	14,654
Other provisions	10,438	16	2,329	-	12,783
Accrued expenses	729	-	941	-	1,670
Tax loss carried forward	1,187	-	(1,132)	-	55
	49,961	111	(758)	1,141	50,455
Deferred tax liabilities:					
Premises and equipment	(5,046)	124	2,074	-	(2,848)
Right-of-use assets	(7,992)	149	1,463	-	(6,380)
Deferred expenses	(5,375)	-	(123)	-	(5,498)
Other tax liabilities	(44)	(143)	(28)	-	(215)
	(18,457)	130	3,386	-	(14,941)
Total	$ 31,504	$ 241	$ 2,628	$ 1,141	$ 35,514

(Amounts expressed in thousands of dollars, unless otherwise indicated)

12. Income taxes (continued)

(c) Deferred tax assets and liabilities (continued)

	Balance, January 1, 2024	Recognized in net income	Recognized in OCI	Balance, December 31, 2024
Deferred tax assets:				
Pensions and post-retirement benefits	$ 10,599	$ 847	$ (1,159)	$ 10,287
Contract liability	3,688	(219)	-	3,469
Lease liabilities	8,734	(127)	-	8,607
Allowance for expected credit losses	15,841	(597)	-	15,244
Other provisions	9,472	966	-	10,438
Accrued expenses	1,619	(890)	-	729
Tax loss carried forward	1,459	(272)	-	1,187
	51,412	(292)	(1,159)	49,961
Deferred tax liabilities:				
Premises and equipment	(6,623)	1,577	-	(5,046)
Right-of-use assets	(8,181)	189	-	(7,992)
Deferred expenses	(7,770)	2,395	-	(5,375)
Other tax liabilities	(57)	13	-	(44)
	(22,631)	4,174	-	(18,457)
Total	$ 28,781	$ 3,882	$ (1,159)	$ 31,504

(d) Unrecognized deferred tax assets and liabilities

At December 31, 2025, Vancity has unrecognized deferred tax liabilities for temporary differences of $36.6 million (2024 - $34.3 million) related to Vancity's investment in subsidiaries. The temporary differences were not recognized because Vancity controls these subsidiaries.

Vancity has unrecognized deferred tax assets for temporary differences of $4.4 million (2024 - $3.3 million) related to Vancity's investments in subsidiaries. The temporary differences were not recognized as part of Vancity's deferred tax assets as it is uncertain if or when the benefits will be realized.

13. Pension and other retirement benefits

Vancity provides pension benefits to employees through defined contribution, defined benefit, and 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 based on actuarially prescribed amounts. The unfunded supplemental retirement and non-pension benefits are paid directly by Vancity at the time of entitlement. Retirement benefits for multi-employer defined benefit and defined contributions plan are paid by Vancity on an annual basis.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

13. Pension and other retirement benefits (continued)

The accrued benefit obligation and plan assets of the Vancity Pension Plan were actuarially measured for accounting purposes as of December 31, 2025. An actuarial valuation report for funding purposes for the Vancity Pension Plan was prepared as at January 1, 2023. The next actuarial valuation report for funding purposes for the Vancity Pension Plan is expected to be prepared as at December 31, 2025 and be available in 2026.

The accrued benefit obligation and plan assets of the other pension plans were actuarially measured for accounting purposes as of December 31, 2025. An actuarial valuation report for funding purposes for the Vancity Senior Management Retirement Plan ("SMRP") was prepared as at December 31, 2024. The next actuarial valuation report for funding purposes for the SMRP is expected to be prepared as at December 31, 2025 and be available in 2026.

(a) Retirement benefit obligation

	Pension plans		Other benefit plans		Total	
	2025	2024	2025	2024	2025	2024
Defined benefit obligation						
Funded	$ (118,476)	$ (102,908)	$ –	$ –	$ (118,476)	$ (102,908)
Unfunded	(27,326)	(26,097)	(28,242)	(26,209)	(55,568)	(52,306)
Defined benefit obligation	(145,802)	(129,005)	(28,242)	(26,209)	(174,044)	(155,214)
Fair value of plan assets	118,109	106,679	–	–	118,109	106,679
Net retirement benefit obligation	$ (27,693)	$ (22,326)	$ (28,242)	$ (26,209)	$ (55,935)	$ (48,535)

(b) The movement in the defined benefit obligation is as follows:

	Pension plans		Other benefit plans		Total	
	2025	2024	2025	2024	2025	2024
Defined benefit obligation, January 1	$ (129,005)	$ (69,533)	$ (26,209)	$ (28,430)	$ (155,214)	$ (97,963)
Current service cost (net of employee contributions)	(11,750)	(9,854)	(1,482)	(1,638)	(13,232)	(11,492)
Past service cost (including plan amendments)	(597)	(41,429)	–	–	(597)	(41,429)
Interest cost	(6,223)	(4,861)	(1,208)	(1,295)	(7,431)	(6,156)
Employee contributions	(3,575)	(3,526)	–	–	(3,575)	(3,526)
Actuarial gains (losses) arising from:						
Experience adjustments	(5,227)	(1,976)	(305)	3,151	(5,532)	1,175
Financial assumptions	8,712	(2,621)	236	(190)	8,948	(2,811)
Demographic assumptions	(2,922)	–	(976)	–	(3,898)	–
Benefit payments	4,785	4,795	1,702	2,193	6,487	6,988
Defined benefit obligation, December 31	$ (145,802)	$ (129,005)	$ (28,242)	$ (26,209)	$ (174,044)	$ (155,214)

(Amounts expressed in thousands of dollars, unless otherwise indicated)

13. Pension and other retirement benefits (continued)

(c) Fair value of plan assets

(*i*) Movement in the fair value of plan assets is as follows:

		2025		2024
Fair value of plan assets at January 1	$	106,679	$	46,571
Interest income on plan assets		5,372		3,936
Return (loss) on plan assets, excluding interest income		(4,043)		8,016
Employer contributions		11,428		10,802
Employee contributions		3,575		3,526
Benefit payments		(4,785)		(4,795)
Transfers		597		39,271
Administration costs paid		(714)		(648)
Fair value of plan assets at December 31	$	118,109	$	106,679

