

Prospera Credit Union

Consolidated Financial Statements
December 31, 2009
(expressed in thousands of dollars)

February 18, 2010

Auditors' Report

**To the Members of
Prospera Credit Union**

We have audited the consolidated balance sheet of **Prospera Credit Union** as at December 31, 2009 and the consolidated statements of income and comprehensive income, members' equity and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Prospera Credit Union


Consolidated Balance Sheet

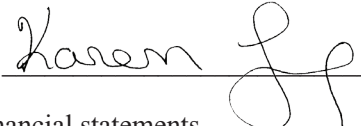
As at December 31, 2009

(expressed in thousands of dollars)

	2009 \$	2008 \$
Assets		
Cash resources	159,704	139,230
Loans to members (note 3)	1,751,426	1,607,015
Investments (note 5)	6,048	5,732
Property, premises, equipment and intangibles (note 6)	11,718	13,598
Other assets (note 7)	12,512	14,196
Future income taxes (note 14)	1,069	1,298
Income taxes receivable	-	145
	<u>1,942,477</u>	<u>1,781,214</u>
Liabilities		
Borrowings (note 8)	118,000	63,500
Member deposits (note 9)	1,738,358	1,634,385
Accounts payable and accrued liabilities (note 13)	9,151	13,280
Income taxes payable	574	-
	<u>1,866,083</u>	<u>1,711,165</u>
Members' Equity		
Members' equity shares (note 10(c))	5,611	5,894
Retained earnings	70,560	64,155
Accumulated other comprehensive income	223	-
	<u>76,394</u>	<u>70,049</u>
	<u>1,942,477</u>	<u>1,781,214</u>
Commitments and contingent liabilities (note 15)		

Approved by the Board of Directors

 Director

 Director

See accompanying notes to financial statements.

Prospera Credit Union

Consolidated Statement of Members' Equity

(expressed in thousands of dollars)

	Members' equity shares \$	Retained earnings \$	Accumulated other comprehensive income \$	Members' equity \$
Balance - December 31, 2007	6,358	57,730	-	64,088
Net income and other comprehensive income for the year ended December 31, 2008	-	6,628	-	6,628
Dividends on members' equity shares		(203)	-	(203)
Share redemptions - net	(464)	-	-	(464)
Balance - December 31, 2008	5,894	64,155	-	70,049
Net income and other comprehensive income for the year ended December 31, 2009	-	6,563	223	6,786
Dividends on members' equity shares		(158)	-	(158)
Share redemptions - net	(283)	-	-	(283)
Balance - December 31, 2009	5,611	70,560	223	76,394

See accompanying notes to financial statements.

Prospera Credit Union

Consolidated Statement of Income and Comprehensive Income For the year ended December 31, 2009

(expressed in thousands of dollars)

	2009 \$	2008 \$
Interest income		
Loans	78,089	88,685
Cash resources and investments	8,397	5,601
	<u>86,486</u>	<u>94,286</u>
Interest expense		
Deposits	40,898	47,574
Borrowings	797	4,384
	<u>41,695</u>	<u>51,958</u>
Net interest income	44,791	42,328
Provision for credit losses (note 3)	1,500	1,150
Net interest income after provision for credit losses	43,291	41,178
Other income (note 11)	16,741	21,730
Net interest income and other income	<u>60,032</u>	<u>62,908</u>
Non-interest expenses		
Salaries and employee benefits	27,794	29,540
Occupancy	8,110	7,755
Administration	4,228	5,443
Other (note 12)	3,658	3,162
Amortization	3,244	3,750
Clearing charges	2,184	2,020
Communication and marketing	1,239	1,456
Data processing	932	872
	<u>51,389</u>	<u>53,998</u>
Income before dividends on member deposit shares	8,643	8,910
Dividends on member deposit shares	1,126	1,159
Income before income taxes	<u>7,517</u>	<u>7,751</u>
Provision for income taxes (note 14)		
Current	760	839
Future	194	284
	<u>954</u>	<u>1,123</u>
Net income for the year	6,563	6,628
Other comprehensive income for the year	223	-
Comprehensive income	<u>6,786</u>	<u>6,628</u>

See accompanying notes to financial statements.

Prospera Credit Union

Consolidated Statement of Cash Flows For the year ended December 31, 2009

(expressed in thousands of dollars)

	2009 \$	2008 \$
Cash flows from operating activities		
Net income for the year	6,563	6,628
Items not affecting cash		
Amortization	3,244	3,750
Provision for credit losses	1,500	1,150
Gain on disposal of subsidiaries (note 1)	-	(3,118)
(Gain) loss on sale of property, premises, equipment and intangibles (note 11)	(113)	32
Securitization gain on sale of loans (note 11)	(1,825)	(685)
Amortization of premium on securitization buyback	441	-
Net change in fair value of derivative financial instruments (note 18)	(697)	75
Amortization of service liability	(320)	(494)
Future income taxes	194	284
	<u>8,987</u>	<u>7,622</u>
Change in non-cash working capital items	(1,862)	6,201
	<u>7,125</u>	<u>13,823</u>
Cash flows from investing activities		
Increase in Central 1 term deposits	(16,509)	(4,447)
Net change in loans to members	(85,496)	(108,083)
Repurchase of securitized mortgages (note 4)	(85,545)	-
Proceeds from loan securitizations (note 4)	27,503	25,836
Net proceeds from sale of subsidiary	-	7,452
Decrease in other investments	106	491
Proceeds on sale of property, premises, equipment and intangibles	869	-
Additions to property, premises, equipment and intangibles	(2,120)	(1,022)
	<u>(161,192)</u>	<u>(79,773)</u>
Cash flows from financing activities		
Increase (decrease) in borrowings	54,500	(68,300)
Net increase in member deposits	103,627	134,714
Net (decrease) increase in member deposit shares and members' equity shares	(123)	1,764
Income tax reduction related to dividend	28	36
	<u>158,032</u>	<u>68,214</u>
Increase in cash resources	3,965	2,264
Cash resources - Beginning of year	15,429	13,165
Cash resources - End of year	<u>19,394</u>	<u>15,429</u>
Cash resources consist of		
Cash	19,394	15,429
Central 1 term deposits	140,310	123,801
	<u>159,704</u>	<u>139,230</u>

Supplementary cash flow information (note 21)

See accompanying notes to financial statements.

