

Financial Statements 2009

Auditors' Report

March 16, 2010

To the Members of Cambrian Credit Union Limited

We have audited the balance sheet of Cambrian Credit Union Limited (the "Credit Union") as at December 31, 2009 and the statements of net income, comprehensive income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 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
Winnipeg, Canada

Balance Sheet

As at December 31, 2009

(Thousands of Dollars)	2009	2008
Assets		
Cash on hand	5,524	5,067
Investments (note 3)	293,554	196,229
Loans outstanding – net of allowance for loss (notes 4 and 5)	1,672,357	1,547,062
Property and equipment (note 6)	14,051	10,269
Other assets (note 7)	2,314	1,251
Future income taxes	285	395
	1,988,085	1,760,273
Liabilities		
Savings and deposits (note 8)	1,870,008	1,654,683
Accounts payable and accrued charges	5,534	5,570
	1,875,542	1,660,253
Members' Equity		
Shares to be issued (note 9 (b))	395	500
Members' shares (note 10)	9,519	9,398
Retained earnings	102,629	90,122
	112,543	100,020
	1,988,085	1,760,273

See accompanying notes

On behalf of the Board:

Paul Holden

Paul Holden, MNRM
Board Chair

Howard Falk

Howard Falk, CGA
Audit Committee Chair

Statement of Net Income, Comprehensive Income and Retained Earnings

For the year ended December 31, 2009

(Thousands of Dollars)	2009	2008
Interest income		
Members' loans	74,287	77,564
Investments	4,095	7,475
	78,382	85,039
Interest expense		
Members' deposits	54,912	55,689
Net interest income	23,470	29,350
Provision for loan loss (note 5)	–	1,080
	23,470	28,270
Other income	15,846	14,053
Net interest and other income	39,316	42,323
Operating expenses		
Salaries and employee benefits	12,561	12,520
Administration	5,048	5,175
Premises	3,027	3,048
Member security (note 12)	1,109	1,629
Organizational (note 12)	1,100	1,028
	22,845	23,400
Income before refunded service fees and income taxes	16,471	18,923
Refunded service fees (note 9(a))	1,757	1,682
Income before income taxes	14,714	17,241
Provision for income taxes (note 14)		
Current	1,826	2,740
Future	110	5
	1,936	2,745
Net income and comprehensive income for the year	12,778	14,496
Retained earnings – Beginning of year	90,122	75,977
	102,900	90,473
Dividends – net of \$124 (2008 – \$149) of taxes recoverable (note 9 (b))	(271)	(351)
Retained earnings – End of year	102,629	90,122

See accompanying notes

Statement of Cash Flows

For the year ended December 31, 2009

(Thousands of Dollars)	2009	2008
Cash provided by (used in)		
Operating activities		
Interest received	78,749	86,518
Interest paid	(54,936)	(51,483)
Payments to suppliers and employees	(21,986)	(22,903)
Other income received	15,846	14,053
Income taxes paid	(2,281)	(2,325)
Cash provided by operating activities	15,392	23,860
Investing activities		
Loans issued	(392,619)	(419,067)
Loans repaid	267,228	226,844
Net loans to members	(125,391)	(192,223)
Increase in investments	(97,595)	(20,112)
Additions to property and equipment	(5,162)	(1,286)
Cash used in investing activities	(228,148)	(213,621)
Financing activities		
Increase in members' savings and deposits	215,349	192,502
Redemption of surplus and common shares	(2,139)	(2,114)
Issuance of common shares – membership	3	5
Cash provided by financing activities	213,213	190,393
Net increase in cash during the year	457	632
Cash on hand – Beginning of year	5,067	4,435
Cash on hand – End of year	5,524	5,067

See accompanying notes

Notes to Financial Statements

December 31, 2009

1. CHANGE IN ACCOUNTING POLICIES

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”). 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.

Financial instruments

On April 29, 2009, the AcSB issued an amendment to CICA Handbook Section 3855, Financial Instrument: 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.

The adoption of this amendment for its fiscal 2009 financial statements did not have a significant impact on the Credit Union’s financial position or net income.

Financial instruments disclosure

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 derivatives and non financial liabilities based on expected maturities.

