Concentra FINANCIAL®

CANADA'S BEST MANAGED COMPANIES PLATINUM MEMBER

2009 Annual Report

Financial Highlights

(Millions of Dollars)

For the Year	2009	2008	2007	2006	2005
Continuing Operations					
Gross revenue	198.25	194.08	177.60	160.38	133.09
Net interest income	55.00	46.35	34.62	37.02	41.86
Provision for credit losses	0.60	4.97	0.18	0.02	1.48
Non-interest expenses	48.81	44.83	44.04	42.63	36.93
Net income from continuing operations	28.99	4.87	1.88	11.10	13.95
Net income from discontinued operations[1]	1.71	2.87	20.86	2.57	0.01
Net income	30.70	7.74	22.74	13.67	13.96
At Year End					
Assets from continuing operations	3,686.36	3,834.62	3,555.89	3,003.27	2,588.22
Assets from discontinued operations	8.88	9.10	62.46	300.92	238.16
Total assets	3,695.24	3,843.72	3,618.35	3,304.19	2,826.38
Retained earnings	69.14	38.70	42.07	40.02	34.22
Assets under administration	24,400	21,000	20,000	19,200	17,700
Assets to Capital Multiple[2]	14.2	18.4	16.7	16.8	16.4
Total Regulatory Capital to Risk-Weighted Assets[2]	16.6%	12.4%	12.2%	12.5%	11.9%

(1)2007 includes gain on sale of retail credit card business of $17.46 (net of tax).
(2)The 2009 and 2008 ratios are calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI) under the new Basel II framework. Comparative ratios are calculated using guidelines issued by OSFI under the Basel I framework. Basel I and Basel II are not directly comparable.

Table of Contents

Financial Highlights 1

2009 Board of Directors 2

Foreword 3

Management Discussion and Analysis 4

Management Responsibility for Financial Reporting 17

Auditors' Report 18

Consolidated Financial Statements 19

2009 Board of Directors

Don Blocka
Representing: Saskatchewan Region
Member, Executive Committee

Randy Harper
Representing: Alberta Region
Member, Audit and Risk Committee

Carolynne Jardine
Representing: National Services Members
Chair, Conduct Review Committee
Member, Governance Committee

Scott Kennedy
Representing: Ontario/British Columbia Region
Member, Executive Committee

George Keter
Representing: Saskatchewan Region
Member, Governance Committee
Member, Conduct Review Committee

Gordon Lightfoot
Representing: Saskatchewan Region
Member, Audit and Risk Committee

Kevin Lukey
Representing: Saskatchewan Region
Member, Executive Committee

Ross McClelland
Representing: Saskatchewan Region
Member, Audit and Risk Committee

Wayne McLeod
Representing: National Services Members
Chair, Board of Directors
Chair, Executive Committee

Robert McVeigh
Representing: Minority Shareholders
Member, Audit and Risk Committee

Allan Morin
Representing: Manitoba Region
Chair, Audit and Risk Committee
Member, Executive Committee

David Phillips
Representing: Class B Shareholders
Member, Conduct Review Committee
Member, Governance Committee

Malcolm Stoffman
Representing: Ontario/British Columbia Region
Member, Conduct Review Committee
Member, Governance Committee

Dean Walde
Representing: Saskatchewan Region
Member, Conduct Review Committee
Chair, Governance Committee

Message from the Board Chair and President/Chief Executive Officer

The global economic downturn set the backdrop for 2009, a year to confront unprecedented challenges in an uncharted and changing landscape. Concentra Financial successfully faced the test by putting knowledge and tools to work in a framework of co-operation, courage and innovation.

Early in 2009 we recognized the need to reassess and alter the course, by recasting the 2009 Business Plan and intentionally changing the way we do business. Transition and rebuilding became the operating priority.

Through teamwork, we effectively managed through the difficult economic terrain to reach a new peak in the financial performance of Concentra Financial. We attained the best ever financial results with consolidated net income of $30.7 million (net income of $29.0 million from continuing operations), total corporate assets of $3.7 billion and assets under administration of $24.4 billion.

Concentra Financial acknowledges that the necessary immediate responses to the market situation impacted some credit unions. Looking beyond the short term we also made significant changes to the business model, to achieve long term sustainability for Concentra Financial and ensure the ability to serve credit unions well into the future.