(*ii*) Plan assets comprise the following:

		2025		2024
Equity securities	$	44,148	$	39,306
Pooled funds		42,848		41,359
Debt securities		29,110		24,851
Other assets		2,003		1,163
Fair value of plan assets	$	118,109	$	106,679

(d) The amounts recognized in the consolidated statement of income (loss) were as follows:

	Pension plans		Other benefit plans		Total	
	2025	2024	2025	2024	2025	2024
Current service cost	$ (11,750)	$ (9,854)	$ (1,482)	$ (1,638)	$ (13,232)	$ (11,492)
Interest cost	(6,223)	(2,721)	(1,208)	(1,295)	(7,431)	(4,016)
Interest income on plan assets	5,372	1,796	-	-	5,372	1,796
Past service cost (including plan amendments)	-	(2,158)	-	-	-	(2,158)
Administration costs	(714)	(648)	-	-	(714)	(648)
Total included in employee benefits expense (note 22)	$ (13,315)	$ (13,585)	$ (2,690)	$ (2,933)	$ (16,005)	$ (16,518)

(Amounts expressed in thousands of dollars, unless otherwise indicated)

13. Pension and other retirement benefits (continued)

(e) The amounts recognized in OCI were as follows:

	Pension plans		Other benefit plans		Total	
	2025	2024	2025	2024	2025	2024
Cumulative actuarial gains at January 1	$ 9,771	$ 6,352	$ 19,193	$ 16,232	$ 28,964	$ 22,584
Remeasurements:						
Actuarial gain (loss) in the year	563	(4,597)	(1,045)	2,961	(482)	(1,636)
Return on plan assets, excluding interest income	(4,043)	8,016	-	-	(4,043)	8,016
Cumulative actuarial gains at December 31	$ 6,291	$ 9,771	$ 18,148	$ 19,193	$ 24,439	$ 28,964

(f) The significant actuarial assumptions used were as follows:

	Vancity Pension Plan		Other pension plans		Other benefit plans	
	2025	2024	2025	2024	2025	2024
Discount rate	5.1%	4.8%	5.0%	4.7%	4.6%	4.5%
Inflation rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Future salary increases	n/a	n/a	3.0%	3.0%	n/a	n/a
Future pension increases	n/a	n/a	3.0%	3.0%	n/a	n/a
Health care cost trend	n/a	n/a	n/a	n/a	6.6%[1]	5.5%[2]

[1] 6.58% from 2026 to 2030, grading down to 3.57% from 2039 and thereafter.
[2] 5.45% from 2025 to 2029, grading down to 4.04% from 2040 and thereafter.

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. Mortality assumptions for the Vancity Pension Plan and Other Benefit Plans are based on CPM 2014 Private Sector Mortality Table with generational projection using scale CPM-B. Mortality assumptions for Other Pension Plans are based on CPM 2014 Combined Mortality Table with generational projection using scale MI-CAN-2024 (2024 - CPM-B) and pension size adjustment factors (0.83 for both male and female).

(Amounts expressed in thousands of dollars, unless otherwise indicated)

13. Pension and other retirement benefits (continued)

(f) The significant actuarial assumptions used were as follows (continued):

These tables translate into an average life expectancy in years of a pensioner retiring at age 65.

Retiring at the year-end date:

	Vancity Pension Plan	Other pension plans	Other benefit plans
Male	22 years	26 years	22 years
Female	25 years	28 years	24 years

Retiring 20 years after the year-end date:

	Vancity Pension Plan	Other pension plans	Other benefit plans
Male	23 years	28 years	23 years
Female	25 years	30 years	25 years

The interest rate sensitivity of the defined benefit obligation can be measured using duration. The duration also provides information on the maturity profile of the obligation. At December 31, 2025, the weighted average duration of the defined benefit obligation was 15 years (2024 – 14 years).

The sensitivity of the overall pension and other benefit plans liability to changes in the significant principal assumptions is:

	Vancity Pension Plan		Other pension plans		Other benefit plans	
	2025	2024	2025	2024	2025	2024
Discount rate	5.1%	4.8%	5.0%	4.7%	4.6%	4.5%
Impact of: 1% increase	$ (12,936)	$ (9,419)	$ (8,238)	$ (8,303)	$ (1,884)	$ (1,794)
1% decrease	16,935	11,078	10,366	10,373	2,166	2,063
Salary growth rate	n/a	n/a	3.0%	3.0%	n/a	n/a
Impact of: 0.25% increase	n/a	n/a	34	24	n/a	n/a
0.25% decrease	n/a	n/a	(4)	(2)	n/a	n/a
Health care cost trend rate	n/a	n/a	n/a	n/a	6.6%	5.5%
Impact of: 1% increase	n/a	n/a	n/a	n/a	40	94
1% decrease	n/a	n/a	n/a	n/a	(34)	(107)

The results shown in the sensitivity tables were determined by recalculating the defined benefit obligation but only changing the assumption for which the sensitivity is required and then calculating the difference between the recalculated obligation and the actual obligation. There have been no changes from the previous period to the methods or assumptions used in preparing the sensitivity analysis.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

13. Pension and other retirement benefits (continued)

(g) Future contributions

The expected contributions for the year ending December 31, 2026 are as follows:

	Pension plans	Other benefit plans	Total
Company contributions	$ 13,180	$ 1,702	$ 14,882
Employee contributions	4,189	-	4,189
	$ 17,369	$ 1,702	$ 19,071

(h) Participation in multi-employer plan

Vancity participates in a defined benefit plan for certain eligible employees which is administered by Credit Union Pension & Benefits Trust.

Under IFRS Accounting Standards, an employer is required to account for its participation in a multi-employer plan in respect of its proportionate share of assets, liabilities and costs in the same fashion as for any other defined benefit plan except in the circumstances where the information is not available to the employer, as follows:

(*i*) The entity does not have sufficient information to enable the employer to use defined benefit accounting.