Prospera Credit Union

Notes to Consolidated Financial Statements

December 31, 2009

(expressed in thousands of dollars)

1 General

Prospera Credit Union (the "Credit Union") is incorporated under the laws of British Columbia and is regulated under the Financial Institutions Act of British Columbia. The Credit Union's primary business activities include providing financial services to its members and the general public across British Columbia. The Credit Union has locations in Greater Vancouver, the Fraser Valley and the Okanagan. It provides financial services through 16 retail banking centres, 7 insurance offices, 6 commercial banking centres, on-line banking and a contact centre.

During the year ended December 31, 2008, the Credit Union acquired upon windup all assets of its wholly owned subsidiary Prospera Insurance Agencies Okanagan Ltd. and sold 100% of the shares of its wholly owned subsidiaries Kelowna Valley Insurance Services Ltd. and Vernon Insurance Services Inc. (note 11). Consolidated within the Credit Union's statement of income for the year ended December 31, 2008 is net income before taxes from Kelowna Valley Insurance Services Ltd. of \$287 and from Vernon Insurance Services Inc. of \$212 up to the date of disposition.

2 Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the assets, liabilities, results of operations and cash flows of all subsidiary entities. All inter-company balances and transactions are eliminated.

The consolidated financial statements include the accounts of Prospera Credit Union and its wholly owned subsidiaries, Prospera Insurance Agencies Ltd., Prospera Technologies Inc., 413297 B.C. Ltd., Prospera Holdings Ltd., and the results of Vernon Insurance Services Inc. and Kelowna Valley Insurance Services Ltd. until the date of their disposition on September 30, 2008.

Use of estimates

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include accounting for financial instruments, provision for credit losses, accounting for securitization transactions and the values of retained interests, income taxes and employee future benefits. Actual results may differ from these estimates.

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Financial instruments

An entity's financial assets may be classified as available-for-sale ("AFS"), held-for-trading ("HFT"), held-to-maturity ("HTM"), or loans and receivables, and all financial liabilities are classified as HFT or other financial liabilities. All financial instruments classified as AFS or HFT are required to be measured at fair value on the balance sheet while financial instruments classified as loans and receivables, HTM or other financial liabilities are measured at amortized cost using the effective interest method. Unrealized gains and losses on financial instruments that are classified as AFS are reported in other comprehensive income ("OCI"). When gains or losses become realized through sale or other-than-temporary impairment, they are reclassified from accumulated other comprehensive income ("AOCI") to income. Interest income earned on debt instruments classified as AFS is recorded directly to the consolidated statement of income using the effective interest method. Unrealized gains and losses on financial instruments that are classified as HFT are recognized along with income earned directly in the consolidated statement of income.

Financial assets and liabilities are presented on a net basis when the Credit Union has a legally enforceable right of offset of the recognized amounts and an intention to settle on a net basis.

Current year accounting changes

Goodwill and Intangible Assets

On January 1, 2009, the Credit Union adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets* ("Section 3064") which is effective for fiscal years beginning on or after October 1, 2008. Section 3064 replaced CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*, and CICA Handbook Section 3450, *Research and Development Costs*. Section 3064 establishes requirements for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, and other CICA guidance within the CICA Handbook has been updated to ensure consistency with Section 3064.

The adoption of the new standard and other related changes to the CICA Handbook did not have a significant impact on the Credit Union's financial position or net income.

Credit Risk and Fair Value

The Credit Union has adopted Emerging Issues Committee Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities* ("EIC-173") which was issued by the Accounting Standards Board ("AcSB") on January 20, 2009. The abstract clarifies how the credit risk of a counterparty or an entity's own credit risk should be taken into account in the measurement, presentation and disclosure of the fair value of financial assets and financial liabilities. The adoption of EIC-173 did not have a significant impact on the Credit Union's financial position or net income.

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Financial Instruments

On April 29, 2009, the AcSB issued an amendment to CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, (“Section 3855”) which clarified that, subsequent to the recognition of an impairment loss on a financial asset (other than a loan or receivable), interest income on the impaired financial asset is recognized using the rate of interest used to determine the impairment loss.

On July 29, 2009, the AcSB further amended Section 3855 to expand the previous definition of loans and receivables to include debt securities not quoted in an active market that are not intended to be sold immediately or in the near term. The amendment includes specific guidance on the limited circumstances in which an optional reclassification between financial instrument classifications may be permitted. Section 3855 was also amended such that any other-than-temporary impairment that is identified for HTM investments is recognized in the income statement only in respect of credit losses rather than the entire change in fair value. Any other-than-temporary impairment losses on debt securities that are classified as AFS continue to be adjusted through the income statement in their entirety. However, other-than-temporary impairment losses recorded on AFS debt securities may be reversed through the income statement if the fair value subsequently recovers and the increase in value can be objectively attributed to an event occurring after the original impairment loss was recognized.

The adoption of the above changes in the fiscal 2009 financial statements did not have a significant impact on the Credit Union’s financial position or net income.

Financial Instruments - Disclosures

The Credit Union has adopted amendments to the CICA Handbook Section 3862, *Financial Instrument - Disclosures* (“Section 3862”) in its fiscal 2009 financial statements. The amendments require an entity to provide disclosure on financial instruments measured at fair value on its balance sheet using a fair value hierarchy that reflects the extent to which quoted prices or other market or non-market inputs are used in the valuation of those financial instruments. The amendments also expand existing liquidity disclosure requirements and require a maturity analysis for any derivative and non-financial liabilities based on expected maturities.

The adoption of the above disclosure changes has been incorporated into notes 17 and 19.

Future year accounting policy changes

International Financial Reporting Standards

The CICA has issued a plan for publicly accountable entities to converge with International Financial Reporting Standards (“IFRS”) effective for fiscal periods beginning on or after January 1, 2011. The Credit Union’s transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Credit Union for the year ending December 31, 2010. Management has established a change-over plan to adopt IFRS in 2011 and has assigned resources to implement the plan.

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Cash resources

For the purposes of the consolidated statement of cash flows, cash comprises highly liquid balances with less than 90 days' maturity from the date of acquisition, including cash and deposits with Central 1 and balances held with other financial institutions.

Loans to members

Loans to members are stated at unpaid principal and accrued interest, net of deferred transaction costs and fees, on an amortized cost basis using the effective interest method. Loans are recorded net of specific provisions for estimated losses on impaired loans and a general provision.

Interest income is accounted for on an accrual basis using the effective interest method, except for loans classified as impaired. Loans are generally considered impaired when, in the opinion of management, there is reasonable doubt as to the collectability of principal and interest, or when principal or interest is 90 days past due. Accrued but uncollected interest is provided for when a loan is determined to be impaired. When a loan is classified as impaired, interest income is recognized on a cash basis only after any specific provision or partial write-offs have been recovered and provided there is no further doubt as to the collectability of the principal. Loans considered uncollectable are written off.