Prudent and well managed responses that contributed to Concentra Financial entering 2010 in a position of financial strength include reassessing liquidity requirements, deliberately reducing the overall size of the balance sheet, maintaining the DBRS rating and attracting new capital. With net income and return on equity significantly exceeding the Revised Business Plan, 2009 results validate the modified business model.

Notwithstanding the limitations imposed by the external financial environment, Concentra Financial made progress on many key deliverables. We continued active engagement in the Prairie Central Initiative, enhanced Registered Plans programs, launched a nationwide Liquidity Bulletin Board, delivered a new website and established the Innovation Council to seek credit union input on products and services.

Concentra Financial was designated for the seventh consecutive year as one of Canada's 50 Best Managed Companies, achieving membership in the Platinum Club. This recognition of strong overall performance is a testament to the ability of the Concentra Financial leadership team, and the dedication and talent of all employees.

For 2010, the financial focus remains on optimizing profitability. Concentra Financial continues to actively participate in and promote a successful Prairie Central merger. With client needs a top priority, Concentra Financial is committed to seeking ways to further strengthen the value provided to credit unions through complementary services.

We appreciate and thank our credit union clients and partners for trusting Concentra Financial as a partner and provider, staying the course with us through the rugged landscape of 2009. Well equipped for the path to recovery in 2010, we look forward to ascending to new heights together.

Wayne McLeod, Board Chair
Myrna Bentley, President and Chief Executive Officer

Management Discussion and Analysis

The following discussion and analysis on the operations and financial position of Concentra Financial Services Association (Concentra Financial) at December 31, 2009, should be read in conjunction with the Consolidated Financial Statements and the accompanying notes.

Financial Performance

Concentra Financial provides value to Canada's credit unions and endeavours to maximize shareholder value. The company is dedicated to continuously refining business practices to meet the demands of a dynamic financial services industry and expanding the boundaries of our financial targets.

Concentra Financial establishes long-term financial performance objectives that are reviewed and approved annually by the Board of Directors as an essential component of the strategic planning process. The measurement of these key financial performance indicators is based on consolidated operations.

On October 1, 2007, Concentra Financial sold its retail credit card business to MBNA Canada Bank, a subsidiary of Bank of America Corporation. Effective January 1, 2008, CAI Acquiring Inc., a wholly-owned subsidiary of Concentra Financial, sold its partnership interest in the merchant acquiring business resulting in a pre-tax gain on sale of approximately $0.8 million. Subsequently on January 1, 2009, the shares held in CAI Acquiring Inc. were sold to the Class C shareholders.

Concentra Financial exhibited exceptional performance in 2009. After the significant market turbulence in the last quarter of 2008 demonstrated we are not immune to the market conditions, 2009 has shown that prudent and well managed responses to market fluctuations have returned positive results. The 2009 financial performance was impacted positively by higher net interest income, gain on securities, realized and unrealized gains (losses) on derivatives, and lower provision for credit losses. However, the results were affected by increased non-interest expenses, and lower fee for service income.

The following is a summary of the company's key financial performance indicators.

Asset Growth

- The company has established long-term growth targets of 5% to 10% annually, expecting to fully leverage the increase in net assets.
- Capital plans have been developed to ensure Concentra Financial meets the necessary external requirements while achieving growth targets.
- During 2009, the company managed the size of the consolidated on-balance sheet assets downward by 3.9% to ensure strong capital adequacy and liquidity levels were maintained (2008 – upward by 6.2%).
- Overall growth of assets comprising on-balance sheet assets from continuing operations as well as off-balance sheet loan program assets was 3.4% (2008 – 11.9%).
- The growth of assets under administration on a consolidated basis was 16.2% (2008 – 5.0%). The increase was mainly due to the registered retirement savings plans, tax free savings accounts and the level of securitization activity undertaken in 2009.
- Additional information in relation to asset growth is included in the business lines section later in this report.