The adoption of the above amendment did not have a significant impact on the disclosures of the Credit Union.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Actual results may differ from those estimates.

The significant accounting policies used in these financial statements are as follows:

Investments

Contract deposits are classified as held to maturity and are recorded at amortized cost. If the market value of investments becomes lower than cost and this decline in the value is considered to be other than temporary, the investments are written down to market value and the write down is recorded in net income in the period. The Credit Union assesses whether a financial asset is other than temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization.

Shares of Credit Union Central of Manitoba (“Central”) are classified as available for sale and are not actively traded in a quoted market. Accordingly, the shares are recorded at cost.

Loans outstanding

Loans outstanding are initially recognized at fair value and are subsequently recorded at amortized cost using the effective interest method of amortization. Loans are stated net of an allowance established to recognize estimated probable losses. A loan is considered impaired when the loans are either i) greater than 90 days past due, or ii) not fully secured and collection efforts are unlikely to result in repayment. When a loan is considered impaired, the carrying amount of the loan is reduced to its estimated realizable value. Estimated realizable amounts are determined by estimating the fair value of security underlying the loans and deducting costs of realization. In addition to a specific allowance against identified impaired loans, the Credit Union maintains a non-specific allowance to cover impairment which is inherent in the loan portfolio and is estimated based upon historical loss experience and prevailing economic conditions. Accounts written off reduce the allowance.

Interest revenue on loans is recognized using the effective interest method. Interest is accrued until such time as it becomes apparent that loans are impaired.

Property held for resale is valued at the lower of cost and estimated net realizable value. At December 31, 2009 there was no property held for sale.

Property and equipment

Property and equipment are recorded at cost. These assets are depreciated on a straight-line basis to income at the rates set out below:

Buildings	2.5%
Computer system	20% – 33%
Furniture and fixtures	20%
Security equipment	10%
Leasehold improvements	3.3% – 10%

Income taxes

Income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates anticipated to be in effect when the corresponding taxes will be paid or refunded. Temporary differences are differences between the financial reporting and the income tax bases of the Credit Union's allowance for loss on loans outstanding and property and equipment.

Translation of foreign currencies

Monetary assets and liabilities, denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the balance sheet date. Foreign exchange gains and losses are recorded in other income.

Central's investment

The Credit Union receives electronic transaction switching services from Everlink Payment Services Inc. ("Everlink"). Central owns a 12.4% interest in Everlink. Since the Credit Union is a beneficial owner of Everlink, it records revenue and an amount recoverable from Central equal to the Credit Union's proportional share of Everlink's operating income. Conversely, when Everlink incurs a loss from operations, the Credit Union records an expense and a liability to Central for its proportionate share of Everlink's loss.

3. INVESTMENTS

(Thousands of Dollars)	2009	2008
Credit Union Central of Manitoba		
Shares	16,347	13,642
Deposits (due within one year)	–	30,000
Current account		
Canadian – 0.77%	266,692	143,577
U.S. – 0.62%	10,241	8,466
	293,280	195,685
Credential Securities Inc. debenture, non-interest bearing, repayable in 2020	250	250
Concentra Financial shares	24	24
	293,554	195,959
Accrued interest receivable	–	270
	293,554	196,229

4. LOANS OUTSTANDING

(Thousands of Dollars)	2009	2008
Consumer		
Loans	137,581	125,505
Mortgages	909,232	819,064
Lines of credit	126,948	112,739
Commercial		
Loans	24,780	30,590
Mortgages	441,606	423,399
Lines of credit	35,067	38,759
Accrued interest receivable	2,923	3,020
	1,678,137	1,553,076
Less: Allowance for loss (note 5)	(5,780)	(6,014)
	1,672,357	1,547,062

5. ALLOWANCE FOR LOSS

As at December 31, 2009, the Credit Union has recorded allowances for doubtful loans totalling \$5,780,000 (2008 – \$6,014,000), consisting of \$1,865,000 (2008 – \$1,636,000) for specific loans considered impaired and \$3,915,000 (2008 – \$4,378,000) as a non-specific provision.

