Assiniboine Credit Union Limited

Consolidated Financial Statements
December 31, 2009

PRICEWATERHOUSECOOPERS

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March 25, 2010

Auditors' Report

To the Members of
Assiniboine Credit Union Limited

We have audited the consolidated balance sheet of **Assiniboine Credit Union Limited** as at December 31, 2009 and the consolidated statement of operations, comprehensive income and retained surplus and cash flows for the year then ended. These consolidated 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

Assiniboine Credit Union Limited

Consolidated Balance Sheet

As at December 31, 2009

(in thousands of dollars)

	2009 $	2008 $
Assets		
Cash on hand and on deposit	40,748	12,727
Investments (note 3)	192,374	185,022
Loans to members (note 4)	2,360,697	2,191,827
Property and equipment (note 5)	13,421	13,268
Other assets (note 6)	13,948	10,962
	2,621,188	2,413,806
Liabilities		
Line of credit (note 7)	-	79,523
Members' deposits (note 8)	2,465,813	2,190,897
Accounts payable and accrued liabilities	11,292	13,894
	2,477,105	2,284,314
Commitments, contingencies and guarantees (notes 15 and 16)		
Members' Equity		
Members' shares (note 10)	30,641	30,798
Provision for issue of preference and surplus shares (note 11)	1,046	1,343
Contributed surplus	35,633	35,633
Retained surplus	76,763	61,718
	144,083	129,492
	2,621,188	2,413,806

Approved by the Board of Directors

Garry Loewen ______________________ Director

W. Coates ______________________ Director

Assiniboine Credit Union Limited

Consolidated Statement of Operations, Comprehensive Income and Retained Surplus

For the year ended December 31, 2009

(in thousands of dollars)

	2009 $	2008 $
Revenues		
Interest from loans to members	110,723	117,199
Investment income	6,977	7,836
	117,700	125,035
Cost of funds		
Interest paid to members	63,119	67,315
Interest paid on line of credit	1,553	1,761
	64,672	69,076
Financial margin	53,028	55,959
Other income	26,975	23,313
Financial margin and other income	80,003	79,272
Operating expenses		
Personnel	30,322	31,053
Administrative	18,005	16,640
Occupancy	6,859	6,665
Member security	1,975	2,348
Organizational	1,726	1,541
	58,887	58,247
Gross operating margin	21,116	21,025
Provision for doubtful loans (note 4)	3,020	2,520
Income before income taxes	18,096	18,505
Provision for income taxes		
Current	1,732	2,203
Future	416	708
	2,148	2,911
Net income and comprehensive income for the year	15,948	15,594
Retained surplus - Beginning of year	61,718	47,292
	77,666	62,886
Dividends on preference shares (note 11)	(670)	(820)
Dividends on surplus shares (note 11)	(233)	(348)
Retained surplus - End of year	76,763	61,718

Assiniboine Credit Union Limited

Consolidated Statement of Cash Flows

For the year ended December 31, 2009

(in thousands of dollars)

	2009 $	2008 $
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the year	15,948	15,594
Items not affecting cash		
Amortization	2,926	2,352
Provision for doubtful loans	3,020	2,520
Loss on disposal of property and equipment	-	8
Future income taxes	416	708
	22,310	21,182
Net change in non-cash working capital items		
Investments - accrued interest	(271)	1,107
Loans to members - accrued interest	115	(420)
Other assets	(1,484)	1,443
Members' deposits - accrued interest	2,096	4,081
Accounts payable and accrued liabilities	(3,300)	3,509
	19,466	30,902
Investing activities		
Net loans issued to members	(172,005)	(195,128)
Cash acquired, net of acquisition costs paid	-	1,895
Net increase in investments	(7,081)	(30,026)
Purchase of property and equipment and intangibles	(2,717)	(8,163)
Change in other assets	(1,582)	-
	(183,385)	(231,422)
Financing activities		
Net increase in members' deposits	272,820	142,575
Net (decrease) increase in line of credit	(79,523)	55,297
Net decrease in common shares	(9)	(700)
Net decrease in surplus shares	(471)	(483)
Net decrease in preference shares	(877)	(584)
	191,940	196,105
Net increase (decrease) in cash on hand and on deposit	28,021	(4,415)
Cash on hand and on deposit - Beginning of year	12,727	17,142
Cash on hand and on deposit - End of year	40,748	12,727
Supplementary cash flow information		
Income taxes paid	1,416	3,203
Interest paid	62,576	64,995