Fees charged and related transaction costs incurred in connection with loan origination and renewals are recognized as an integral part of the yield earned on a loan and are recognized in interest income and expense using the effective interest method, unless a loan is repaid in full. In instances where a loan is refinanced and a prepayment fee is charged, the fee and any related transaction costs are recognized in income unless only minor modifications (based on a present value of future cash flows test) were made to the loan, in which case they are deferred and amortized over the estimated remaining loan payment period using the effective interest method.

Provision for credit losses

The Credit Union maintains a provision for credit losses that, in management's estimation, is considered adequate to provide for credit-related losses.

The provision for credit losses consists of specific and general provisions. The specific provision is determined on the basis of specific loans that, in management's opinion, may not be fully collectible. The specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated net realizable amount.

Specific provisions are supplemented by general provisions determined by judgement of management based on historical credit loss experience, known risks in the portfolio and current economic conditions and trends. The general allowance is maintained to absorb credit losses that management estimates have occurred at the balance sheet date for which specific allowances cannot yet be determined.

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Loan securitizations

The Credit Union periodically securitizes loans by selling to independent special purpose trusts that issue securities to investors. Securitizations of loans are accounted for as sales when the Credit Union surrenders control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. When such sales occur, the Credit Union accounts for gains or losses in the consolidated statement of income. The amount of the gain or loss is based on the carrying value of the loans being transferred, allocated between the loans sold and retained interests based on their relative fair values at the date of transfer. As market prices are not available for such asset sales, the Credit Union estimates fair value based on the present value of expected future cash flows. Fair values are determined by making the maximum use of market-based inputs and taking consideration of discount rates, forward yield curves and loan specific factors such as expected credit losses and rates of prepayments. The Credit Union also calculates an estimated servicing liability for the ongoing administration of securitized loans, where ongoing administrative services are provided to the special purpose trust. The deferred servicing liability is recorded as an accrued expense and amortized to the consolidated statement of income over the estimated rate of loan prepayments.

The Credit Union has designated its retained interests in securitized loans as AFS and HFT assets. The HFT retained interest is accounted for at its estimated fair value on the balance sheet with changes in fair value recorded through net interest income. The AFS retained interest is accounted for at its estimated fair value on the balance sheet with changes in fair value recorded through OCI, net of interest income being recorded through the consolidated statement of income. The retained interest is amortized over the estimated remaining life of the underlying loans sold. Changes in estimated future cash flows are re-estimated at each balance sheet date and discounted to the estimated present value using the original effective interest rate with any adjustments recognized as increases or decreases to interest income.

Investments

Investments in equity shares are designated as AFS securities. The equity shares held by the Credit Union do not have quoted market values in an active market and are accounted for at cost. Realized gains and losses on sale and writedowns to reflect other-than-temporary impairments in value are included in net income. Dividends from equity securities are included in other income.

Property, premises, equipment and intangibles

Land is reported at cost. Property, premises, equipment and intangibles are initially stated at cost. Amortization is provided on the straight-line basis over the estimated useful life of the assets as follows:

Office equipment and furniture	3 - 7 years
Computer equipment and software	3 - 10 years
Leasehold improvements	1 - 10 years

Property held for resale is valued at the lower of cost and estimated net realizable value.

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(expressed in thousands of dollars)

Goodwill

Goodwill arose on the acquisition of various insurance brokerage businesses and represents the excess of the purchase price of the acquired business over the amount allocated to assets acquired less liabilities assumed, based on their fair values.

Goodwill is not amortized but is tested annually for impairment at a business reporting unit level. Goodwill is determined to be impaired when the fair value of a reporting unit is less than its carrying amount. If goodwill is found to be impaired, the Credit Union would recognize an impairment loss by writing down the goodwill to its fair value.

Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from interest rates, foreign exchange rates, or other financial indices.

In the ordinary course of business, the Credit Union enters into various derivative contracts, including interest rate swaps. Derivative financial instruments may be used to manage risk from the Credit Union's interest rate exposures as part of the Credit Union's asset/liability management program.

For derivative instruments accounted for as hedges, the Credit Union formally documents all relationships between hedging instruments and hedged items as well as the risk management objective and strategy for undertaking various hedge transactions. The Credit Union also formally assesses, at both hedge inception and on an ongoing basis, whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Credit Union designates instruments as fair value hedges where derivatives are used to hedge exposure to changes in the fair value of financial instruments with fixed interest rates. Changes in fair value attributed to the hedged risk are recognized in net interest income. Changes in fair value of the hedging derivative are also recognized in net interest income. Accordingly, any hedging ineffectiveness is recognized in net interest income.

The Credit Union designates instruments as cash flow hedges where derivatives are used to hedge exposures to instruments with exposure to variable cash flows by effectively converting variable rate financial instruments to fixed rate financial instruments. The effective portion of the change in fair value of the derivative instrument is offset through OCI until the variability in cash flows being hedged is recognized in income, at which time an equivalent portion of the amount within OCI is adjusted into income. Any ineffective portion of the change in fair value of the hedging derivative is accounted for within net interest income.

Derivative transactions that do not meet the hedge documentation and effectiveness criteria are accounted for at fair value on the consolidated balance sheet with changes in fair value being recorded in net income.

The Credit Union has several interest rate swaps designated as cash flow hedges as disclosed in note 18.

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Embedded derivatives

All derivatives embedded in other financial instruments are valued as separate derivatives when: their economic characteristics and risks are not closely related to the host contract, the terms of the embedded derivatives are not the same as those of a free-standing derivative, and the combined instrument is not measured at fair value. Changes in fair value are recorded through the consolidated statement of income.

Embedded derivatives related to index-linked deposit obligations are measured at estimated fair value, with changes in fair value recorded through interest expense fully offset by an option contract to hedge the Credit Union's exposure to pay index-linked returns.

Income taxes

The Credit Union uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

The Credit Union accounts for uncertain tax positions using the contingent liability model, whereby a provision is set aside only if it is considered likely that a payment will be required to be made.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at prevailing exchange rates at the consolidated balance sheet date. Revenue and expenses are translated using average monthly exchange rates. Realized and unrealized gains and losses arising from translation are included in the consolidated statement of income.