The following schedule provides the total amount of allowance recorded for each major loan category:

	2009			2008		
	Gross loan balances	Total allowance	Net loan balances	Gross loan balances	Total allowance	Net loan balances
Impaired						
Consumer						
Loans	810	350	460	318	146	172
Mortgages	3,682	36	3,646	697	30	667
Lines of credit	320	120	200	94	79	15
Commercial						
Loans	1,008	51	957	176	33	143
Mortgages	–	–	–	–	–	–
Lines of credit	2,665	1,308	1,357	3,551	1,348	2,203
	8,485	1,865	6,620	4,836	1,636	3,200
Performing loans	1,669,652	3,915	1,665,737	1,548,240	4,378	1,543,862
	1,678,137	5,780	1,672,357	1,553,076	6,014	1,547,062

The total allowance for loss consists of:

(Thousands of Dollars)			2009	2008
	Specific provision	Non-specific provision	Total	Total
Consumer				
Loans	350	735	1,085	540
Mortgages	36	75	111	118
Lines of credit	120	252	372	219
Commercial				
Loans	51	107	158	229
Mortgages	–	2,494	2,494	3,043
Lines of credit	1,308	252	1,560	1,865
	1,865	3,915	5,780	6,014

The change in the allowance for loss is as follows:

As at December 31, 2009:

(Thousands of Dollars)	Balance – beginning of year	Loans written off in the year	Provision made in the year	Balance – end of year
Consumer				
Loans	146	(159)	363	350
Mortgages	30	–	6	36
Lines of credit	79	(58)	99	120
Commercial				
Loans	33	(10)	28	51
Mortgages	–	(7)	7	–
Lines of credit	1,348	–	(40)	1,308
Total specific allowance	1,636	(234)	463	1,865
Non specific allowance	4,378	–	(463)	3,915
Total allowance	6,014	(234)	–	5,780

As at December 31, 2008:

(Thousands of Dollars)	Balance – beginning of year	Loans written off in the year	Provision made in the year	Balance – end of year
Consumer				
Loans	217	(162)	91	146
Mortgages	35	–	(5)	30
Lines of credit	88	(27)	18	79
Commercial				
Loans	140	(103)	(4)	33
Mortgages	–	–	–	–
Lines of credit	1,488	(346)	206	1,348
Total specific allowance	1,968	(638)	306	1,636
Non specific allowance	3,604	–	774	4,378
Total allowance	5,572	(638)	1,080	6,014

The fair value of the collateral held by the Credit Union as security for impaired loans as at December 31, 2009 was \$6,620,000 (2008 – \$3,200,000). 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 and management's knowledge of the market value of security.

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.

(Thousands of Dollars)	1 – 30 days	31 – 60 days	61 – 89 days	90 days and greater	Total
Consumer					
Loans	3,636	27	65	9	3,737
Mortgages	16,783	695	216	–	17,694
Lines of credit	–	72	22	–	94
Commercial					
Loans	1,650	–	–	–	1,650
Mortgages	6,780	1,623	–	–	8,403
Lines of credit	–	29	–	–	29
	28,849	2,446	303	9	31,607

The principal collateral the Credit Union holds as security for loans include (i) insurance, and 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.

The Credit Union has a policy and procedures in place to control the risk that past due loans will be rewritten or extended without the approval of senior management or the Board of Directors (the "Board") of the Credit Union. Loans that are greater than 30 days past due cannot be rewritten without the approval of senior management of the Credit Union. During the year ended December 31, 2009, there was \$199,000 of loans greater than 30 days past due that were rewritten on the approval of senior management for the purpose of improving the Credit Union's security position.

During the year ended December 31, 2009, the Credit Union did not acquire any assets in respect of delinquent loans.

6. PROPERTY AND EQUIPMENT

(Thousands of Dollars)	2009		2008	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	5,091	–	1,529	–
Buildings	4,973	1,353	4,912	1,227
Computer system	10,173	7,756	8,895	6,873
Furniture and fixtures	3,232	2,867	3,198	2,691
Security equipment	695	566	695	545
Leasehold improvements	3,762	1,333	3,541	1,165
	27,926	13,875	22,770	12,501
Net book value		14,051		10,269

Assets acquired but not yet in use totalled \$4,380,000 (2008 – nil) as at December 31, 2009. Depreciation expense of \$1,380,000 (2008 – \$1,442,000) is included in administration and premises expenses in the statement of net income, comprehensive income and retained earnings.