Productivity

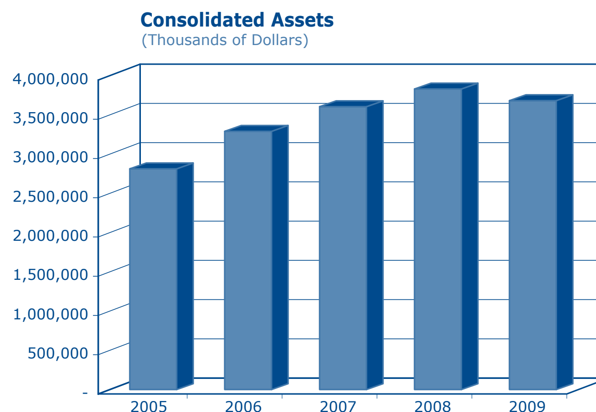
- An annual productivity target is set to support control over operating costs in relation to revenue levels. Productivity measures the ratio between non-interest expenses to net interest income and non-interest income. In this ratio, the company endeavours to achieve a downward trend, indicating that productivity is improving.
- Over the long term, the company will work toward achieving a productivity ratio of 65% - 70% annually. Factors that contribute to a healthy productivity ratio are maintaining a specified margin to average assets ratio, non-interest revenue growth measured as year-over-year percentage increase and non-interest revenue growth relative to total gross revenue while maintaining non-interest expenses at reasonable levels.
- The productivity ratio improved in 2009, as the actual rate decreased to 56.2% (2008 – 76.8%). The low interest rate environment during the year was positive for net interest income due to lower cost of funds. Non-interest income increased due to positive impacts from gain (loss) on securities and reduced net derivative losses partially offset by reduced income from fee for service. Gain (loss) on securities resulted in net gains in the current year while the prior year had net losses due to provisions recorded for asset-backed and Collateralized Debt Obligation (CDO) securities. The reduced net derivative losses resulted from the net unrealized gains partially offsetting the net realized losses in the current year whereas the prior year had both net realized and net unrealized losses. The derivative portfolio is subject to significant volatility due to market conditions and can result in either significant positive or negative movements. Non-interest expense increased and continues to be closely managed with workforce strategy and cost management initiatives.

Return on Equity

- The company's overall financial return to shareholders is determined annually based on current conditions, with the long-term target of maintaining an 8% - 12% return on equity (ROE).
- For the year ending December 31, 2009, the consolidated ROE was 17.7% (2008 – 4.1%). This increase was the result of the significantly higher net income than anticipated in the 2009 financial plan.

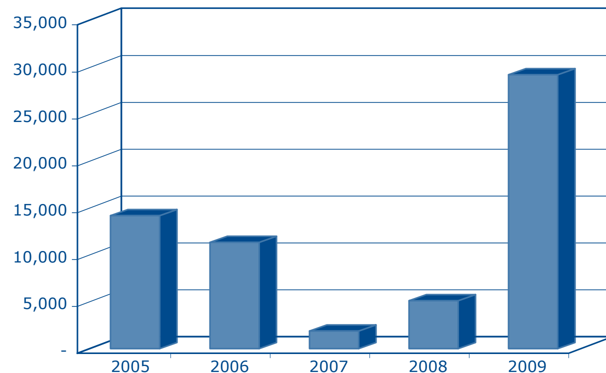
Financial Statement Analysis

Consolidated assets decreased by $0.1 billion to $3.7 billion in 2009 due to a decrease in the loans portfolios offset partially by an increase in securities. The company's decrease in total assets was supported by the reduction in deposit liabilities which were partially offset by an increase in loans and notes payable. The ongoing size of the balance sheet continues to be actively managed in relation to the capital levels as well as liquidity levels.



In addition to the company's on-balance sheet assets, assets under administration include assets administered by the company and assets where the company acts as a trustee on behalf of clients. Consolidated assets under administration at December 31, 2009 were $24.4 billion, an increase when compared to $21.0 billion in 2008. The level of assets administered contributes to non-interest revenue.

Consolidated net income from continuing operations increased from $4.9 million in 2008 to $29.0 million in 2009. Income from discontinued operations decreased from $2.9 million to $1.7 million. This resulted in total consolidated net income of $30.7 million (2008 - $7.7 million).