(*ii*) The Plan exposes the participating employers to actuarial risks associated with the current and former employees of other entities with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual entities participating in the Plan.

It has been determined that insufficient information is available to enable defined benefit accounting for the Plan. In particular, the investments made from contributions are not tracked on an individual employer basis to enable an apportionment of Plan assets to the respective member employers. Furthermore, the Plan exposes each of the employers to common actuarial risks of all of the members with the consequence that, in management's opinion, there is no reasonable and consistent basis of allocation of the actuarial assets (liabilities). Accordingly, Vancity accounts for its participation in the multi-employer plan on a defined contribution basis.

An actuarial valuation of the overall Plan was carried out as at December 31, 2024. It was determined that the overall Plan had an actuarial going concern surplus of $87.5 million and a solvency surplus of $258.0 million, based on market value assets of approximately $1.2 billion. Employer contributions to the Plan are established by the trustees of the Plan upon advice from the Plan's actuaries, including amounts to finance any solvency deficiencies over time.

The next actuarial valuation is scheduled for December 31, 2027 with results expected to be available in 2028.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

14. Other assets

	2025	2024
Prepaid and deferred expenses	$ 47,724	$ 33,486
Trade and other receivables	26,207	18,825
Assets restricted from use (note 29(c))	6,255	7,050
Security deposits	938	938
Investment property	243	243
	$ 81,367	$ 60,542

15. Deposits from members

	2025	2024
Demand deposits	$ 12,010,124	$ 10,587,549
Term deposits	14,485,232	13,850,203
Shares (note 16)	121,421	127,550
Accrued interest and dividend payable	231,250	304,073
	$ 26,848,027	$ 24,869,375

As at December 31, 2025, deposits from members include $3.3 million (2024 - $2.2 million) of embedded derivatives.

16. Shares

	2025	2024
Membership shares	$ 69,888	$ 72,965
Class C investment shares	22,723	24,179
Class E investment shares	27,485	28,882
Savings shares	1,325	1,524
	$ 121,421	$ 127,550

Membership shares are a membership requirement with each member required to hold at least $5 in shares. Investment shares are available to purchase from time to time and are not a membership requirement. Savings shares can no longer be purchased and are not a membership requirement.

Dividends on any of the above classes of shares may be declared at the discretion of the Board. Redemption of shares is subject to certain restrictions.

Membership and investment shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia ("CUDIC"). Savings shares are guaranteed by CUDIC.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

17. Borrowings

(a) Secured borrowings

	2025	2024
CMB and MBS programs	$ 898,509	$ 901,925
Repurchase obligations	798,990	99,107
	$ 1,697,499	$ 1,001,032

During the year, Vancity participated in new CMB and MBS third party investor programs by transferring $294.7 million (2024 - $131.4 million) in MBS into the program, including $28.2 million acquired through business combinations (see note 2), and had maturities and principal repayments of $300.6 million (2024 - $204.3 million). At December 31, 2025, the carrying amount of secured borrowings related to CMB and MBS programs was $898.5 million (2024 - $901.9 million), which includes accrued interest amounting to $1.5 million (2024 - $1.0 million) and the carrying amount of the assets held as security was $942.8 million (2024 - $936.4 million).

The security comprises $898.1 million of mortgages and accrued interest (2024 - $904.2 million) and $44.7 million in cash (2024 - $32.2 million). Vancity receives the net differential between the monthly interest receipts of the assets and the interest expense on the secured borrowing. The exposure to variability of future interest income and expense has been incorporated into the interest rate sensitivity calculations as shown in note 25(c)(*i*).

At December 31, 2025, the carrying amount of secured borrowings related to repurchase obligations was $799.0 million (2024 - $99.1 million) and the carrying amount of assets pledged as security was $793.4 million (2024 - $98.5 million).

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Lease liabilities	Investment shares	Secured borrowings	Wholesale borrowings	Total
Balance, January 1, 2025	$ 45,617	$ 53,061	$ 1,001,032	$ 529,532	$ 1,629,242
Proceeds from borrowings	-	-	4,054,229	4,037,813	8,092,042
Repayment of borrowings	-	-	(3,390,053)	(3,783,775)	(7,173,828)
Impact of business combination (note 2)	-	-	28,277	-	28,277
Investment share dividends	-	2,152	-	-	2,152
Investment share redemptions	-	(5,005)	-	-	(5,005)
Lease payments	(11,873)	-	-	-	(11,873)
Total changes from financing cash flows	(11,873)	(2,853)	692,453	254,038	931,765
Interest expense	1,638	-	25,891	17,778	45,307
Interest paid	(1,638)	-	(21,877)	(2,852)	(26,367)
Additions to lease liabilities	7,529	-	-	-	7,529
Total liability-related other changes	7,529	-	4,014	14,926	26,469
Balance, December 31, 2025	$ 41,273	$ 50,208	$ 1,697,499	$ 798,496	$ 2,587,476

(Amounts expressed in thousands of dollars, unless otherwise indicated)

17. Borrowings (continued)

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities (continued)

	Lease liabilities	Investment shares	Secured borrowings	Wholesale borrowings	Total
Balance, January 1, 2024	$ 45,709	$ 55,951	$ 980,562	$ 695,571	$ 1,777,793
Increase (decrease) in borrowings	-	-	20,281	(163,484)	(143,203)
Investment share dividends	-	2,629	-	-	2,629
Investment share redemptions	-	(5,519)	-	-	(5,519)
Lease payments	(11,754)	-	-	-	(11,754)
Total changes from financing cash flows	(11,754)	(2,890)	20,281	(163,484)	(157,847)
Interest expense	1,541	-	23,075	33,783	58,399
Interest paid	(1,541)	-	(22,886)	(36,338)	(60,765)
Additions to lease liabilities	11,662	-	-	-	11,662
Total liability-related other changes	11,662	-	189	(2,555)	9,296
Balance, December 31, 2024	$ 45,617	$ 53,061	$ 1,001,032	$ 529,532	$ 1,629,242