7. OTHER ASSETS

(Thousands of Dollars)	2009	2008
Accounts receivable	1,901	946
Prepaid expenses	413	305
	2,314	1,251

8. SAVINGS AND DEPOSITS

(Thousands of Dollars)	2009	2008
Chequing accounts	137,810	126,493
Savings accounts	619,435	486,428
Guaranteed Investment Certificates	619,216	591,590
Registered retirement savings and income funds	468,684	425,284
Unclaimed accounts	107	108
Accrued interest	24,756	24,780
	1,870,008	1,654,683

9. REFUNDED SERVICE FEES AND SHARE DIVIDEND

a) Refunded service fees

For 2009, refunded service fees of \$1,757,000 (2008 – \$1,682,000) were paid under the refunded service fees program on qualifying service fees in the year to members having a minimum threshold of business in the Credit Union. The refunded service fees will result in income tax recoveries in the current year of \$553,000 (2008 – \$502,000).

b) Share dividend

In respect to 2009, the Board has declared a 4.50% (2008 – 5.75%) dividend on existing common and surplus shares. The entire amount of the dividend of \$395,000 (2008 – \$500,000) will be used in 2009 to purchase surplus shares under the Credit Union's member equity plan. The share dividend will result in income tax recoveries in the current year of \$124,000 (2008 – \$149,000).

10. MEMBERS' SHARES

Each member of the Credit Union has one vote, regardless of the number of shares a member holds. Each member must purchase and hold one or more common shares. At December 31, 2009, the number of members was 54,442 (2008 – 53,835).

Authorized share capital

a) Common shares

Authorized common share capital consists of an unlimited number of common shares with an issue price of \$5 and an unlimited number of common shares issued under the refunded service fees program with an issue price of \$.01.

b) Surplus shares

Authorized surplus shares consist of an unlimited number of surplus shares, with an issue price of \$1.

Issued share capital

(Thousands of Dollars)	2009	2008
Surplus share capital		
Beginning of year	8,159	8,053
Issued during the year (previous year's share dividends) (note 9 (b))	500	517
Redemption of surplus shares	(360)	(411)
End of year	8,299	8,159
Common share capital		
Beginning of year	1,239	1,255
Issued on application for membership	3	5
Issued based on Refunded Service Fee Program (note 9 (a))	1,757	1,682
Redemption of common shares	(1,779)	(1,703)
End of year	1,220	1,239
Total share capital	9,519	9,398

The Board approved a special redemption of surplus shares in the amount of \$141,000 (2008 – \$172,000) which, together with regular redemptions of \$219,000 (2008 – \$239,000) comprised surplus shares redeemed during the year of \$360,000 (2008 – \$411,000).

The common share redemption of \$1,779,000 (2008 – \$1,703,000) consists of redemption of \$1,757,000 (2008 – \$1,682,000) of common shares under the refunded service fee program and \$22,000 (2008 – \$21,000) of regular redemptions.

Redemptions of share capital amounted to \$2,139,000 (2008 – \$2,114,000).

11. CAPITAL DISCLOSURES

The Credit Union operates pursuant to the Credit Unions and Caisses Populaires Act (Manitoba) (the "Act"). Regulations to the Act establish the following requirements with respect to capital and liquidity reserves:

Capital requirements

The Credit Union shall maintain a level of capital, which is comprised of members' equity that meets or exceeds the following requirements:

- its capital shall not be less than 5% of the book value of its assets;
- its retained earnings shall not be less than 3% of the book value of its assets; and
- a tiered level of capital shall not be less than 8% of the risk weighted value of its assets.

The Credit Union is in compliance with the capital requirements at December 31, 2009.

Liquidity reserve

The Credit Union shall maintain in cash on hand and investments in Central not less than 8% of its total members' savings and deposits.

The Credit Union is in compliance with the liquidity reserve requirements at December 31, 2009.

Capital and liquidity reserves are managed in accordance with policies established by the Board and in relation to the capital requirements above. Management regards a strong capital base as an integral part of the Credit Union's strategy. All of the capital requirements are monitored throughout the year, and modifications to the capital management strategies are made as appropriate. The Credit Union makes periodic dividend payments on eligible member shares, within the context of its overall capital management plan.