Defined benefit plans

The Credit Union accrues its obligations under employee benefit plans (including pension plans and post-retirement plans) and the related costs, net of plan assets, for defined benefit plans. The accrued benefit assets (liabilities) are included in other assets (accounts payable and accrued liabilities). The Credit Union has adopted the following policies:

- a) the cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, mortality and expected health care costs. The discount rate used to measure liabilities is derived from market rates as at the measurement date;

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- b) the expected return on plan assets is based on management's best estimate of the long-term expected rate of transitional obligations on adoption of Section 3461, *Employee Future Benefits*, ("Section 3461") and return on plan assets and a market related value of plan assets;
- c) transitional obligations on adoption of Section 3461 are amortized over the estimated average remaining service period of employees active on adoption of the accounting standard;
- d) past service costs from plan amendments are amortized on a straight-line basis over the estimated average remaining service period of employees active at the date of amendment;
- e) the excess of net actuarial gains (losses) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the estimated average remaining service period of active employees. The estimated average remaining service period of the active employees covered by the pension plans is 10 years (2008 - 10 years). The estimated average remaining service period of the active employees covered by the post-retirement benefit plan is 5 years (2008 - five years); and
- f) when the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Defined contribution plan

The Credit Union is a member of a multi-employer plan that is accounted for as a defined contribution plan. Contributions are expensed as incurred.

Fees and commission income

Service charges and foreign exchange transaction fees are recognized on an accrual basis when the service is performed.

Commission income is earned on the sale of insurance policies and is recognized as at the related insurance policy's effective date. The Credit Union is also entitled to contingent profit commission from insurance companies, which is recorded at the earlier of the period in which amounts can be reasonably estimated or the period in which the amounts are received. The Credit Union maintains an allowance, if required, for estimated policy cancellations and commission returns based upon the application of historical policy cancellation and commission return rates adjusted for any known derivations.

Investment management fees, mutual fund fees and financial planning fees are recorded at the date of sale on an accrual basis.

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Equity and non-equity shares

Upon opening an account at the Credit Union, new members are required to purchase a minimum of 25 Membership equity shares (junior members - 5 shares). Membership shares are redeemable on demand by the member. Periodically, members may purchase Class F, G, H or I Preferred shares, as authorized by the Board of Directors, which are redeemable at the end of the time periods stated for that particular class of share. Accordingly, these classes of shares are recorded as member deposits.

Membership, Investment, Class E Equity, and Preferred shares of the Credit Union are not subject to guarantee by the Credit Union Deposit Insurance Corporation of British Columbia ("CUDIC"). No Class H or I Preferred shares are issued. Dividends may be declared annually on Membership, Investment, and Class E Equity shares at the discretion of the Board of Directors.

Members, periodically, as authorized by the Board of Directors, are permitted to purchase Investment and Class E Equity shares. Redemption of Investment and Class E Equity shares is subject to certain conditions and approval of the Board of Directors. Accordingly, they are recorded as members' equity.

Comparative figures

Certain prior year comparative figures have been reclassified to conform to the presentation adopted in the current year.

3 Loans to members

	2009	2008
	\$	\$
Residential mortgages	972,998	871,354
Commercial mortgages and loans	480,891	454,370
Personal loans	301,057	283,923
Net deferred transaction fees and related costs	(512)	(769)
Accrued interest	3,884	4,479
	<hr/>	<hr/>
	1,758,318	1,613,357
Total provision for credit losses	6,892	6,342
	<hr/>	<hr/>
	1,751,426	1,607,015

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Change in provision for credit losses

			<u>2009</u>	<u>2008</u>
	Residential mortgages and personal loans \$	Commercial mortgages and loans \$	Total \$	Total \$
Balance - Beginning of year	4,080	2,262	6,342	6,288
Loans written off in the year	(946)	(4)	(950)	(1,096)
Provisions made in the year	999	501	1,500	1,150
Balance - End of year	<u>4,133</u>	<u>2,759</u>	<u>6,892</u>	<u>6,342</u>

Total provision for credit losses

			<u>2009</u>	<u>2008</u>
	Residential mortgages and personal loans \$	Commercial mortgages and loans \$	Total \$	Total \$
Specific provision	627	1,236	1,863	1,110
General provision	3,506	1,523	5,029	5,232
	<u>4,133</u>	<u>2,759</u>	<u>6,892</u>	<u>6,342</u>

Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (i) less than 90 days past due, or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

	1-29 days \$	30-89 days \$	90 days and greater \$	Total \$
Retail				
Residential mortgages	17,470	4,344	2,468	24,282
Personal	1,422	858	336	2,616
Commercial	991	4,096	7,788	12,875
	<u>19,883</u>	<u>9,298</u>	<u>10,592</u>	<u>39,773</u>

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The fair value of the collateral held by the Credit Union as security for the above loans was \$67,401. The Credit Union has estimated the fair value of collateral based on an updated assessment of the security appraisal undertaken at the original funding assessment or management's knowledge of the fair value of securities.

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

4 Loan securitizations

During the year, the Credit Union securitized residential mortgages with principal outstanding of \$27,665 (2008 - \$25,820) and recognized gains on sale of \$1,825 (2008 - \$685). The gains are included in other income (note 11).

The Credit Union has an agreement with Central 1 to sell CMHC insured mortgages for participation in the Canada Mortgage Bond Program, which are used by Central 1 to create mortgage-backed securities sold to Canada Mortgage Housing Trust, an independent special purpose entity. In past years, the Credit Union also securitized loans through other securitization vehicles and sold them directly to a special purpose entity.

The Credit Union's retained interests in securitized loans consist of a right to receive future cash flows arising after the investors in the special purpose entity have received the return for which they contracted and from credit enhancement provided to the special purpose entity in the form of cash collateral accounts. The investors and special purpose entities, as holders of the securitized mortgages, have recourse only to a cash collateral account, the mortgages securitized and cash flows from the securitized mortgages. The investors and the third parties have no recourse to the Credit Union's other assets for failure of debtors to pay when due. The Credit Union's retained interests are subject to credit, prepayment and interest rate risks on the securitized mortgages.

As part of these securitizations of mortgage receivables, the Credit Union retained servicing responsibilities. A servicing liability of \$200 (2008 - \$209) was recognized initially on new securitizations during the year. Servicing liabilities amortized to income during the year amounted to \$320 (2008 - \$494).

The fair value of retained interests amounted to \$1,773 at December 31, 2009 (2008 - \$3,235). The carrying value of recognized servicing liabilities amounted to \$274 at December 31, 2009 (2008 - \$754).