1 Change in accounting policies

On January 1, 2009, Assiniboine Credit Union Limited (the "Credit Union") adopted the following amendments to accounting standards that were issued by The Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1506, *"Accounting Changes"*, Section 3064, *"Goodwill and Intangible Assets"*, Section 3855, *"Financial Instruments: Recognition and Measurement"*, and Section 3862, *"Financial Instruments - Disclosures"*.

Accounting changes

The Accounting Standards Board ("AcSB") amended CICA Handbook Section 1506, *"Accounting Changes"*, to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. As a result, the Credit Union is no longer required to disclose the progress of its implementation of International Financial Reporting Standards ("IFRS") in the notes to the 2009 and 2010 consolidated financial statements.

Goodwill and intangible assets

Section 3064 replaces Section 3062, *"Goodwill and Other Intangible Assets"*, and Section 3450, *"Research and Development Costs"*. The new section establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. The standard requires retroactive application to prior period financial statements.

As a result of adopting the standard, certain computer software costs previously recorded as property and equipment are now recorded as intangible assets. Accordingly, computer software with a net book value of $4,779,000 at December 31, 2008 was reclassified from property and equipment to intangible assets. The related amortization expense is recorded in administrative expenses, consistent with the presentation of this item prior to adoption of Section 3064.

Financial instruments - recognition and measurement

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.

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

Financial instruments - disclosures

The AcSB amended CICA Handbook Section 3862, *"Financial Instruments - Disclosures"*, to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The additional disclosure requirements about fair value measurements are intended to provide users of the financial statements with the ability to assess the reliability of an entity's fair value measurements. The Credit Union has reviewed the amendments and provided additional disclosures as required by the amended CICA Handbook Section 3862 in note 13.

2 Significant accounting policies

These consolidated financial statements include Assiniboine Credit Union Limited and its wholly-owned subsidiary, Assiniboine Credit Union Ltd. Holdings ("ACULH"). During the year, ACULH acquired an ownership interest in Winnipeg Insurance Brokers Ltd. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Principles of consolidation

The consolidated financial statements include the accounts of the Credit Union and its wholly-owned and controlled subsidiaries. All intercompany transactions and balances have been eliminated.

Financial instruments

The Credit Union initially recognizes all financial assets and liabilities at fair value and subsequently measures these at either amortized cost or fair value depending on the type of instrument. Derivative financial instruments are measured at fair value, even when they are part of a hedging relationship. All financial assets must be designated as either Held for Trading, Available for Sale, Loans and Receivables or Held to Maturity. All financial liabilities must be designated as either Held for Trading or Other Liabilities.

The Credit Union has made the following designations: cash on hand and on deposit and lines of credit are classified as Held for Trading and are carried at fair value; investments (except for shares of Credit Union Central of Manitoba ("Central")), accounts receivable and loans to members are classified as Loans and Receivables and are carried at amortized cost; shares of Central are classified as Available for Sale and are not actively traded in a quoted market and accordingly recorded at cost; and accounts payable and members' deposits are classified as Other Liabilities and are carried at amortized cost.

Interest rate swap derivative instruments are used to hedge exposure to interest rate risk. Under interest rate swap contracts, the Credit Union agrees to exchange the difference between fixed and floating rate interest amounts calculated on the agreed notional principal amounts. Such contracts enable the Credit Union to mitigate the risk of changing interest rates. To the extent that the hedging relationship is effective, a gain or loss arising from the hedged item in a fair value hedge adjusts the carrying value of the hedged item and is reflected in earnings, offset by change in fair value of the underlying derivative. Any changes in the fair value of derivatives that do not qualify for hedge accounting are reported in earnings.