18. Accounts payable and accrued liabilities

	2025	2024
Accrued liabilities	$ 94,785	$ 63,882
Outstanding certified cheques	57,435	45,597
Visa reward points liability	54,688	50,863
Accounts payable	28,607	21,824
Visa prepaid liability	18,621	19,127
Outstanding drafts	5,102	2,208
Miscellaneous	4,946	2,147
	$ 264,184	$ 205,648

(Amounts expressed in thousands of dollars, unless otherwise indicated)

19. Net interest income

	2025	2024
Interest income		
Cash and cash equivalents	$ 1,328	$ 2,304
Interest bearing deposits with financial institutions	3,740	1,959
Financial instruments:		
Amortized cost	54,976	87,882
FVTPL	6,375	1,482
FVOCI	57,919	32,842
Loans and advances to members	1,096,034	1,140,606
Other assets	2,728	10,994
	1,223,100	1,278,069
Interest expense		
Deposits from members	613,950	810,540
Secured borrowings	25,891	23,075
Wholesale borrowings	17,778	33,783
Lease liabilities	1,638	1,541
Other liabilities	36,201	27,262
	695,458	896,201
	$ 527,642	$ 381,868

20. Net fee and commission income

	2025	2024
Fee and commission income:		
Account service fees	$ 32,732	$ 31,254
Credit card fees	40,944	40,993
Foreign exchange	9,780	12,366
Insurance broker commissions and fees	2,697	2,621
Loan fees	6,989	5,436
Loan insurance fees	5,063	4,195
Investment fees	68,064	61,965
	166,269	158,830
Fee and commission expense:		
Credit card fees	23,452	22,769
Other fees	8,023	7,947
	31,475	30,716
	$ 134,794	$ 128,114

(Amounts expressed in thousands of dollars, unless otherwise indicated)

21. Net gains (losses) on financial instruments

	2025	2024
Realized gains (losses) on disposal of:		
Instruments measured at amortized cost	$ (2,480)	$ 655
Instruments measured at FVTPL	-	145
Instruments measured at FVOCI	13,174	(99)
Derivative instruments	(3,012)	(39)
Unrealized change in fair value of financial instruments:		
Instruments measured at FVTPL	2,117	4,187
Derivative instruments	(1,464)	-
	$ 8,335	$ 4,849

22. Salary and employee benefits

	2025	2024
Salaries	$ 257,879	$ 251,217
Benefits	48,030	47,615
Pension costs:		
Defined benefit plans (note 13(d))	13,315	13,585
Defined contribution plans	8,625	8,570
Post-employment benefits (note 13(d))	2,690	2,933
	$ 330,539	$ 323,920

23. General and administrative expenses

	2025	2024
Data processing	$ 48,339	$ 40,371
Professional and consulting	32,830	21,999
Marketing and advertising	15,091	12,096
Dues, assessments and regulatory fees	13,523	12,878
Member service and lending	13,476	12,494
Miscellaneous	9,451	5,585
Telecommunication, stationery and postage	8,071	7,400
Insurance	3,979	4,265
Travel, meetings and entertainment	3,638	2,331
	$ 148,398	$ 119,419

(Amounts expressed in thousands of dollars, unless otherwise indicated)

24. Distribution to community and members

		2025		2024
Community distribution	$	18,267	$	1,499
Membership share dividends		2,772		231
Investment share dividends		2,152		2,629
	$	23,191	$	4,359

25. Financial risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of Vancity's risk management framework. The Risk Committee, which is established by the Board, is responsible for reviewing and recommending risk management policies.

Risk management policies are established to identify and analyze the risks faced by Vancity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and Vancity's activities. Vancity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the established risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by Vancity. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Vancity accepts deposits from members at both fixed and floating rates for various periods and seeks to earn an interest rate margin by investing these funds in high quality financial instruments - principally mortgages. Vancity's principal business activities result in a consolidated statement of financial position that consists primarily of financial instruments. The primary types of financial risk which arise from these activities are credit risk, liquidity risk, and market risk.

(a) 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. Credit risk arises primarily from Vancity's loans and advances to members. Vancity is also exposed to credit risks arising from investments in debt securities and other credit exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

25. Financial risk management framework (continued):

(a) Credit risk (continued)

(i) Credit risk management

Vancity manages, limits and controls concentrations of credit risk, where identified, to individual counterparties and industries. The Board, through the Risk Committee, places limits on the amount of credit risk accepted in relation to one member and/or sector.

(ii) 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 consolidated statement of financial position, the exposure to credit risk is their stated carrying amount. For loan commitments, the maximum exposure is the full amount of the undrawn facilities.

	2025	2024
On-balance sheet exposures	$ 31,175,575	$ 28,120,184
Off-balance sheet exposures (note 29(a))	8,268,046	7,685,079
	$ 39,443,621	$ 35,805,263

The table below provides a distribution of Vancity's retail loan portfolio by FICO score; however, it does not take into consideration other factors that may mitigate exposure to credit risk. FICO scores are credit scores that are considered in assessing the credit risk of the retail portfolio.

Risk category	FICO score range	Stage 1	Stage 2	Stage 3	2025	2024
Low	more than 720	$ 12,120,617	$ 1,529,029	$ 3,059	$ 13,652,705	$ 12,625,952
Medium	620 - 720	2,232,711	1,440,701	11,284	3,684,696	3,351,146
High	less than 620	68,590	425,894	34,888	529,372	516,334
		$ 14,421,918	$ 3,395,624	$ 49,231	$ 17,866,773	$ 16,493,432

The business portfolio utilizes an assessment process that measures credit risk, taking into consideration a number of factors such as the borrower's management, current and projected financial results, industry statistics, and economic trends that cumulates into a risk rating. This risk rating categorizes risk according to the degree of financial loss faced and forces management to focus on these risks and helps determine where impairment provisions may be required. The current risk rating framework consists of internal grades reflecting varying degrees of risk of default, staff oversight, and the availability of collateral or other credit enhancements.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

25. Financial risk management framework (continued)

(a) Credit risk (continued)

(*ii*) Credit risk exposure (continued)

The credit quality of Vancity's business portfolio, expressed in terms of the internal risk ratings is shown in the table below:

Internal risk ratings	Stage 1	Stage 2	Stage 3	2025	2024
Minimal to normal	$ 6,664,725	$ 251,052	$ 832	$ 6,916,609	$ 6,896,346
Acceptable	1,073,407	179,746	688	1,253,841	1,098,318
High	4,164	49,874	96,950	150,988	118,585
	$ 7,742,296	$ 480,672	$ 98,470	$ 8,321,438	$ 8,113,249

(*iii*) Collateral held

Vancity holds collateral against certain of its credit exposures. The following table sets out the principal types of collateral held against loans and advances to members as at December 31.