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(expressed in thousands of dollars)

During the year, the Credit Union repurchased certain uninsured mortgage receivables that were previously securitized to an independent special purpose trust under a mortgage securitization program as a result of an offer from the trust to repurchase. The transaction was accounted for at fair value, with fair value determined using a discounted cash flow model that included maximum use of market observable inputs such as interest yield curves and estimates as to credit spreads. As a result, the Credit Union recognized mortgage receivables of \$86,958 on the consolidated balance sheet and derecognized retained interests of \$1,627 and \$360 attributable to servicing liabilities. The premium on the mortgages will be amortized using the effective interest rate method over the remaining mortgage term of maturity.

Key assumptions used in measuring the Credit Union's retained interests in securitized residential mortgages include the following:

	2009 %	2008 %
Prepayment rate	25.00	30.00
Expected credit losses	0.00	0.10
Residual cash flows discount rate	2.84	3.26
Weighted average life (in years)	3.45	2.05

The following table presents the sensitivity of the fair value of retained interests resulting from two adverse changes in each key assumption as at December 31, 2009. The sensitivity analysis is hypothetical and should be used with caution as changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption may not be exact. Furthermore, the effect of a change in assumption on the fair value of retained interests is calculated without changing any other assumptions. Changes in one estimate may result in changes in another assumption, which may have an impact on the estimate of fair value.

	2009 \$	2008 \$
Potential decrease in fair value due to the following hypothetical adverse changes		
Discount rate		
+10%	150	200
+20%	301	406
Repayment rate		
+10%	80	93
+20%	130	163

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5 Investments

	2009 \$	2008 \$
Central 1 equity shares and accrued dividends	4,955	4,648
Other investments	1,093	1,084
	<u>6,048</u>	<u>5,732</u>

6 Property, premises, equipment and intangibles

	<u>2009</u>		<u>2008</u>	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Office equipment and furniture	15,115	11,142	3,973	4,232
Leasehold improvements	8,896	3,711	5,185	5,767
Software - intangibles	7,133	5,188	1,945	2,407
Property held for resale	525	-	525	282
Land and buildings	90	-	90	910
Automotive equipment	32	32	-	-
	<u>31,791</u>	<u>20,073</u>	<u>11,718</u>	<u>13,598</u>

7 Other assets

	2009 \$	2008 \$
Accounts receivable	6,190	7,110
Retained interests in securitized loans (note 4)	1,773	3,235
Prepaid expenses	3,710	3,012
Goodwill	839	839
	<u>12,512</u>	<u>14,196</u>

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8 Borrowings

	2009		2008	
	Weighted average interest rate %	Amount \$	Weighted average interest rate %	Amount \$
Central 1 call loans	0.80	118,000	2.28	63,500

The Credit Union has available approved lines of credit aggregating \$156,200 (2008 - \$156,200). The available lines of credit are secured by an assignment of loans to members, accounts receivable and a demand debenture in favour of Central 1.

9 Member deposits

	2009 \$	2008 \$
Term deposits	904,961	920,621
Demand deposits	497,623	392,375
Registered savings plans	293,738	273,685
Member deposit shares (note 10(b))	25,663	25,477
Deferred transaction costs	(291)	(459)
Accrued interest	16,664	22,686
	<u>1,738,358</u>	<u>1,634,385</u>

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(expressed in thousands of dollars)

10 Member deposit and members' equity shares

a) Authorized shares

(expressed in thousands of dollars except for value per share)

Unlimited Class A Membership voting equity shares with a par value and redemption value of \$1 each

Unlimited Class B Patronage voting equity shares with a par value and redemption value of \$1 each

Unlimited Class C Investment non-voting equity shares with a par value and redemption value of \$1 each

Unlimited Class D Non-equity shares with a par value and redemption value of \$1 each

Unlimited Class E Equity voting, non-redeemable, non-cumulative, equity shares with a par value of \$1 each

Unlimited Class F, G, H and I Preferred shares. Each class of Preferred share is issuable in Series (Series 1, 2 or 3). Each Series of each class can be offered in three, five, seven or 10-year terms. Each class of Preferred share is redeemable at the end of its term, is non-voting and is entitled to cumulative dividends at a rate set when issued.

b) Issued shares classified as member deposits (note 9) consist of the following:

(expressed in thousands except for number of shares)

	2009	2008
	\$	\$
5,020,432 (2008 - 5,280,137) Class A Membership equity shares	5,020	5,280
64,612 (2008 - 66,134) Class D Non-equity shares	65	66
17,602,650 (2008 - 17,812,626) Class F, Series 1-3 and Class G, Series 1, 3-to-10 year Preferred shares; the shares have cumulative dividends of 5.07% to 7.00%	17,602	17,813
Accrued dividends on Preferred shares	3,056	2,436
	<hr/>	<hr/>
	25,743	25,595
Deferred transaction costs	(80)	(118)
	<hr/>	<hr/>
	25,663	25,477
	<hr/>	<hr/>

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The Class F, Series 1, 2 and 3 and Class G, Series 1 Preferred shares are subject to redemption as follows:

	2009 \$	2008 \$
2010	6,518	6,254
2012	309	295
2013	10,695	10,614
2015	1,354	1,341
2016	1,782	1,745
Less: Accrued dividends	(3,056)	(2,436)
	<hr/> 17,602	<hr/> 17,813

c) Issued shares classified as members' equity consist of the following:
(expressed in thousands of dollars except for number of shares)

	2009 \$	2008 \$
5,358,612 (2008 - 5,601,905) Class C Investment equity shares	5,359	5,602
252,000 (2008 - 291,990) Class E Equity shares	252	292
	<hr/> 5,611	<hr/> 5,894

11 Other income

	2009 \$	2008 \$
Service charges	7,220	7,555
Insurance commissions	4,849	7,387
Securitization gain on sale of loans	1,825	685
Investment management	1,514	1,435
Loan fees	658	465
Foreign exchange	540	1,050
Gain on sale of property, premises, equipment and intangibles	113	-
Rental	22	35
Gain on disposal of subsidiaries (note 1)	-	3,118
	<hr/> 16,741	<hr/> 21,730

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12 Other expenses

	2009	2008
	\$	\$
Deposit insurance and other fees	1,288	628
Other	925	827
Professional services	719	702
BC capital tax	390	683
Central 1 dues	336	322
	<hr/>	<hr/>
	3,658	3,162
	<hr/>	<hr/>

13 Pension plans

The Credit Union sponsors a number of pension plans and a post-retirement benefit plan covering eligible employees of the Credit Union and its subsidiaries.

The Multi-Employer Plan is administered on behalf of the Credit Union by Central 1 and accounted for as a defined contribution plan. Pension expense of \$949 (2008 - \$862) with respect to the Multi-Employer Plan has been charged to salaries and employee benefits in the consolidated statement of income.