Cash on hand and on deposit

Cash on hand and on deposit consists of cash and deposits with other financial institutions.

Investments

Investments are recorded at amortized cost. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value and the adjustment is recorded in 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.

Loans to members

Loans are carried at the principal plus accrued interest, less allowances for doubtful loans. Allowances are established for loans considered impaired. Loans are written off when collection efforts have been exhausted and the full amount of the loan has not been recovered. Recoveries on loans previously written off are recorded in income in the period.

Allowance for doubtful loans

The Credit Union maintains allowances for doubtful loans that reduce the carrying value of loans identified as impaired to their estimated realizable amounts. A loan is considered impaired as a result of the deterioration in credit quality to the extent that the Credit Union no longer has reasonable assurance that the full amount of the principal and interest will be collected in accordance with the terms of the loan agreement. Estimated realizable amounts are determined by estimating the fair value of security underlying the loans and deducting costs of realization, or by discounting the expected future cash flows at the effective interest rate. Changes in the estimated realizable amounts arising subsequent to initial impairment recognition are adjusted to the allowance.

The allowance for doubtful loans also includes provisions for losses on loans established based on payment arrears, historical loan loss experience, and current economic conditions and trends in particular industries, regions and other groupings of loans in the portfolio.

Property and equipment

Property and equipment are recorded at acquisition cost and amortization is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	5%
Furniture and equipment	20%
Data processing equipment	20% and 33%
Signs	20%
Parking lots	5% and 7%
Leasehold improvements	Shorter of the remaining term of the lease or estimated useful life

Intangible assets

Intangible assets are recorded at acquisition cost and amortization is provided on a straight-line basis over the estimated useful life of the assets as follows:

Computer software	10%, 20% and 33%

Goodwill

Goodwill represents the excess of the purchase price of an acquired business unit over the amount allocated to assets acquired less liabilities assumed, based on their fair values. Goodwill 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 impaired, the Credit Union would recognize an impairment loss by writing down the goodwill to its fair value.

Revenue recognition

Interest on loans is recorded as income on the effective interest basis except for loans which are considered impaired. Recognition of income ceases on impaired loans when the carrying amount of the loan, including accrued interest, exceeds the estimated realizable amount of the underlying security.

Income taxes

The Credit Union utilizes the asset and liability method of accounting for future income taxes. This method requires that income taxes reflect the future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are determined for each temporary difference based on substantively enacted tax rates that are expected to be in effect when the temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized in the statement of operations in the period that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

Translation of foreign currencies

Cash on hand and on deposit and members' deposits denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the balance sheet date. Revenues and expenses are translated using monthly average exchange rates. Realized and unrealized gains and losses arising from translation are included in other income.

Use of estimates

The preparation of financial statements in conformity 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3 Investments

(in thousands of dollars)	**2009** **$**	**2008** **$**
Credit Union Central of Manitoba		
Shares	17,095	13,431
Contract deposits	173,656	170,239
	190,751	183,670
Manitoba Builder Bonds, bearing interest at 3.7%, maturing in 2010	200	200
Credential Securities Inc. debenture, non-interest bearing, maturing in 2020	250	250
	191,201	184,120
Accrued interest receivable	1,173	902
	192,374	185,022

The above contract deposits bear interest at rates ranging from 0.27% to 4.63% with maturity dates ranging from January 2010 to November 2014.