	Percentage of exposure that is subject to collateral requirements 2025	2024	Principal type of collateral held
Retail:			
Residential mortgages	100%	100%	Residential property
Personal loans	-	-	None
Business:			
Commercial mortgages and loans	95%	96%	Commercial and residential property

(*iv*) Amounts arising from ECL

Forward-looking information and macroeconomic factors

The FLI component represents management’s estimate of the impacts on the ECL of forward-looking information and forecasts of macroeconomic conditions to the credit union’s ECL. These macroeconomic factors are based on the credit risk management assessments and are consistent with industry guidelines on typical factors that are relevant to different types of lending products. Management makes forecasts of multiple forward looking and macroeconomic scenarios (base, upside and downside) and their estimated impacts to the ECL. Multiple scenarios are forecasted to ensure that estimates of ECL are unbiased.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

25. Financial risk management framework (continued)

(a) Credit risk (continued)

(*iv*) Amounts arising from ECL (continued)

Forward-looking information and macroeconomic factors (continued)

The key forward-looking and macroeconomic factors considered in determining the FLI inputs to the ECL calculation at December 31, 2025 were unemployment rate, gross domestic product ("GDP") growth rate, and prime rate.

The primary macroeconomic variables used to estimate ECL are as follows:

Forecast	Next 12 months	Remaining forecast period
Forward-looking indicator:		
Unemployment rate	4.2% to 7.8%	4.2% to 7.8%
GDP growth rate	0.90% to 2.46%	1.62% to 2.46%
Prime rate	3.70% to 4.45%	3.70% to 4.45%

Sensitivity of ECL to future economic conditions

Management performs a sensitivity analysis on the ECL recognized on loans and advances to members. The table below shows ECL on loans and advances to retail and business members as at December 31, 2025 assuming each forward-looking scenario (e.g., central, upside and downside) were weighted 100 per cent instead of applying scenario probability weights across the three scenarios. For ease of comparison, the table also includes the probably-weighted amounts that are reflected in the financial statements. The amounts are inclusive of post-model adjustments, as appropriate to each scenario.

	Upside	Central	Downside	Probability-weighted
ECL:				
Retail	$ 46,063	$ 48,901	$ 62,486	$ 51,506
Business	32,928	42,942	76,086	48,857
Total ECL	$ 78,991	$ 91,843	$ 138,572	$ 100,363
Proportion of loans in Stage 2:				
Retail	13%	13%	13%	13%
Business	2%	2%	2%	2%

25. Financial risk management framework (continued)

(a) Credit risk (continued)

(v) Concentration of credit risk

A significant portion of Vancity's business loan portfolio is concentrated in the real estate sector, which represents 54% (2024 - 53%) of the portfolio as at December 31, 2025. The construction sector accounts for 14% (2024 - 14%), while no other individual sector exceeded 10% of the total portfolio as at December 31, 2025 or 2024.

From a geographic perspective, 91% (2024 - 90%) of the business loan portfolio is concentrated in British Columbia, with the remainder in Ontario and Alberta.

There is no individual borrower or group of related borrowers that represents more than 10% of the total loan portfolio as at December 31, 2025 and 2024, thereby mitigating concentration risk at the counterparty level.

(b) Liquidity risk

Liquidity risk is the risk that Vancity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset as well as not being able to meet unexpected cash needs. Vancity must maintain a statutory level of liquidity cash reserves at a custodial account with Central 1 as a trustee, and an additional amount of liquidity reserves to potentially fund member and community lending.

Accordingly, Vancity has policies and procedures in place to manage its liquidity position, both to comply with regulatory requirements and sound business practices.

(i) Liquidity risk management

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, through the Risk Committee 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.

A key measure used by Vancity for managing liquidity risk is the ratio of liquid assets to deposits and debt liabilities. In accordance with OSFI 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 information does not include the Bank. The Bank's liquidity information has been disclosed separately below.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

25. Financial risk management framework (continued)

(b) Liquidity risk (continued)

(i) Liquidity risk management (continued)

For the purpose of measuring liquidity risk, liquid assets comprise the total market value of cash, Government of Canada or provincial treasury bills, debt securities with a government guarantee and a minimum DBRS Limited ("DBRS") investment rating of A, government guaranteed mortgage backed securities, and other high quality liquid assets ("HQLA") as set out by the regulator.

(ii) Liquidity risk exposure

VCS

VCS's liquid assets as at December 31, 2025 were $4,335.1 million (2024 - $3,314.0 million) and the ratio of liquid assets to deposits and debt liabilities at December 31, 2025 was 14.88% (2024 - 12.66%).

The Bank

The Bank's liquid assets as at December 31, 2025 were $55.8 million (2024 - $58.5 million).

Vancity

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

	Less than 1 year	1 - 3 years	3 to 5 years	Over 5 years	Total
Deposits from members	$ 24,051,756	$ 2,432,627	$ 270,443	$ 93,201	$26,848,027
Wholesale borrowings	798,496	-	-	-	798,496
Secured borrowings	1,138,243	251,576	307,680	-	1,697,499
Other financial liabilities	277,523	21,250	8,918	2,355	310,046
Derivative instruments	13,978	16,153	3,061	1,907	35,099
December 31, 2025	$ 26,279,996	$ 2,721,606	$ 590,102	$ 97,463	$ 29,689,167
December 31, 2024	$23,347,805	$ 2,703,239	$ 521,437	$ 119,015	$ 26,691,496

(c) Market risk

In the normal course of its operations, Vancity engages in transactions that give rise to market risk. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and credit spreads. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return for a given level of risk.