A group RSP is administered by the Credit Union and accounted for as a defined contribution plan. Pension expense of \$112 (2008 - \$140) in respect to the group RSP has been charged to salaries and employee benefits in the consolidated statement of income.

The other pension plans are defined benefit plans and are referred to as the Prospera Plan, the Multiple Employer Plan and the Supplemental Retirement Plan. The Prospera Plan does not have any active members and accordingly a valuation allowance has been recorded against the accrued benefit asset.

The Post-Retirement Benefit Plan is also a defined benefit plan.

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	Prospera Plan		Multiple Employer Plan		Supplemental Retirement Plan		Post-Retirement Benefit Plan	
	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$
Accrued benefit obligation								
Balance - Beginning of year	1,131	1,573	7,532	10,490	816	870	1,404	1,845
Current service cost	-	-	532	789	113	133	4	10
Interest cost	73	83	591	636	67	57	100	105
Benefits paid	(73)	(249)	(277)	(333)	(9)	(9)	(51)	(43)
Actuarial loss (gain)	151	(276)	2,282	(4,050)	42	(235)	(15)	(513)
Balance - End of year	1,282	1,131	10,660	7,532	1,029	816	1,442	1,404
Plan assets								
Fair value - Beginning of year	1,417	1,940	8,149	9,145	-	-	-	-
Actual return on plan assets	183	(274)	596	(1,497)	-	-	-	-
Employer contributions	-	-	763	834	16	-	-	-
Benefits paid	(73)	(249)	(277)	(333)	-	-	-	-
Fair value - End of year	1,527	1,417	9,231	8,149	16	-	-	-
Fund surplus (deficit)	245	286	(1,429)	617	(1,013)	(816)	(1,442)	(1,404)
Unamortized net actuarial loss (gain)	245	189	1,946	(315)	(248)	(377)	(243)	(250)
Unamortized transitional (asset) obligation	(45)	(62)	(181)	(247)	-	-	340	535
Accrued benefit asset (liability) before valuation allowance	445	413	336	55	(1,261)	(1,193)	(1,345)	(1,119)
Valuation allowance against accrued benefit asset	(245)	(286)	-	-	-	-	-	-
Accrued benefit asset (liability) net of valuation allowance	200	127	336	55	(1,261)	(1,193)	(1,345)	(1,119)

The accrued benefit liability for the Supplemental Retirement Plan is secured by an irrevocable letter of credit issued by the Credit Union in the amount of \$1,806 (2008 - \$1,559).

The significant weighted average actuarial assumptions adopted in measuring the Credit Union's accrued benefit obligations are:

	Prospera Plan		Multiple Employer Plan		Supplemental Retirement Plan		Post-Retirement Benefit Plan	
	2009 %	2008 %	2009 %	2008 %	2009 %	2008 %	2009 %	2008 %
Discount rate	6.25	7.25	6.00	7.50	6.50	7.25	6.50	7.25
Expected long-term rate of return on plan assets	7.00	7.00	6.75	7.00	n/a	n/a	n/a	n/a
Rate of compensation increase	n/a	n/a	3.00	3.25	3.00	3.25	3.00	3.25

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The net benefit (recovery) expense is as follows:

	Prospera Plan		Multiple Employer Plan		Supplemental Retirement Plan		Post-Retirement Benefit Plan	
	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$
Current service cost	-	-	533	789	113	133	4	10
Interest cost	73	83	591	637	67	57	100	105
Expected return on plan assets	(90)	(127)	(577)	(652)	-	-	-	-
Experience gains (losses)	151	(276)	2,281	(4,050)	(30)	235	16	513
Deferral of experience (losses) gains	(151)	276	(2,281)	4,050	30	(235)	(16)	(513)
Amortization of net actuarial gains (losses)	1	-	-	60	(98)	(27)	(22)	20
Amortization of transitional (asset) obligation	(17)	(16)	(66)	(66)	-	-	194	194
Decrease in valuation allowance provided against accrued benefit asset	(40)	(67)	-	-	-	-	-	-
Net benefit plan (recovery) expense	(73)	(127)	481	768	82	163	276	329

14 Income taxes

The provision for income taxes differs from the amount that would be computed by applying the combined federal and provincial statutory income tax rates of 30% (2008 - 31.0%) to income before income taxes. The reasons for the differences are as follows:

	2009 \$	2008 \$
Computed tax expense	2,305	2,403
(Decrease) increase resulting from		
Preferred rate amount deduction for credit unions	(1,277)	(1,233)
Non-taxable gains	(55)	(224)
Effect of tax rate changes	17	213
Other	(36)	(36)
	<u>954</u>	<u>1,123</u>

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The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are:

	2009	2008
	\$	\$
Future income tax assets		
Provision for credit losses	629	721
Deferred revenue	116	140
Pension, severance and long-term incentive accruals	398	453
Property, premises, equipment and intangibles - differences between net book value and undepreciated capital cost	227	161
Loss carry-forwards	46	202
	<hr/> 1,416	<hr/> 1,677
Future income tax liabilities		
Prepaid expenses	86	98
Retained interest on securitizations	94	178
Goodwill, client lists and licences	96	103
Other	71	-
	<hr/> 347	<hr/> 379
Net future income tax asset	<hr/> 1,069	<hr/> 1,298

15 Commitments and contingent liabilities

a) Commitments

Leases

Most of the Credit Union's premises are leased for varying terms. Current minimum annual payments are approximately \$4,729 (2008 - \$5,509) for each of the next five years and \$23,777 (2008 - \$24,089) in aggregate thereafter.

Letters of credit and other guarantees

Arising through its normal course of business, the Credit Union has outstanding letters of credit issued on behalf of members totalling \$7,101 (2008 - \$8,916) and has guaranteed credit card accounts on behalf of members totalling \$605 (2008 - \$721), which are secured by member term deposits or property mortgages.

b) Contingent liabilities

In the course of its business, various claims and legal proceedings may arise against the Credit Union. The Credit Union defends itself where appropriate and is currently of the opinion that it is more likely than not to prevail; accordingly, no provision has been made in these financial statements.

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16 Risk management

The Credit Union's risk management policies are designed to identify and analyze risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Risk management is carried out by a number of delegated committees reporting to the Board of Directors. The Board provides written principles for risk tolerance and overall risk management, and management reports to the Board on compliance with the risk management policies of the Credit Union. In addition, the Credit Union maintains an Internal Audit function, which is responsible for independent review of risk management and the Credit Union's control environment.