12. TRANSACTIONS WITH RELATED PARTIES

Directors, management and employees

All transactions with the Credit Union's directors, management and employees were in accordance with the statutes, by-laws and policies of the Credit Union. Outstanding loans to directors and employees as at December 31, 2009 were 0.8% (2008 – 0.8%) in aggregate of the assets of the Credit Union.

The Credit Union Deposit Guarantee Corporation

The Credit Union Deposit Guarantee Corporation ("Deposit Guarantee Corporation") was incorporated for the purpose of protecting the members of credit unions from financial loss in respect of their deposits with credit unions and to establish sound procedures and controls for credit unions. The Deposit Guarantee Corporation provides a safeguard of all savings and deposits of members of Manitoba credit unions.

Transactions with the Deposit Guarantee Corporation included assessments of \$956,000 (2008 – \$1,492,000) and are recorded as member security expense.

Central

The Credit Union is a member of Central, which acts as a depository for surplus funds, and makes loans to credit unions. Central also acts as a trade association for credit unions.

The Credit Union has in place a line of credit with Central in the amount of 10% of member deposits. It was not utilized at December 31, 2009. The line of credit with Central is payable on demand with interest payable on a variable rate basis which at year end was 2.77% (2008 – 3.05%). As collateral for the line of credit, the Credit Union has pledged its loans outstanding. Interest paid on borrowings from Central during the year amounted to nil (2008 – nil).

Other transactions with Central included income earned on investments referred to in note 3 in the amount of \$4,095,000 (2008 – \$7,475,000) and fees assessed by Central which include annual affiliation dues in the amount of \$785,000 (2008 – \$616,000), recorded as organizational expenses.

13. OBLIGATIONS UNDER OPERATING LEASES

Under the terms of premises leases, the Credit Union is committed to future aggregate lease payments as follows:

(Thousands of Dollars)	
2010	788
2011	621
2012	486
2013	465
2014	450
Thereafter	5,733
	8,543

14. INCOME TAX RATE

At current levels of income, the Credit Union is subject to an effective tax rate of approximately 13% (2008 – 16%).

15. 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 and products.

Risk management is carried out by management who reports to the Board. The Board provides written principles for risk tolerance and overall risk management. Management reports to the Board on the Credit Union's compliance with the risk management policies. In addition, the Credit Union maintains a Risk Management department, which is responsible for the 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 loans and mortgages. The primary types of financial risk which arise from this activity are interest rate risk, credit risk, liquidity risk, foreign exchange risk and price risk.

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

Activity	Risks	Method in managing risks
Savings and deposits	Sensitivity to changes in interest rates	Asset-liability matching and periodic use of derivatives
Investments	Sensitivity to changes in interest rates and credit risk	Monitoring of investment restrictions and counterparty risk
Loans to members	Sensitivity to changes in interest rates and credit risk	Asset-liability matching, periodic use of derivatives, and monitoring of counterparty risk

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. Net interest income reported in the statement of net income, comprehensive income and retained earnings may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Credit Union's management and reported to the Board, who 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 models. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the re-pricing of the Credit Union's financial instruments. The Credit Union has not entered into any interest rate swaps in the current or prior year.

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 twelve month period. Sensitivity analysis is calculated on a periodic basis and is reported to the Board. Based on current portfolio of loans and deposits as at December 31, 2009, the Credit Union estimates that an immediate and sustained 100 basis points increase in interest rates would increase net interest income by \$5,987,000 over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest income by \$714,000 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 which may not have identical characteristics, for example the difference between prime rate and variable rate loans and variable rate deposits) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans). These risks are also monitored on a regular basis and are reported to the Board.