4 Loans to members

Loans to members are presented net of allowances for doubtful loans totalling $6,866,000 (2008 - $7,401,000), consisting of specific allowances of $4,167,000 (2008 - $3,269,000) for loans considered impaired and $2,699,000 (2008 - $4,132,000) as non-specific allowances, as follows:

(in thousands of dollars)	**2009** **$**	**2008** **$**
Consumer		
Loans	315,860	286,904
Mortgages	1,486,936	1,379,824
Lines of credit	178,764	142,803
Commercial		
Loans	57,410	57,717
Mortgages	289,476	293,929
Lines of credit	34,134	32,953
Accrued interest	4,983	5,098
	2,367,563	2,199,228
Allowance for doubtful loans	(6,866)	(7,401)
	2,360,697	2,191,827

The following schedule provides the amount of non-performing and performing loans in each of the major loan categories together with the specific and non-specific loan allowances relating to these loans:

			2009	**2008**
(in thousands of dollars)	**Gross loan balances $**	**Total specific and non-specific allowance $**	**Net loan balances $**	**Net loan balances $**
Non-performing				
Consumer				
Loans	3,044	2,026	1,018	896
Mortgages	10,283	32	10,251	7,818
Lines of credit	621	520	101	56
Commercial				
Loans	1,177	303	874	1,869
Mortgages	1,838	344	1,494	1,177
Lines of credit	2,431	942	1,489	2
Accrued interest	449	-	449	449
	19,843	4,167	15,676	12,267
Performing				
Consumer	1,967,612	2,265	1,965,347	1,794,919
Commercial	375,574	434	375,140	379,992
Accrued Interest	4,534	-	4,534	4,649
	2,367,563	6,866	2,360,697	2,191,827

The change in the allowance for doubtful loans is as follows:

			2009	**2008**
(in thousands of dollars)	**Consumer $**	**Commercial $**	**Total $**	**Total $**
Balance - Beginning of year	5,842	1,559	7,401	7,542
Acquisition of Buffalo Credit Union	-	-	-	133
Loans written off in the year	(2,856)	(699)	(3,555)	(2,794)
Provisions made in the year	1,857	1,163	3,020	2,520
Balance - End of year	4,843	2,023	6,866	7,401

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 one day and greater but not classified as impaired because they are either fully secured or collection efforts are reasonably expected to result in repayment.

(in thousands of dollars)	1-30 days $	31-60 days $	61-89 days $	90 days and greater $	Total $
Consumer	40,313	8,450	2,360	2,882	54,005
Commercial	9,242	469	144	507	10,362
	49,555	8,919	2,504	3,389	64,367

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 degree of concentration in the collateral supporting its credit exposure.

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

5 Property and equipment

	2009			2008
(in thousands of dollars)	Cost $	Accumulated amortization $	Net $	Net $
Land	2,268	-	2,268	2,268
Buildings	7,301	2,517	4,784	4,867
Furniture and equipment	6,042	3,119	2,923	1,958
Data processing equipment	2,893	1,986	907	1,103
Signs	1,029	574	455	633
Parking lots	469	178	291	321
Leasehold improvements	4,123	2,330	1,793	2,118
	24,125	10,704	13,421	13,268

Amortization expense recorded during the year totalled $2,297,000 (2008 - $2,148,000).

6 Other assets

(in thousands of dollars)	**2009** **$**	**2008** **$**
Accounts receivable	5,963	4,079
Prepaid expenses	1,148	956
Income taxes recoverable	367	551
Future income tax asset	181	597
Intangible	4,716	4,779
Goodwill	1,573	-
	13,948	10,962

Amortization expense recorded during the year totalled $629,000 (2008 - $204,000).

7 Line of credit

The Credit Union has in place a line of credit with Central in the amount to 10% of member deposits. The line of credit is secured by an assignment, hypothecation, charge and pledge of its loans outstanding to Central. At December 31, 2009, the balance was nil (2008 - $79,523,000).