25. Financial risk management framework (continued)

(c) Market risk (continued)

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

Vancity has various policy and procedure 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 Risk Committee. The Risk Committee's role is to provide effective oversight, on behalf of the Board, of Vancity's risk management activities. In addition, Vancity has developed and maintains a practice of performing independent valuations of positions, mark to market methodologies, and asset liability modeling.

(*i*) Interest rate risk

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 interest rate 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 re-price in varying reporting periods generate interest rate risk.

These mismatches will arise through the ordinary course of business as Vancity manages its portfolio of loans and deposits with changing term preferences and through the strategic positioning of the portfolio to enhance profitability. To manage interest rate risk, Vancity may also use financial instruments such as interest rate swaps and other derivative instruments.

Duration analysis is a measure of interest rate exposure and provides an indication of when on average the present value of any cash flows for a 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.

Based on Vancity's interest rate positions as at December 31, the following table shows the potential before tax impact of an immediate and sustained 1.0% increase and decrease in interest rates over a 12-month period on Vancity's market value of net assets and net interest income.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

25. Financial risk management framework (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	2025		2024	
Interest rate sensitivity	Market value impact	Net interest income	Market value impact	Net interest income
Before tax impact of:				
1.0% decrease in rates	$ 43,454	$ (3,203)	$ 14,904	$ (9,584)
1.0% increase in rates	(49,832)	13,241	(24,132)	2,716

Gap analysis is a technique used by Vancity in asset liability management to assess interest rate risk. It comprises aggregating cash flows into repricing periods and then assessing whether the cash flows in each of the periods net to zero. The repricing periods are time horizons, 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. The determination of interest rate sensitivity or gap position encompasses numerous assumptions. It is based on the earlier of the repricing date or the maturity date of assets, liabilities and derivative instruments used to manage interest rate risk.

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

The assumptions for the years ended December 31, 2025 and 2024 were as follows:

Assets

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

Variable rate assets that are related to Vancity's prime rate or other short-term market rates are reported in the within three months category.

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

(Amounts expressed in thousands of dollars, unless otherwise indicated)

25. Financial risk management framework (continued)

(c) Market risk (continued)

(*i*) Interest rate risk (continued)

Liabilities

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

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

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

Yields

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

December 31, 2025	Yield	Within 3 months	3 months to 1 year	1 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets:							
Cash and cash equivalents	0.00%	$ 144,996	$ -	$ -	$ -	$ 9,261	$ 154,257
Interest bearing deposits with financial institutions	2.79%	247,519	-	-	-	-	247,519
Financial investments	3.23%	541,328	534,986	1,052,346	2,407,229	73,635	4,609,524
Loans and advances to members	4.24%	11,002,100	4,493,107	9,031,385	1,647,910	(35,022)	26,139,480
Other	0.00%	519	14,516	18,821	29,872	273,000	336,728
		$ 11,936,462	$ 5,042,609	$ 10,102,552	$ 4,085,011	$ 320,874	$ 31,487,508
Liabilities and Equity:							
Deposits from members	2.10%	$ 11,742,362	$ 8,501,079	$ 4,814,792	$ 1,347,265	$ 442,529	$26,848,027
Wholesale borrowings	2.81%	776,601	20,000	-	-	1,895	798,496
Secured borrowings	1.89%	931,302	195,093	358,106	181,708	31,290	1,697,499
Other	0.00%	237	13,711	17,883	59,424	2,052,231	2,143,486
		$13,450,502	$ 8,729,883	$ 5,190,781	$ 1,588,397	$ 2,527,945	$ 31,487,508
Balance sheet mismatch		$ (1,514,040)	$ (3,687,274)	$ 4,911,771	$ 2,496,614	$ (2,207,071)	$ -
Notional derivative assets		(4,953,000)	3,010,000	1,493,000	450,000	-	-
Notional derivative liabilities		3,911,300	-	(1,768,800)	(2,142,500)	-	-
Net mismatch 2025		$ (2,555,740)	$ (677,274)	$ 4,635,971	$ 804,114	$ (2,207,071)	$ -
Net mismatch 2024		(1,641,248)	(1,600,590)	6,547,566	(1,374,972)	(1,930,756)	-

(*ii*) Foreign currency risk

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

(Amounts expressed in thousands of dollars, unless otherwise indicated)

25. Financial risk management framework (continued)

(c) Market risk (continued)

(*ii*) Foreign currency risk (continued)

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. Vancity's exposure to this risk is managed through asset and liability matching, economic hedging, either naturally or synthetically. The impact of foreign currency risk will be influenced by the volatility of exchange rate changes, the mix of foreign currency assets and liabilities, and the exposure to each currency market.

As at December 31, 2025, a 10% strengthening or weakening of the Canadian dollar against all foreign currencies would result in a corresponding increase or decrease in income before tax of approximately $1.9 million (2024 – $0.4 million).

26. Assets pledged as collateral

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.

Assets which are pledged as collateral are related to derivative transactions, proceeds from securitizations and other borrowings.

The nature and carrying amounts of the assets pledged as collateral are as follows:

	2025	2024
Cash	$ 43,492	$ 25,190
Interest bearing deposits with financial institutions (note 29(c))	50,863	34,571
Securities	796,470	3,040
Mortgages	1,613,134	1,619,194
Other assets (note 29(c))	6,255	7,050
General charge	410,000	410,000
	$ 2,920,214	$ 2,099,045

The assets listed above have been pledged in relation to the following available facilities:

	2025	2024
Clearing facilities	$ 3,000	$ 3,000
Secured borrowings	1,697,499	1,001,032
Standby credit facilities	1,060,000	1,125,000
Derivative contracts	50,129	34,571
	$ 2,810,628	$ 2,163,603

(Amounts expressed in thousands of dollars, unless otherwise indicated)

27. Regulatory and capital management

VCS

Capital is managed in accordance with policies established by the Board and appropriate management committees. An integral part of VCS's strategy is to maintain a strong capital base. All of the elements of capital are monitored throughout the year. An Internal Capital Adequacy Assessment Process (ICAAP) is performed on an annual basis to ensure an appropriate level of capital is maintained to sustain current and future operations and is approved by the Board of Directors. VCS makes annual dividend payments on eligible shares, within the context of its overall capital management plan.