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union 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. The primary types of financial risk that arise from this activity are interest rate risk, credit risk, liquidity risk, price risk and foreign exchange risk.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the method used in managing those risks:

Activity	Risk	Method
Fixed rate savings products and funding activities involving fixed rate instruments	Sensitivity to changes in interest rates	Asset-liability matching and periodic use of derivatives
Fixed rate mortgages	Sensitivity to changes in interest rates	Asset-liability matching and periodic use of derivatives
Equity linked deposit products	Sensitivity to changes in Canadian equity indices	Options
Foreign currencies	Sensitivity to changes in foreign currency	Asset-liability matching and investment limits

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Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Interest margins reported in the consolidated statement of income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mis-match of interest rate repricing that may be undertaken, which is monitored by the Credit Union's Treasury department and reported to the Asset and Liability Committee ("ALCO"), which is responsible for managing interest rate risk.

In managing interest rate risk, the Credit Union relies primarily upon use of asset-liability and interest rate sensitivity simulation models. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the repricing of the Credit Union's financial instruments. The Credit Union's derivative instruments as at the year-end are disclosed in note 18 of the financial statements.

Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a 12-month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to ALCO. Based on current differences between financial assets and financial liabilities as at December 31, 2009, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by \$3,645 over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest income by \$667 over the next 12 months.

Other types of interest rate risk may involve basis risk. The risk of loss arising from changes in the relationship of interest rates that have similar but not identical characteristics, for example the difference between Prime rates and the Canadian Deposit Offering Rate ("CDOR"), and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans) are also monitored on a regular basis and are reported to ALCO.

Credit risk

Credit risk is the risk of a financial loss occurring due to a Credit Union member's or counterparty's inability or refusal to fully honour the contractual obligations of a balance sheet or off-balance sheet financial instrument. This risk results from being a party to a financial operation with a counterparty. Provisions for credit losses are made for losses that have been incurred at the balance sheet date. Significant changes in the economy of British Columbia, specifically the Greater Vancouver, Fraser Valley and Okanagan areas of British Columbia, or deteriorations in lending sectors that represent a concentration within the Credit Union's loan portfolio may result in losses that are different from those provided for at the balance sheet date.

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At December 31, 2009, the maximum credit risk exposure of the Credit Union approximates the carrying value of all assets except for undrawn lines of credit, which amounted to \$209,205 as at year-end. The classes of financial instrument to which the Credit Union is most exposed are loans to members, cash resources and derivatives.

Credit risk exposure	Outstanding \$	Undrawn commitments \$	Other \$	Total exposure \$
Cash resources	159,704	-	-	159,704
Residential				
Mortgages	972,998	9,157	-	982,155
Loans	70,044	697	-	70,741
Line of credit and overdraft	231,013	168,125	-	399,138
Commercial				
Mortgages	421,909	11,850	-	433,759
Loans	22,672	1,507	-	24,179
Line of credit and overdraft	36,310	41,080	-	77,390
Accrued interest on loans	3,884	-	-	3,884
Loan transaction costs	(512)	-	-	(512)
Other assets	6,190	-	-	6,190
Total exposure	1,924,212	232,416	-	2,156,628

Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in member loans and advances and Treasury activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is centralized in the Investment and Lending Committee which reports to the Board of Directors and the respective operating units of the Credit Union.

Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member.

The Investment and Lending Committee is responsible for approving and monitoring the Credit Union's tolerance for credit exposures, which it does through review and approval of the Credit Union's lending policies and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits, and prior to advancing funds to a member, an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and establishes that loans are within the member's ability to repay, rather than relying exclusively on collateral.

Loans to members consist of \$972,998 residential loans which are fully secured on residential property with a further \$253,546 secured on personal loans. Loans to members also include \$47,538 of unsecured loans, which principally consist of personal loans and lines of credit.

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The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The credit quality of the commercial loan portfolio for those loans that are neither past due nor impaired can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the probability of a default using internal rating tools and takes into account both statistical analysis and the experience and judgement of the Credit department. Commercial loans are divided into segments and are regularly reviewed and updated as appropriate.

Credit risk within the Treasury department arises from the investments in cash resources held by the Credit Union to meet regulatory and internal liquidity requirements and for general business purposes. This aspect of credit risk is principally managed by the Treasury department, which reports to the Investment and Lending Committee. The Treasury department managed assets consist of cash resources held with Central 1.

Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity threshold at all times, based on total members' deposits and non-equity shares. At December 31, 2009, the Credit Union's liquidity exceeded the required level. The level of restricted cash resources required is based on total deposits and other debt liabilities. Included in cash resources are restricted cash resources of \$150,947 (2008 - \$138,916). The Credit Union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, securitizations and asset-liability maturity management techniques. Management monitors rolling forecasts of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union also maintains a borrowing facility with Central 1 of \$156,200 as an integral part of its liquidity management strategy as disclosed in note 8.

Contractual repricing and maturity risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of interest-sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are summed to show the interest rate and maturity gap.

Foreign exchange risk

Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial instruments for an extended period.

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Price risk

The Credit Union is exposed to price risk on retained interests on securitized residential mortgage pools where the Credit Union's residual interest in those pools consists of an exchange of fixed interest cash flows of the Trust with floating rate cash flows based on the Trust's overall cost of funds. The Credit Union manages its exposure to price risk as an integral part of its asset-liability matching risk management. Disclosures of the potential exposures on the amount of retained interests being amortized through the income statement are included in note 4.

Capital management

The Financial Institutions Act requires the Credit Union to maintain, at all times, a capital base and pooled liquid assets ("restricted cash resources") that are adequate in relation to its business carried on. The level of capital required is based on the risk-weighted value of its underlying assets. The capital base of the Credit Union as determined by the Financial Institutions Act was \$99,540 as at December 31, 2009.

The Financial Institutions Act regulations prescribe a minimum required capital adequacy ratio. During 2009 and as at December 31, 2009, the Credit Union has met this requirement. Capital is managed in accordance with policies established by the Board. Management regards a strong capital base as an integral part of the Credit Union's strategy. The Credit Union has a capital plan to provide a long-term forecast of capital requirements. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

17 Contractual repricing and maturity schedule

Contractual repricing and maturity risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of interest-sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are summed to show the interest rate sensitivity gap.

