

Report to members

From the Board and Management of Cambrian Credit Union.

NET INCOME

\$15.516 million

ASSET GROWTH

8.87 %

EFFICIENCY RATIO

54.66 %

INVESTING IN OUR PEOPLE, SYSTEMS AND INFRASTRUCTURE HAS STRENGTHENED OUR CREDIT UNION.



We continue to grow
and serve our members
by staying focused on
our core values.

We are pleased to report that we have also delivered strong results that will allow us to continue as value leaders in the future.

In 2010, our members continued to access exceptional rates on savings deposits and loans, as well as receive additional value through our Refunded Service Fees program. Although Cambrian is situated in one of the most competitive financial marketplaces in the country, we continue to grow and serve our members by staying focused on our core values: to conduct ourselves with integrity and honesty; to stay member-focused; to remain competitive; to be innovative and to be actively involved in our community.

The year-end financials continue to reflect our strong performance.

During 2010, our deposits grew by \$159.765 million to \$2.030 billion, or 8.54 per cent. Our loans rose by \$145.141 million to \$1.817 billion, up 8.68 per cent. Our assets grew this year by \$176.298 million up to \$2.164 billion, up 8.87 per cent. Meanwhile our net income finished the year up strongly from 2009 at \$15.516 million.

In 2010, we built our equity position to \$127.768 million, up from \$112.543 million. Our retained earnings grew to \$117.876 million, up from \$102.629 million, representing 5.45 per cent of our assets.

Our efficiency ratio, which measures the amount of expense we incur to earn each dollar of revenue, has improved significantly from 58.11 per cent last year to 54.66 per cent in 2010. Despite the low interest rate environment experienced through 2010, we remained vigilant to improve our efficiencies and pass along these savings to our members.

At Cambrian, it is crucial that we are continually striving to earn our members' business, which is something we never take for granted or consider an entitlement. This is why we continue to invest in our people, our infrastructure and our technology to ensure we constantly provide superior products, rates and services aimed at meeting our members' evolving needs.

DELIVERING VALUE

Our philosophy and market position is to provide a simple, value-oriented offering delivered in a professional and hassle-free manner. We continue to stand behind Cambrian Best Pricing, our promise to offer highly-competitive interest rates – consistently, transparently and without negotiation.

Refunded service fees remain a strong differentiator for Cambrian as it delivers significant value back to our members. The program automatically refunds standard service fees to members whose combined lending and savings relationship exceeds \$30,000.

Last year, we refunded \$1.802 million to members, with more than \$13.477 million being refunded since 2000. We also paid \$390,000 or 4.50 per cent in dividends on outstanding shares to members in 2010.

With over 12 years in operation Achieva Financial, our virtual branch, continues to offer market-leading deposit rates, self-serve technology and outstanding customer service. Achieva customers continue to benefit from these exceptional deposit rates, straightforward and secure technology and the financial strength backed by Cambrian and its 100 per cent deposit guarantee through the Deposit Guarantee Corporation of Manitoba.

At every level of our organization, we have worked hard to ensure our value proposition is communicated both to our members and to the markets we serve. The results of these efforts further distinguish Cambrian as one of the top performing credit unions in all of Canada.

DELIVERING SERVICE

Great rates and refunded service fees have little value if Cambrian is unable to provide members with outstanding service. As such, we are always striving to find new ways to improve upon the consistency, reliability and quality of our member service.

In order to deliver exemplary service, Cambrian is continuously looking for new ways to make banking more convenient and to enhance members' overall banking experience.

BOARD OF DIRECTORS



PAUL HOLDEN
CHAIR



HOWARD FALK
FIRST VICE-CHAIR



SHAUNA MACKENZIE-SYKES
SECOND VICE-CHAIR



RAY BAUSCHKE
DIRECTOR



GARY BLACK
DIRECTOR



ROSE MARIE COUTURE
DIRECTOR



ALAN CURD
DIRECTOR



CHERRY KARPYSHIN
DIRECTOR



FRANK PISA
DIRECTOR

For instance, in 2010, we introduced web-based mobile banking. Both Cambrian and Achieva members can now access their accounts through their cell phone to check balances, pay bills and transfer funds within their accounts.

Also in 2010 we launched a new website for Cambrian. With modern graphics and more intuitive navigation, the new website means improved communications as well as enhanced research capabilities for our members.