8 Members' deposits

(in thousands of dollars)	**2009** **$**	**2008** **$**
Savings	541,545	483,217
Chequing	416,154	381,330
Term deposits	844,300	707,857
Registered deposits	631,497	588,262
Inactive accounts	193	203
Accrued interest payable	32,124	30,028
	2,465,813	2,190,897

9 Capital management

Capital is managed in accordance with policies established by the Board of Directors. 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. Capital is defined as members' equity which includes members' shares, the provision for the issuance of preference shares and surplus shares, contributed surplus and retained surplus. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate. The Board of Directors determines annually the extent of any dividend payments on eligible member shares, within the context of its overall capital management plan.

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

The Regulations to the Act requires that the Credit Union establish and maintain a level of capital as follows:

a) members' equity not less than 5% of assets;

b) surplus not less than 3% of assets; and

c) capital as defined in the Regulations not less than 8% of the risk-weighted value of assets as defined in the Regulations.

The Credit Union has met these requirements as at December 31, 2009.

Liquidity reserve

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

The Credit Union has met this requirement as at December 31, 2009.

10 Members' shares

Each member must purchase one common share. No member may hold more than 10% of the issued shares of any class. Each member of the Credit Union has one vote, regardless of the number of shares that a member holds.

Authorized shares

Common shares

Authorized common share capital consists of an unlimited number of common shares, issued and redeemable at $5 each. The total amount of common shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed the total amount of common shares issued in that year if the Credit Union's equity is, or would by such purchase or redemption be, less than the level of capital as prescribed by the Act as defined in note 9.

Surplus shares

Authorized surplus share capital consists of an unlimited number of surplus shares, issued and redeemable at $1 each. Dividends are payable at the discretion of the Board of Directors. The total amount of surplus shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed 5% of the amount of surplus shares outstanding at the last fiscal year end of the Credit Union if the Credit Union's equity is, or would by such purchase or redemption be, less than the level of capital as prescribed by the Act as defined in note 9.

Preference shares

Authorized Class Assiniboine preference share capital consists of 3,000,000 non-voting Class Assiniboine preference shares, having a cumulative dividend rate, when declared, of not less than the first year rate of the latest issue of Canada Savings Bonds, issued and redeemable at $10 each.

Authorized Class Astra preference share capital consists of 1,000,000 non-voting Class Astra preference shares, having a cumulative dividend rate, when declared, of not less than the annual dividend rate of a one-year guaranteed investment certificate as offered by the five largest Canadian banks, issued and redeemable at $5 each.

Dividends are payable at the discretion of the Board of Directors. The total amount of preference shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed 20% of the amount of preference shares outstanding at the last fiscal year end of the Credit Union if the Credit Union's equity is, or by such purchase or redemption would be, less than the level of capital as prescribed by the Act as defined in note 9.

Issued shares

(in thousands of dollars)	**Balance beginning of year $**	**Shares issued $**	**Shares redeemed $**	**Balance end of year $**
Common shares	541	27	36	532
Surplus shares	13,318	390	502	13,206
Class Assiniboine preference shares	14,118	776	763	14,131
Class Astra preference shares	2,821	156	205	2,772
Total members' shares	30,798	1,349	1,506	30,641

11 Dividends on preference and surplus shares

The Board of Directors has declared, and the Credit Union has accrued, a 4.5% dividend totalling $761,000 (2008 - $943,000) on Class Assiniboine and Class Astra preference shares. The Board also declared, and the Credit Union has accrued a 2% dividend totalling $264,000 (2008 - $400,000) on surplus shares.

The total amount of dividends accrued on preference shares, net of the related tax savings of $91,000 (2008 - $123,000), has been reflected as a charge to retained surplus.

The total amount of dividends accrued on surplus shares, net of the related tax savings of $31,000 (2008 - $52,000), has been reflected as a charge to retained surplus.