The following schedule shows the Credit Union's sensitivity to interest rate changes as at December 31, 2009:

(Thousands of Dollars)					
Expected re-pricing or maturity dates	Assets	Interest rate %	Liabilities and equity	Interest rate %	Asset liability gap
Variable to 6 months	858,362	2.49	877,730	1.92	(19,368)
6 months to 1 year	147,004	4.62	148,639	3.36	(1,635)
1 to 2 years	172,767	5.23	237,696	4.54	(64,929)
2 to 3 years	250,069	5.38	213,863	4.75	36,206
3 to 4 years	242,405	5.25	154,013	4.90	88,392
4 to 5 years	296,232	4.64	79,081	3.77	217,151
Over 5 years	1,657	4.59	388	3.37	1,269
	1,968,496		1,711,410		257,086
Non-interest rate sensitive	19,589	0.00	276,675	0.03	(257,086)
Total	1,988,085		1,988,085		–

The Credit Union's major source of income is its financial margin, which is the difference between income earned on investments and loans to members and interest paid to members on their deposits. The objective of asset liability management is to match interest-sensitive assets with interest-sensitive liabilities, thus controlling wide fluctuations of income during periods of changing interest rates. Certain items on the balance sheet, such as non-interest bearing member deposits and equity do not provide interest rate exposure to the Credit Union. These items are reported as non-interest rate sensitive on the schedule. The Credit Union may enter into interest rate swap contracts when its portfolio is mismatched.

Credit risk

Credit risk is the risk that a Credit Union member or counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy of Manitoba or deteriorations in lending sectors which 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. Credit risk management 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 investing activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is reported to the Board.

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 Board 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 to establish that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The classes of financial instruments to which the Credit Union is most exposed are loans to members and investments.

At December 31, 2009, the maximum credit risk exposure of the Credit Union, without taking account of any collateral or other credit enhancements was as follows:

(Thousands of Dollars)			
Credit risk exposure	Outstanding	Undrawn commitments	Total exposure
Investments	293,554	–	293,554
Consumer			
Loans	137,581	–	137,581
Mortgages	909,232	19,889	929,121
Lines of credit	126,948	168,114	295,062
Commercial			
Loans	24,780	247	25,027
Mortgages	441,606	45,647	487,253
Lines of credit	35,067	67,141	102,208
Letters of credit	–	2,322	2,322
Total exposure	1,968,768	303,360	2,272,128

Investments

Credit risk 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 management who reports to the Board. The managed assets consist of cash resources held with Central. All of the Credit Union's liquidity investments are held with Central. Central invests on behalf of the Credit Union as per the investment policies approved by the Investment Committee of the Board of Directors of Central. The investment policy requires that all investments are highly-rated and that all of the assets are readily convertible to cash.

Personal loans and residential mortgages

Loans to members consist of personal loans and lines of credit which are secured by various types of collateral as required in the loans policy approved by the Board. Unsecured personal loans are only granted on the basis of a properly qualified and documented covenant value.

As at December 31, 2009, residential mortgages to members, consist of \$322,989,000 (2008 – \$311,466,000) in mortgages with an advance ratio of 80% to 95% of the appraised value which are fully insured by either the Canadian Mortgage Housing Corporation or Genworth Capital, \$583,791,000 (2008 – \$504,651,000) in conventional residential mortgages with an original maximum advance ratio to 80% of the appraised value and \$2,453,000 (2008 – \$2,947,000) in residential mortgages with an original advance ratio to 85% of the appraised value.

Commercial loans and lines of credit

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 commercial 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 Union has established guidelines to ensure that the Credit Union's commercial lending is well diversified by industry type, as follows:

(Thousands of Dollars)	2009	2008
Commercial rental	226,757	238,243
Residential rental	111,203	98,368
Health care	40,617	41,448
Accommodation and food services	25,986	31,420
Retail	17,856	17,396
Construction	10,456	11,149
Entertainment and recreation	8,970	10,717
Other	59,608	44,007
	501,453	492,748

The credit quality of the commercial loan portfolio for those loans which are neither past due or 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 taking into account statistical analysis as well as the experience and judgement of the Credit department. Commercial loans to members are divided into eight segments and are regularly reviewed and updated as appropriate. Loans in the lower segments are not considered to be impaired taking into account the repayment status of the loans and the estimated fair value of the collateral.

(Thousands of Dollars)

Rating 1 – Excellent risk	3,236
Rating 2 – Very good risk	106,853
Rating 3 – Good risk	253,831
Rating 4 – Acceptable risk	122,512
Rating 5 – Caution risk	11,348
Rating 6 – At risk	–
Rating 7 – Impaired with no loan loss allowance	–
Rating 8 – Impaired with loan loss allowance	3,673
	501,453

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. As disclosed in note 11, the Credit Union is required to maintain in cash on hand and investments in Central not less than 8% of its total members' savings and deposits. 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, and asset-liability maturity management. Management monitors 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 in the amount of 10% of member deposits as part of its liquidity management strategy.