In addition to our changes in retail banking, Cambrian's commercial and investment services divisions continued to grow in 2010. Our wealth management assets under administration have now grown in excess of \$260 million – more than doubling the industry growth rate at 16% for the year.

Our commercial services department maintained its strong presence in the Winnipeg and Selkirk markets with our dedicated team of highly-skilled professionals that truly understand the unique needs of our commercial members.

OUR PEOPLE

Our achievements in 2010 are the result of the hard work and dedication of Cambrian's staff. While the marketplace continues to present many challenges, our staff remained highly focused responding to these challenges while serving our members.

We continue to invest in a number of training and development initiatives such as our Leadership Program. Created

to enhance our leadership capacity throughout the organization, this program supports and fosters leadership among all our staff across the various areas of our operation.

At Cambrian we are committed to supporting the needs of our employees. Through the initiatives defined above and all the other resources provided, our goal is to ensure the entire organization is well aligned with a highly engaged team dedicated to serving our members.

LOOKING AHEAD

Every year brings a new round of challenges, and this appears to hold true for 2011. We anticipate our financial margin will continue to be under pressure as a result of the low interest rate environment and increased market competition for members' loans and deposits. Cambrian is well positioned to meet these challenges; however, member support through the use of our full suite of products and services are an essential ingredient for our continued success.

Our strategic priorities will continue to focus on growing our membership and increasing our members' product use by offering great rates, innovative solutions and hassle-free reliable products and service that meet their diverse needs.

SENIOR MANAGEMENT



TOM BRYK
PRESIDENT AND
CHIEF EXECUTIVE OFFICER



JIM GRAPENTINE
CHIEF OPERATING OFFICER



BRUCE FINK
CHIEF FINANCIAL OFFICER

CORPORATE GOVERNANCE

Cambrian's board of directors provides the organization with strategic vision and leadership to govern our credit union. In addition, the board ensures that the financial performance of the credit union is maintained at the highest level. Our ability to continue this financial performance through a disciplined approach is the anchor that will hold us in place as markets and economic conditions change. Finally, the continued evolution of our risk management policies and practices are designed so that we can achieve our objectives while staying within a prudent risk framework.

On behalf of the board,

A handwritten signature in black ink that reads "Paul Holden".

Paul Holden, MNRM

There remains a strong partnership between the board and management to further build and implement the strategic vision of our credit union.

THANK YOU

While we provide our members with high value financial products and services, it is our members' confidence, trust and loyalty that enable us to rank among the strongest credit unions in the province and in the country.

Thank you to each and every one of our valued members. We look forward to the year ahead and will continue to work hard to deserve your loyalty and maintain your trust.

On behalf of management,

A handwritten signature in black ink that reads "Tom Bryk".

Tom Bryk, FCA



Board of Directors

Meeting Attendance for 2010

DIRECTOR	TERM EXPIRES	MEETING ATTENDANCE RECORD	
		BOARD (attended/possible)	COMMITTEE (attended/possible)
PAUL HOLDEN CHAIR	2011	17/17	2/2
HOWARD FALK FIRST VICE-CHAIR	2012	15/17	5/5
SHAUNA MACKENZIE-SYKES SECOND VICE-CHAIR	2013	16/17	1/2
RAY BAUSCHKE DIRECTOR	2013	17/17	0/0
GARY BLACK DIRECTOR	2012	14/17	6/6
ROSE MARIE COUTURE DIRECTOR	2011	17/17	4/4
ALAN CURD DIRECTOR	2011	13/17	3/3
CHERRY KARPYSHIN DIRECTOR	2013	16/17	3/5
FRANK PISA DIRECTOR	2012	16/17	4/5

NOTE ON REMUNERATION

The aggregate amount of remuneration paid to all Directors in 2010 was \$145,897.

The aggregate amount paid to all Directors as reimbursements for expenses on credit union business in 2010 was \$8,495.

As at December 31, 2010, the credit union Directors and Officers had loans with an aggregate balance representing 0.06 of one percent of the credit union's assets.