12 Risk management

The Credit Union's risk management policies are designed to identify and analyse 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 with an overall objective of managing risk within acceptable thresholds. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Responsibility for monitoring the Credit Union's overall enterprise risk management framework is delegated by the Board of Directors to the Audit and Risk Committee. Oversight and monitoring of risk management is carried out by a number of delegated committees reporting to the Board of Directors. The Board of Directors provides written principles for risk tolerance and overall risk management, and management report to the committees and Board of Directors 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 loans, lines of credit and mortgages. The primary types of financial risk which arise from this activity are interest rate, credit, liquidity, foreign exchange 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**
Investments and cash on hand and on deposit	Sensitivity to changes in interest rates, foreign exchange rates, and credit risk	Asset-liability matching, monitoring of investment restrictions and monitoring of 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
Members' deposits	Sensitivity to changes in interest rates and foreign exchange rates	Asset-liability matching, periodic use of derivatives

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. Financial margin reported in the consolidated statement of operations 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 of Directors on a monthly basis.

In managing interest rate risk, the Credit Union relies primarily upon the use of asset-liability matching and interest rate sensitivity models. Periodically, the Credit Union may enter into interest rate swaps to hedge exposure to interest rate risk. The Credit Union enters into interest rate swap agreements for the sole purpose of managing interest rate exposures in the balance sheet and not for speculative purposes. Interest rate swap contracts exchanging fixed rate interest for floating rate interest are designated and assessed as effective fair value hedges.

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 market interest rates over a twelve 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 market interest rates. 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 market interest rates would increase financial margin by $2,182,000 over the next 12 months while an immediate and sustained 100 basis points decrease in market interest rates would decrease financial margin by $3,067,000 over the next 12 months.

Other types of interest rate risk may involve basis risk, which is the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristics (for example the difference between prime rates and the Canadian Deposit Offering Rate), and prepayment risk, which is 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 by management.

The following schedule shows the Credit Union's sensitivity to interest rate changes as at December 31, 2009. Amounts with floating rates or due or payable on demand are classified as maturing within less than one year, regardless of maturity. Loans and deposits subject to fixed rates are based on contractual terms. Amounts that are not interest sensitive have been grouped together.

	Financial statement amounts		**Interest rate swap agreements**		
(in thousands of dollars)	**Assets** **$**	**Liabilities and members' equity** **$**	**Assets** **$**	**Liabilities** **$**	**Net asset/ liability gap** **$**
Expected repricing or maturing date					
Less than one year	1,094,946	1,238,921	17,766	-	(126,209)
1 to 2 years	298,790	278,005	-	-	20,785
2 to 3 years	318,444	234,767	-	-	83,677
3 to 4 years	391,300	198,450	-	-	192,850
4 to 5 years	430,059	107,632	-	-	322,427
Over 5 years	37,727	418	-	17,766	19,543
Not interest sensitive	49,922	562,995	-	-	(513,073)
	2,621,188	2,621,188	17,766	17,766	-

The average rate for interest bearing assets is 4.70% and for interest bearing liabilities is 2.48%.

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

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. 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 loans to members 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 centralised in the Credit Risk Management department, with regular reports to the Audit and Risk Committee and the Board of Directors.

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 of Directors establishes the Credit Union's tolerance for credit exposures and the principles the Credit Union follows in managing credit risk. 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 instrument to which the Credit Union is most exposed are loans to members, cash on hand and on deposit, and investments.

(in thousands of dollars)	**Outstanding** **$**	**Undrawn commitments** **$**	**Total exposure** **$**
Credit risk exposure			
Cash on hand and on deposit	40,748	-	40,748
Investments	192,374	-	192,374
Consumer loans	1,981,560	239,183	2,220,743
Commercial loans	381,020	97,815	478,835
Total exposure	2,595,702	336,998	2,932,700

Cash on hand and on deposit and 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 of Directors. 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.

Consumer loans

Consumer loans to members consist of residential mortgages, consumer loans and lines of credit. Residential mortgages are fully secured by residential property with 49% in mortgages insured by Canada Mortgage and Housing Corporation and other mortgage insurance providers, 50% in conventional mortgages with an ongoing maximum advance ratio to 80% of the appraised value, and 1% in mortgages with an original advance ratio to 85% of the appraised value. The balance of the consumer loan portfolio consists of loans and lines of credit which are either secured by residential mortgages or chattels, or are unsecured.