Net interest margin after provision for credit losses increased in 2009 by $13.0 million to $54.4 million. The increase was due to lower provision for credit losses and lower costs of funds due to the record low interest rates resulting from the market disruptions in late 2008. Non-interest income increased to $29.9 million in 2009 from $9.8 million in 2008. Within non-interest income, gain (loss) on securities increased $13.8 million due to repositioning of the securities portfolio and the settlement of three CDO securities that were previously provisioned for in the prior year. These were partially offset by the valuation adjustments on the asset-backed securities along with the full write down of one CDO investment. The realized and unrealized gains (losses) from derivatives had a positive movement of $10.5 million mostly as a result of favourable mark-to-market valuation changes with the derivative portfolio. Partially offsetting these were decreased fee for service income of $4.5 million resulting mostly from the absence of covered writing activities. Non-interest expense increased by $4.0 million as a result of an increase in salaries and employee benefits and professional and advisory services partially offset by lower general business costs.

Class C shareholders were paid no dividends in 2009 compared to $12.4 million in 2008 which stemmed from the proceeds of the sale of the retail credit card business and the merchant acquiring business. No dividends were paid to Class A shareholders in 2009 (2008 - $Nil).

Net impaired loans and property held for resale as a ratio of gross loans were 1.3% at year end compared to 0.6% at December 31, 2008. Concentra Financial maintains both specific and general allowances for credit losses. Specific allowances are reviewed for adequacy on a regular basis by examining individual assets where there is reasonable doubt that the carrying value will be realized. General allowances are determined based on management's judgment considering economic conditions and historical credit performance.

Business Lines

The growth and profitability achieved during 2009 was based on the successful implementation of strategies and initiatives for the following major business lines.

Financial Intermediation

Commercial and Corporate Solutions

Commercial and Corporate Solutions delivers a comprehensive corporate and commercial financial services package, including commercial leasing, to targeted business clients. In the credit union market, Concentra Financial provides innovative loan solutions to support credit unions in their daily financial operations and in managing liquidity and risk. These wholesale products are focused on enhancing credit unions' success as they manage their operations.

The Leasing Services product is provided nationally through credit unions to individual and corporate clients seeking equipment, technology and infrastructure financing. The banking product is focused in Western Canada while the credit union product supports credit unions across Canada.

Economic and financial conditions continued to impact lending activity in the first two quarters of 2009; despite this, an increase of 5.0% in outstanding banking product loans was achieved during the year. Maintaining competitive margins contributed to net interest margin exceeding budget. The portfolio risk rating remained favourable to budget and provision for credit losses was well below budget and prior year.

During 2009, the lending services of Credit and Liquidity Management were successfully integrated with those of Banking, with the combined unit renamed Commercial and Corporate Solutions. Although economic and financial conditions resulted in curtailed lending activity in early 2009, in the second half of the year loan purchase activity was restored, assisting numerous credit unions in meeting member borrowing needs and establishing relationships for nationwide future growth.

International Services

The International Services team offers foreign exchange and trade finance products across the country. 2009 was a year of mixed results for International Services. The client base continued to grow and a record number of foreign exchange trades were executed. International Services expanded its reach, working with commercial members of 24 credit unions across Canada, an increase of seven from the prior year. The global recession negatively impacted the international sales of most clients, resulting in a lower total dollar volume of foreign exchange traded. As a result, foreign exchange revenue decreased approximately 10.0% from 2008.

Leasing Services

In 2009, Leasing Services achieved its best results ever. New lease business exceeded $70.5 million as compared to $65.5 million booked in 2008. This represents over 7.6% growth year over year. In addition, delinquency was at a record low of 0.8% for leases over 30 days in arrears and provisioning remained well under budget.

Leasing Services was able to sustain higher pricing and improved fee generation through most of 2009 as many competitors continued to address both liquidity and capital issues; however, increased competition was evident in the latter half of 2009.

Credit union support continued to be very strong with further increased usage in 2009. Over 40% of all the lease transactions were originated by our affiliated credit unions, with support literally from coast to coast.

While the economy was and continues to be in recession and many prospective customers deferred capital equipment acquisition decisions, the lease application flow remains strong into 2010 and we continue to focus on both credit and asset quality. This has resulted in record volumes and profitability.

Corporate Finance

Corporate Finance encompasses internal balance sheet management, and external corporate finance offerings for credit unions based on internally generated expertise. Corporate Finance includes corporate treasury management, securitization and loan syndication functions.