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 and 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, 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 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, 2010, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by \$418,000 over the next twelve months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by \$200,000 over the next twelve 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, 2010:

(Thousands of Dollars)					
Expected re-pricing or maturity dates	Assets	Interest rate %	Liabilities and equity	Interest rate %	Asset liability gap
Variable to 6 months	900,226	2.88	963,572	1.93	(63,346)
6 months to 1 year	89,441	4.86	212,590	3.69	(123,149)
1 to 2 years	201,189	5.19	283,382	4.22	(82,193)
2 to 3 years	215,641	5.05	203,693	4.41	11,948
3 to 4 years	322,480	4.57	89,690	3.69	232,790
4 to 5 years	403,651	4.26	106,612	3.54	297,039
Over 5 years	9,387	4.16	144	3.45	9,243
	2,142,015		1,859,683		282,332
Non-interest rate sensitive	22,368	0.00	304,700	0.03	(282,332)
Total	2,164,383		2,164,383		–

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 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 emphasises 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, 2010, 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	321,812	–	321,812
Consumer			
Loans	151,924	–	151,924
Mortgages	992,750	20,853	1,013,603
Lines of credit	135,238	184,703	319,941
Commercial			
Loans	21,132	200	21,332
Mortgages	489,537	46,797	536,334
Lines of credit	29,896	69,072	98,968
Letters of credit	–	2,788	2,788
Total exposure	2,142,289	324,413	2,466,702

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.

Residential mortgages to members, consist of \$351,158,000 (2009 - \$322,989,000) 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, \$639,346,000 (2009 - \$583,791,000) in conventional residential mortgages with an original maximum advance ratio to 80% of the appraised value and \$2,246,000 (2009 - \$2,453,000) 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)	2010	2009
Commercial rental	222,302	226,757
Residential rental	145,860	111,203
Health care	43,756	40,617
Accommodation and food services	18,989	25,986
Retail	15,917	17,856
Construction	7,543	10,456
Entertainment and recreation	10,496	8,970
Other	75,702	59,608
	540,565	501,453

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)	2010	2009
Rating 1 – Excellent risk	5,109	3,236
Rating 2 – Very good risk	168,913	106,853
Rating 3 – Good risk	222,361	253,831
Rating 4 – Acceptable risk	118,730	122,512
Rating 5 – Caution risk	24,192	11,348
Rating 6 – At risk	–	–
Rating 7 – Impaired with no loan loss allowance	–	–
Rating 8 – Impaired with loan loss allowance	1,260	3,673
	540,565	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 10, 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 CUCM in the amount of 10% of member deposits as part of its liquidity management strategy.

The contractual maturity of recognized financial assets and liabilities is 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	
Cash on hand	5,561	–	–	–	–	5,561
Investments	305,192	–	–	–	16,620	321,812
Loans outstanding	488,097	177,055	201,188	941,770	9,388	1,817,498
Accounts receivable	–	1,804	–	–	–	1,804
Total financial assets	798,850	178,859	201,188	941,770	26,008	2,146,675
Savings and deposits	900,866	445,383	283,382	399,998	144	2,029,773
Accounts payable and accrued liabilities	–	6,842	–	–	–	6,842
Total financial liabilities	900,866	452,225	283,382	399,998	144	2,036,615

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.

15. 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 \$35,963,000 and the fair value of savings and deposits would increase by approximately \$16,780,000. A corresponding decrease of 100 basis points would result in the fair value of loans outstanding and investments increasing by approximately \$37,426,000 and the fair value of savings and deposits decreasing by approximately \$16,411,000.

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 asset and liability are presented in the following table:

As at December 31, 2010:

(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	5,561	–	5,561	–
Investments	–	321,812	321,812	–
Loans outstanding	–	1,817,498	1,843,474	25,976
Accounts receivable	1,804	–	1,804	–
Total financial assets	7,365	2,139,310	2,172,651	25,976
Liabilities				
Savings and deposits	–	2,029,773	2,009,410	(20,363)
Accounts payable and accrued liabilities	–	6,842	6,842	–
Total financial liabilities	–	2,036,615	2,016,252	(20,363)

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
Accounts receivable	1,901	–	1,901	–
Total financial assets	7,425	1,965,911	2,002,507	29,171
Liabilities				
Savings and deposits	–	1,870,008	1,807,213	(62,795)
Accounts payable and accrued liabilities	–	5,534	5,534	–
Total financial liabilities	–	1,875,542	1,812,747	(62,795)

16. 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, 2010 were \$628,000 (2009 - \$583,000) 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.

17. COMPARATIVE FIGURES

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