Commercial loans

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 Union's commercial lending diversification by industry type is as follows:

	2009	**2008**
	%	**%**
Real estate, rental and leasing	44.6	42.8
Accommodation and food services	14.2	13.4
Business services	9.5	10.3
Arts, entertainment and recreation	7.3	6.5
Retail and wholesale trade	6.9	8.6
Manufacturing and construction	6.2	6.8
Health care and social assistance	5.7	5.0
Transportation and warehousing	2.5	3.5
Other industries	3.0	3.1

The credit quality of the commercial loan portfolio is assessed by the Credit Union in accordance with the Credit Union Deposit Guarantee Corporation's risk rating model. The Credit Union assesses the probability of a default using the risk rating model and taking into account statistical analysis as well as the experience and judgement of the commercial and credit risk management departments. Commercial loans to members are divided into eight segments and are reviewed regularly and updated as appropriate.

	%
Excellent risk	0.8
Very good risk	6.4
Good risk	60.4
Acceptable risk	27.6
Caution risk	2.8
At risk	0.2
Impaired	
No reserve	0.7
Reserve	1.1

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 at all times as described in note 9. 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 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 as an integral part of its liquidity management strategy as disclosed in note 7.

The remaining contractual maturity of recognized financial liabilities is as follows:

		Payable on a fixed date				
(in thousands of dollars)	Payable on demand $	Less than 1 year $	1 to 2 years $	2 to 5 years $	More than 5 years $	Total $
Members' deposits	1,027,579	618,962	278,005	540,849	418	2,465,813
Accounts payable and accrued liabilities	-	10,220	-	-	1,072	11,292
	1,027,579	629,182	278,005	540,849	1,490	2,477,105

Foreign exchange risk

Foreign exchange risk is the risk that arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. 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, such as changes in equity and commodity prices, where these changes cause fluctuations in the fair value or future cash flows of a financial instrument. The Credit Union is not exposed to significant price risk at this time.

13 Fair value of financial assets and liabilities

Differences between carrying value and fair value of investments, loans, 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 carrying 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 investments, loans and deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of financial 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 are discounted to their estimated present value using current market rates for equivalent groups of fixed rate deposits. Other inputs may include the addition of an interest rate spread to incorporate an appropriate risk premium. The significant assumptions included in the determination of fair value include estimates of credit losses, interest rates and discount rates.

The most significant assumption relates to the discount rates utilized. If the forward yield curve of such instruments would increase by 10 basis points then the fair value of financial assets would decrease by $3,408,000 and the fair value of financial liabilities would decrease by $2,418,000. A corresponding decrease of 10 basis points in the forward yield curve would result in a $4,890,000 increase in the fair value of financial assets and a $2,424,000 increase in the fair value of financial liabilities.

The fair values disclosed exclude the value of assets and liabilities not considered financial instruments such as other assets and property and equipment.

Financial assets and liabilities are recognized on the consolidated 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 instruments are presented in the table below:

As at December 31, 2009:

(in thousands of dollars)	**Financial assets/liabilities at fair value $**	**Financial assets/ liabilities at cost or amortized cost $**	**Estimated fair value $**	**Fair value greater (less) than carrying value $**
Financial assets				
Cash on hand and on deposit	40,748	-	40,748	-
Investments	-	192,374	194,896	2,522
Loans to members	18,838	2,341,859	2,409,873	49,176
Accounts receivable	-	5,963	5,963	-
Total financial assets	59,586	2,540,196	2,651,480	51,698
Financial liabilities				
Line of credit	-	-	-	-
Members' deposits	-	2,465,813	2,505,846	40,033
Accounts payable and accrued liabilities	1,072	10,220	11,292	-
Total financial liabilities	1,072	2,476,033	2,517,138	40,033

As at December 31, 2008:

(in thousands of dollars)	**Financial assets/liabilities at fair value $**	**Financial assets/ liabilities at cost or amortized cost $**	**Estimated fair value $**	**Fair value greater (less) than carrying value $**
Financial assets				
Cash on hand and on deposit	12,727	-	12,727	-
Investments	-	185,022	188,074	3,052
Loans to members	20,974	2,170,853	2,198,409	6,582
Accounts receivable	-	4,079	4,079	-
Total financial assets	33,701	2,359,954	2,403,289	9,634
Financial liabilities				
Line of credit	79,523	-	79,523	-
Members' deposits	-	2,190,897	2,208,873	17,976
Accounts payable and accrued liabilities	2,723	11,171	13,894	-
Total financial liabilities	82,246	2,202,068	2,302,290	17,976

Fair value hierarchy

Beginning January 1, 2009, assets and liabilities recorded at fair value in the balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique.

The inputs used for fair value measurements, including their classification with the required three levels of the fair value hierarchy that prioritizes the inputs used for fair value measurement are as follows:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 - inputs that are not based on observable market data.

The following table presents the classification of financial instruments within the fair value hierarchy as at December 31, 2009:

	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Financial assets				
Cash on hand and on deposit	40,748	-	-	40,748
Loans to members	-	18,838	-	18,838
Total financial assets	40,748	18,838	-	59,586
Financial liabilities				
Interest rate swap	-	1,072	-	1,072
Total financial liabilities	-	1,072	-	1,072

14 Related party transactions

Credit Union Central of Manitoba ("Central")

The Credit Union is a member of Central which acts as a depository for surplus funds from, and makes loans to, credit unions. Central also provides other services for a fee to the Credit Union and acts in an advisory capacity.

Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions for information technology services including banking system services and network infrastructure. Celero Solutions is a joint venture owned by the Credit Union Centrals of Alberta, Saskatchewan and Manitoba along with Concentra Financial Services Association.

Credit Union Deposit Guarantee Corporation

All credit unions in the Province of Manitoba are monitored by the Credit Union Deposit Guarantee Corporation (the "Corporation") which was formed for the protection of individual members against financial loss on their deposits in credit unions. All credit unions pay annual assessments to support activities of the Corporation.

Everlink Payment Services Inc.

The Credit Union receives electronic transaction switching services from Everlink Payment Services Inc. ("Everlink"). In accordance with the Credit Union's accounting policy for these services, the Credit Union records revenue or expense and a receivable from or a liability to Central representing the Credit Union's proportionate share of Everlink's operating income or loss for the year.

Directors

Transactions with directors are at terms and conditions as set out by the statutes, by-laws and policies of the Credit Union.

Remuneration of $174,000 (2008 - $196,000) was paid to directors during the year. Expenses paid by the Credit Union on behalf of the directors were $53,000 (2008 - $45,000).

Loans to directors at government prescribed rates of interest total $124,000 at December 31, 2009.

Loans to directors and staff

As at December 31, 2009, outstanding loans to directors, management and staff totalled 1.34% (2008 - 1.30%), in aggregate, of the assets of the Credit Union.

15 Commitments and guarantees

Director and officer indemnification

The Credit Union indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Credit Union to the extent permitted by law. The Credit Union has acquired and maintains liability insurance for its directors and officers.

Leases

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

(in thousands of dollars)	**$**
2010	1,968
2011	2,012
2012	1,856
2013	1,419
2014	1,187
Thereafter	7,351

16 Contingencies

The Credit Union, in the course of its operations, is subject to lawsuits. As a policy, the Credit Union will accrue for losses in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. A significant claim has been made against the Credit Union, however, the Credit Union has no reason to believe that this claim will have a material impact on the Credit Union's financial position and accordingly, no provision has been recorded in these statements.

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 which range between 5% and 7% of the employee's salary. The expense and payments for the year ended December 31, 2009 were $1,276,000 (2008 - $1,237,000). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

18 Comparative figures

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