FIA requires VCS to maintain a capital base that is adequate for its business. Capital levels for credit unions in British Columbia are regulated pursuant to guidelines issued by BCFSA. Minimum capital standards are based on a total capital to risk weighted assets ("RWA") ratio of 8%.

Regulatory capital is allocated to two tiers: Primary and Secondary. Primary capital is comprised of the more permanent components of capital and consists primarily of retained earnings adjusted for deferred taxes, shares, and contributed surplus. Secondary capital consists of 50% of a credit union's portion of retained earnings in CUDIC, Central 1, and Stabilization Central Credit Union, as well as equity shares that do not meet the criteria for Primary capital. Total regulatory capital is defined as the lesser of total of Primary and Secondary capital less deductions as prescribed by BCFSA or VCS's retained earnings and contributed surplus divided by 35%.

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 BCSFA for on-balance sheet and off-balance sheet exposures.

For the year ended December 31, 2025 and 2024, VCS's capital ratios were in compliance with the regulatory requirements.

	2025	2024
Primary capital	$ 1,805,778	$ 1,706,252
Secondary capital	289,426	277,704
Deductions from capital	(80,794)	(72,350)
Total regulatory capital	$ 2,014,410	$ 1,911,606

(Amounts expressed in thousands of dollars, unless otherwise indicated)

27. Regulatory and capital management

The Bank

Capital levels for Canadian Banks are regulated pursuant to Capital Adequacy Requirements guideline issued by OSFI in accordance with the Basel II and Basel III capital adequacy frameworks. The Basel III framework revised the definition of regulatory capital to strengthen the capital base with a greater focus on common equity. Regulatory capital consists of: Tier 1 (the sum of Common Equity Tier 1 and Additional Tier 1) and Tier 2 as defined by the guideline. Intangibles and deferred tax assets as specified in the guideline are deducted from Common Equity Tier 1 capital as regulatory adjustments.

Regulatory ratios are calculated by dividing the Common Equity Tier 1, Tier 1, and Total Capital by the risk-weighted assets ("RWA"). The calculation of RWA is determined by OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures.

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Although maximization of the return on risk adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Synergies with other operations and activities are also considered as well as the availability of management and other resources and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board.

For the year ended December 31, 2025 and 2024, the Bank's capital ratios were in compliance with the regulatory requirements.

	2025	2024
Tier 1 capital	$ 84,731	$ 72,229
Tier 2 capital	1,402	1,168
Deductions from capital	(378)	(1,748)
Regulatory capital	$ 85,755	$ 71,649

28. Fair value of financial instruments

Certain financial instruments are recognized in the consolidated statement of financial position at fair value. These include derivative instruments and financial assets classified either as FVTPL or FVOCI. The fair value of a financial instrument is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants which takes place in the principal (or most advantageous) market at the measurement date. The fair value of a liability reflects its non-performing risk. The best evidence of fair value is a quoted bid price for financial assets held or an offer price for financial liabilities from an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Where independent quoted market prices are not available, Vancity uses the quoted market prices for similar instruments, other third-party evidence or valuation techniques.

Financial instruments are recorded at fair value upon initial recognition, which is normally equal to the fair value of the consideration given or received to obtain the instrument. Where financial instruments are measured at fair value subsequent to initial recognition, fair value is determined as described above.

Financial instruments whose carrying values approximate fair value

Fair values of cash and cash equivalents, interest receivable, non-maturity loans and other financial assets and liabilities are assumed to approximate their carrying values, principally due to their short-term nature.

Financial instruments for which fair value is determined using valuation techniques

The fair value of financial instruments determined using these techniques include the use of recent arm's length transactions and discounted cash flow analysis for investments in unquoted securities, discounted cash flow analysis for derivatives, third-party option pricing models for index-linked option contracts, other valuation techniques commonly used by market participants and utilize independent observable market inputs to the maximum extent possible.

The use of valuation techniques to determine the fair value of a financial instrument requires management to make assumptions such as the amount and timing of future cash flows and discount rates and incorporate Vancity's estimate of assumptions that a market participant would make when valuing the instruments.

The fair values below reflect conditions that existed only at the respective financial reporting dates and do not necessarily reflect a future value or the amounts Vancity might receive or pay if it were to dispose of any of its financial instruments prior to their maturity.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

28. Fair value of financial instruments (continued)

Vancity measures fair value using the following hierarchy that reflects the significance of inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table illustrates the classification of Vancity's financial instruments within the fair value hierarchy:

December 31, 2025	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets:					
Cash and cash equivalents	$ 154,257	$ -	$ -	$ 154,257	$ 154,257
Interest bearing deposits with financial institutions	-	247,519	-	247,519	247,519
Financial investments measured at fair value	3,479,695	7,738	74,020	3,561,453	3,561,453
Financial investments measured at amortized cost	-	1,047,633	-	1,047,633	1,048,071
Derivative assets	-	24,795	-	24,795	24,795
Loans and advances to members	-	-	26,058,212	26,058,212	26,139,480
Other financial assets	-	12,585	-	12,585	12,585
	$ 3,633,952	$ 1,340,270	$ 26,132,232	$ 31,106,454	$ 31,188,160
Liabilities:					
Deposits from members	$ -	$ 26,205,909	$ -	$ 26,205,909	$ 26,848,027
Derivative liabilities	-	12,109	-	12,109	12,109
Wholesale borrowings	-	798,431	-	798,431	798,496
Secured borrowings	-	1,670,892	-	1,670,892	1,697,499
Other financial liabilities	-	310,046	-	310,046	310,046
	$ -	$ 28,997,387	$ -	$ 28,997,387	$ 29,666,177