The remaining contractual maturity of recognized financial assets and liabilities are as follows:

(Thousands of Dollars)	Payable on a fixed date					Total
	On demand	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	
Financial assets						
Cash	5,524	–	–	–	–	5,524
Investments	276,933	–	–	–	16,621	293,554
Loans	469,220	240,007	172,767	788,706	1,657	1,672,357
Accounts receivable	–	1,901	–	–	–	1,901
Total assets	751,677	241,908	172,767	788,706	18,278	1,973,336
Financial liabilities						
Savings and deposits	803,701	381,266	237,696	446,957	388	1,870,008
Accounts payable and accrued charges	–	5,772	–	–	–	5,772
Total liabilities	803,701	387,038	237,696	446,957	388	1,875,780

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 financed investments for an extended period.

Price risk

Price risk arises from changes in market risks, other than interest rate, credit, liquidity or foreign exchange risk, causing fluctuations in the fair value or future cash flows of a financial instrument. Price risk is not considered significant at this time.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Differences between book value and fair value of the investments, loans outstanding, savings and deposits, and other financial assets and liabilities are caused by differences between the interest rate obtained at the time of the original investment, loan or deposit and the current rate for the same product. Loans and deposits that are priced with variable rates have a fair value equal to book value, as they are priced at current interest rates.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Credit Union normally holds all of its fixed term investments, loans and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the net realizable value. Furthermore, as many of the Credit Union's financial instruments lack an available trading market, the fair value 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 inputs to the valuation model for fixed rate loans include scheduled loan amortization rates and 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 current market rates for equivalent groups of fixed rate deposits.

The most significant assumption relates to the discount rates utilized. If the forward yield curve of such instruments would increase by 100 basis points then the fair value of loans outstanding and investments would decrease by approximately \$29,759,000 and the fair value of savings and deposits would increase by approximately \$32,271,000. A corresponding decrease of 100 basis points would result in the fair value of loans outstanding and investments increasing by approximately \$30,910,000 and the fair value of savings and deposits decreasing by approximately \$39,249,000.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings and equipment.

Financial assets and liabilities are recognized on the balance sheet at fair value, cost or amortized cost according to the categories determined by the accounting framework for financial instruments. The carrying values and fair values for each category of financial assets and liabilities are presented in the table below:

As at December 31, 2009:

(Thousands of Dollars)	Held for trading	Financial assets and financial liabilities at cost or amortized cost	Estimated fair value	Fair value greater (less) than book value
Assets				
Cash on hand	5,524	–	5,524	–
Investments	–	293,554	293,554	–
Loans outstanding	–	1,672,357	1,701,528	29,171
Total financial assets	5,524	1,965,911	2,000,606	29,171
Liabilities				
Savings and deposits	–	1,870,008	1,807,213	(62,795)
Accounts payable and accrued charges	–	5,572	5,572	–
Total financial liabilities	–	1,875,580	1,812,785	(62,795)

As at December 31, 2008:

(Thousands of Dollars)	Held for trading	Financial assets and financial liabilities at cost or amortized cost	Estimated fair value	Fair value greater (less) than book value
Assets				
Cash on hand	5,067	–	5,067	–
Investments	–	196,229	196,238	9
Loans outstanding	–	1,547,062	1,550,352	3,290
Total financial assets	5,067	1,743,291	1,751,657	3,299
Liabilities				
Savings and deposits	–	1,654,683	1,628,846	(25,837)
Accounts payable and accrued charges	–	5,570	5,570	–
Total financial liabilities	–	1,660,253	1,634,416	(25,837)

17. PENSION PLAN

The Credit Union has a defined contribution pension plan for qualifying employees. The contributions are held in trust by the Co-operative Superannuation Society Limited and are not recorded in these financial statements. The Credit Union matches employee contributions at a rate of 6% of the employee salary. The expense and payments for the year ended December 31, 2009 were \$583,000 (2008 – \$581,000) and are recorded as salaries and employee benefits. As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.

18. COMPARATIVE FIGURES

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