	Weighted average rate %	Variable rate \$	Within 3 months \$	3 months to 1 year \$	1 to 5 years \$	Over 5 years \$	Non-interest sensitive \$	Total \$
Assets								
Cash resources	3.14%	-	18,250	16,000	124,310	-	1,144	159,704
Investments	7.91%	4,438	-	-	-	-	1,610	6,048
Loans to members	3.70%	728,035	27,519	158,563	839,708	-	(2,399)	1,751,426
Other	2.46%	1,773	-	-	-	-	23,526	25,299
		734,246	45,769	174,563	964,018	-	23,881	1,942,477
Liabilities and Members' Equity								
Central 1 call loans	0.80%	-	58,000	60,000	-	-	-	118,000
Member deposits	1.95%	538,299	105,063	410,968	659,659	-	24,369	1,738,358
Other		-	-	-	-	-	86,119	86,119
		538,299	163,063	470,968	659,659	-	110,488	1,942,477
On balance sheet mismatch		195,947	(117,294)	(296,405)	304,359	-	(86,607)	-
Off balance sheet mismatch		-	3,935	(80,000)	76,065	-	-	-
Total mismatch		195,947	(113,359)	(376,405)	380,424	-	(86,607)	-

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18 Derivatives

The table below provides an analysis of the Credit Union's derivative-related credit exposure:

	<u>2009</u>		<u>2008</u>	
	Notional amount	Current replacement amount	Notional amount	Current replacement amount
	\$	\$	\$	\$
Equity options	18,489	2,486	17,619	2,255
Interest rate swaps	223,935	622	20,000	(75)

Equity options are transactions in which the Credit Union manages its exposure to changes in the value of index-linked deposit products. Equity options purchased by the Credit Union, for a premium, provide the right, but not the obligation, to buy or sell to the writer of the option an underlying stock index. These option contracts are transacted on an over-the-counter basis.

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates.

Notional amounts are 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 to the Credit Union. Notional amounts are not exchanged.

Current credit exposure is limited to the amount of loss that the Credit Union would suffer if every counterparty to which the Credit Union was exposed were to default at once, which is represented by the current replacement cost of the fair value of all outstanding contracts.

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19 Fair value of financial instruments

The following represents the approximate fair values of financial instruments of the Credit Union as at the balance sheet date:

	2009			2008		
	Book value \$	Fair value \$	Difference \$	Book value \$	Fair value \$	Difference \$
Assets						
Cash resources	159,704	163,315	3,611	139,230	147,086	7,856
Investments	6,048	6,048	-	5,732	5,732	-
Loans to members	1,750,817	1,777,510	26,693	1,607,784	1,617,640	9,856
Other financial assets	7,963	7,963	-	10,345	10,345	-
Liabilities						
Borrowings	118,000	118,000	-	63,500	63,500	-
Member deposits	1,738,729	1,750,761	12,032	1,634,962	1,649,484	14,522
Accounts payable	9,356	9,356	-	13,148	13,148	-

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act and is best evidenced by a quoted market price.

The fair values of loans and member deposits with variable rates of interest approximate their carrying values since these instruments reprice to market frequently. On that basis, fair value approximates carrying value, net of any general or specific loan loss provision.

As many of the Credit Union's financial instruments lack an available trading market, the fair values of loans and member deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of instruments. The Credit Union adjusts the fair value of loans and deposits with fixed terms to take account of any significant changes in credit risk using observable market inputs in determining the counterparty credit risk of loans and entity level credit risk of deposits, respectively. The inputs to the valuation model for fixed rate loans include scheduled loan amortization rates, estimated rates of repayment with the future cash flows discounted using current market rates for equivalent groups of mortgages or loans. The future cash flows on fixed rate deposits and fixed rate borrowings are discounted to their estimated present value using a discount rate based on an appropriate interest yield curve. Other inputs may include the addition of an interest rate spread to incorporate an appropriate risk premium over market rates with a subsequent adjustment for any significant changes in credit risk.

The fair values of loans with variable rates of interest approximate their carrying values since the interest rates of these instruments reprice for changes in prime interest rates frequently. The Credit Union adjusts its valuation model to take account of changes in credit spreads, net of any general or specific loan loss provision.

The fair values of over-the-counter derivatives, which the Credit Union periodically uses for risk management purposes, incorporate changes in the appropriate interest yield curve or appropriate market rate in the estimation of fair value. The fair values are also adjusted to take account of significant changes in credit risk.

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The fair value of financial instruments traded in active markets is obtained by reference to quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by the use of valuation techniques which use market based inputs, where available, or non-market based inputs.

The Credit Union hedges a portion of interest cash flow risk arising from its mortgage book using interest rate swaps. It accounts for certain of these swaps as economic hedges with changes in fair value swaps recorded to the income statement. Other interest rate swaps, where designated as hedging instruments in a cash flow hedging relationship with accompanying hedging documentation and effectiveness measurement tests in place at the outset of the hedging relationship, are accounted for as cash flow hedges. Interest rate swaps accounted for as economic hedges with a notional value of \$163,935 and a fair value of \$342 were outstanding as at December 31, 2009. Interest rate swaps accounted for as cash flow hedges held a notional value of \$60,000 and a fair value of \$280. The effective portion of the hedges amounting to \$280 was recognized in AOCI.

The following table summarizes the valuation methods used to measure the fair value of financial instruments which are accounted for at fair value on the Credit Union's consolidated balance sheet as at December 31, 2009:

	Quoted market price \$	Valuation technique - market observable inputs \$	Valuation technique - non-market observable inputs \$
Financial assets			
Derivatives	-	622	-
Retained interests	-	-	1,773
Financial liabilities			
Index-linked embedded derivatives	-	2,486	-
	-	3,108	1,773

The fair values of member deposits with variable rates of interest approximate their carrying values since these instruments reprice to market frequently. On that basis, fair value of each individual deposit approximates carrying value, since the fair value cannot be less than the maturity amount.

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20 Other information

At December 31, 2009, outstanding loans to directors, executive management and employees with credit-granting authority of the Credit Union amounted to \$27,595 (2008 - \$17,126). All loans to directors, executive management and employees of the Credit Union are subject to the credit policies established for all members. Credit Union employees and executive management may receive special rates or other considerations with respect to loans at the Credit Union. Directors do not receive special rates or other considerations with respect to loans at the Credit Union.

21 Supplementary cash flow information

During the year, the Credit Union paid the following amounts:

	2009	2008
	\$	\$
Interest	47,717	52,289
Dividends paid	1,312	1,398
Income taxes	672	1,045

22 Funds held in trust

The Credit Union holds funds in segregated accounts for members investing in self-directed registered savings plans and mutual funds. The value of publicly traded investments is determined using the quoted market amounts at the year-end date. These funds are not included in the consolidated balance sheet at December 31, 2009 and amount to \$313,245 (2008 - \$217,317).