(Amounts expressed in thousands of dollars, unless otherwise indicated)

28. Fair value of financial instruments (continued)

The following table illustrates the classification of Vancity's financial instruments within the fair value hierarchy (continued):

December 31, 2024	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets:					
Cash and cash equivalents	$ 136,034	$ -	$ -	$ 136,034	$ 136,034
Interest bearing deposits with financial institutions	-	64,918	-	64,918	64,918
Financial investments measured at fair value	860,577	18,719	62,390	941,686	941,686
Financial investments measured at amortized cost	2,498,839	306,225	-	2,805,064	2,397,114
Derivative assets	-	6,989	-	6,989	6,989
Loans and advances to members	-	-	24,294,956	24,294,956	24,566,393
Other financial assets	-	92,046	-	92,046	92,046
	$ 3,495,450	$ 488,897	$ 24,357,346	$ 28,341,693	$ 28,205,180
Liabilities:					
Deposits from members	$ -	$ 24,253,276	$ -	$ 24,253,276	$ 24,869,375
Derivative liabilities	-	37,081	-	37,081	37,081
Wholesale borrowings	-	529,432	-	529,432	529,532
Secured borrowings	-	971,565	-	971,565	1,001,032
Other financial liabilities	-	253,828	-	253,828	253,828
	$ -	$ 26,045,182	$ -	$ 26,045,182	$ 26,690,848

During the years ended December 31, 2025 and 2024, there were no transfers in or out of Level 3. Vancity recognizes transfers between levels in the fair value hierarchy at the end of the year during which the change occurred.

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	2025	2024
Balance at January 1	$ 62,390	$ 43,523
Impact of business combination (note 2)	41	-
Gains included in net income attributable to members	1,594	5,989
Purchases	9,995	12,878
Balance at December 31	$ 74,020	$ 62,390

Level 3 financial investments consist of private equity funds that are valued using Net Asset Values ("NAV") (unobservable input). Private equity fund NAVs are based on information provided by the fund managers, and as a result, there are no other reasonably possible alternative assumptions for these investments. A 10% increase or decrease in NAV at December 31, 2025 would result in a corresponding increase or decrease in the estimated fair value of approximately $7.4 million (2024 – $6.2 million).

(Amounts expressed in thousands of dollars, unless otherwise indicated)

29. Commitments and contingencies

(a) Credit commitments

The following amounts represent the maximum amount of additional credit that Vancity could be obligated to extend. The amounts of these arrangements may expire or terminate without being utilized and may not be representative of the funding likely to be required for these commitments.

	2025	2024
Undrawn lines of credit	$ 6,016,986	$ 5,746,870
Commitments to extend credit	863,317	733,667
Undrawn credit on credit cards issued	1,318,333	1,146,965
Documentary letters of credit	69,410	57,577
	$ 8,268,046	$ 7,685,079

(b) Statutory liquidity requirement

For liquidity purposes, BCFSA requires all credit unions to hold 8% of aggregate deposit and other debt liabilities in HQLA, placed in a bare trust. Vancity's intention is to hold these financial assets to maturity and collect contractual cash flows that represent solely payments of principal and interest. At December 31, 2025, Vancity's minimum required HQLA held in the bare trust is $2.3 billion (2024 - $2.1 billion).

(c) Assets restricted from use

Included in the interest bearing deposits with financial institutions balance is $50.9 million (2024 - $34.6 million included in cash and cash equivalents) of cash pledged as collateral for derivative contracts.

Included in the other assets balance is $5.7 million (2024 - $6.5 million) relating to CMB and other MBS third party investor programs.

Included in the other assets balance is $0.5 million (2024 - $0.6 million) held in trust for investors.

(d) Contingencies

In the ordinary course of business, Vancity is party to a number of legal proceedings, in which the likelihood of a loss and amount of loss, if any, is not readily determinable.

In accordance with accounting standards, provisions have been included in liabilities where appropriate if, in the opinion of management, it is more likely than not that a future event will confirm that a liability existed at the date of the financial statements and the amount of the loss can be reasonably estimated.

At times, however, it is either not possible to determine whether a liability has been incurred or to reasonably estimate the amount of loss until proceedings are closer to a resolution, in which case no amounts will be accrued until that time.

(Amounts expressed in thousands of dollars, unless otherwise indicated)

29. Commitments and contingencies

(d) Contingencies (continued)

The outcome of any such matters, individually or in aggregate, may be material to the consolidated financial position or operating results of Vancity for a particular year.

(e) Contractual commitment

(*i*) Vancity has $185.8 million (2024 - $102.4 million) in contractual commitments for software, hardware, and services contracts.

(*ii*) Vancity has $19.3 million (2024 - $29.4 million) in contractual commitments to acquire units in several private investment funds.

(f) Contingent tax liabilities

Vancity believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

30. Related party transactions

Related parties of Vancity include subsidiaries, associates, post-employment benefit plans, key management personnel and close family members of key management personnel. Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of Vancity, directly or indirectly, including any director (whether executive or otherwise) of Vancity. These key management personnel are comprised of the Board of Directors, Executive Leadership Team, and signing officers of Vancity.

Please refer to note 13 for transactions and balances with Vancity's post-retirement benefit plans.

A number of transactions were entered into with key management personnel in the normal course of business:

(a) Loans and deposits

Vancity provides banking services to key management personnel and persons connected to them. Balances outstanding at December 31, 2025 were loans of $12.6 million (2024 - $6.1 million) and deposits of $8.9 million (2024 - $2.6 million).

(b) Key management compensation

	2025	2024
Salaries and other short-term employee benefits	$ 9,278	$ 7,416
Post-employment benefits	1,607	1,142
Termination and other long-term benefits	3,114	914
	$ 13,999	$ 9,472

In addition to their salaries, Vancity also provides non-cash benefits to director-level employees and executive officers, and contributes to a defined pension benefit plan on their behalf.