Wholesale deposits experienced reasonable growth as a result of continued support from the credit union system with growth outside of Saskatchewan continuing. This, along with a repositioning of our retail GIC funding and increased borrowing capacity resulted in a strengthening of the liquidity position on the Concentra Financial balance sheet.

Balance sheet size was relatively stable in 2009. Securities continued to be an important source of liquidity and the main investment focus was on increasing the liquidity characteristics of the portfolio. This was accomplished by greatly increasing the government composition of the investment portfolio.

Concentra Financial provides innovative deposit, investment and loan solutions to support credit unions in their daily financial operations and in managing liquidity and risk. These wholesale products are focused on enhancing credit union success as they manage their operations. 2009 provided challenges on generating margin in a near zero investment environment which will continue into 2010.

The reach of Concentra Financial to credit unions expanded in 2009 as the geographic diversification of Concentra Financial clients continued to increase. Demand for credit and liquidity solutions continued in 2009 but shifted towards preservation of liquidity, and even the redeployment of some excess liquidity in a challenging rate environment.

Concentra Financial continued its involvement in the Canada Mortgage Bond program as a significant source of liquidity and profitability during 2009 and continued to purchase assets outright from credit unions. These programs provide excellent value-added services to credit unions looking to manage risk exposures and liquidity constraints.

Mortgage and Deposit Services

Concentra Financial provides residential mortgages and retail deposit products to support credit union programs delivered nation-wide.

Retail and wholesale deposits and securitization programs fund lending programs. Deposit levels declined significantly and were in line with balance sheet management strategies.

The residential mortgage sector underwent significant change in 2009, with alternative lenders pulling back from higher risk lending and increasing competition in the lower risk programs. In 2009 Concentra Financial suspended availability of higher risk and resource-intensive mortgage products. Despite increased competition in the lower risk space, Concentra Financial managed the originated mortgage volumes to meet balance sheet requirements while still maintaining loss provisions within budget targets.

Strategic Financial Management

Concentra Financial provides strategic financial management solutions to enhance a credit union’s overall financial performance. Strategic Financial Management (SFM) consults with credit unions to build sound financial management strategies which reflect their unique investment objectives and risk parameters. Subject matter expertise and market intelligence are combined, working collaboratively to enhance the credit union’s ability to meet current and emerging challenges in the marketplace. Since inception in 1997, the SFM team has expanded in terms of clients and product offerings. Today, SFM maintains relationships with 30 credit union clients totaling over $16.0 billion in assets in British Columbia, Saskatchewan, Manitoba and Ontario.

The difficult market environment of 2009 saw increased interest in consulting services as a valuable tool in protecting margins and enhancing bottom lines. In 2009 growth exceeded budget for new business, with the signing of nine new credit union clients and new revenue of $150,000.

Trust Operations

Concentra Trust is a wholly owned subsidiary of Concentra Financial and is responsible for developing and delivering a wide range of personal and corporate trust products, services and programs. Trust services are delivered nationally to credit unions, corporations and individual customers. In 2009, Concentra Trust continued to focus on enhancement, expansion and development of products and services.

Corporate Trust

Corporate Trust ended the year with revenue that was approximately 9% lower than budgeted. This shortfall was a reflection of the economic environment for businesses in 2009 as companies elected to delay or defer the development of new products or services, resulting in fewer opportunities for Concentra Trust to provide trustee services for corporations.

Personal Trust

Personal Trust also ended the year slightly below budget. Several testamentary trusts unexpectedly came to an end as life tenants passed away, resulting in lower than expected revenue for Personal Trust Administration and Personal Trust Agency. Revenue for trust administration was approximately 9.2% less than budget and accounted for a large portion of the shortfall.

First Nation Trust services had been added to the Trust Administration product line in 2008, and 2009 saw a First Nation in Ontario become the first client. The trust added approximately $7.0 million to our assets under administration and will begin generating fee income in 2010 for the next 39 years. The focus for 2010 will be to improve our immediate fee revenue by raising the awareness of First Nation Trust services with legal and accounting professionals that deal with First Nation governments and to promote our estate agency services to credit unions.

Registered Plans

In January 2009, Tax-Free Savings Account solutions for credit unions and commercial clients were launched. Year end revenue of just over $991,000 exceeded expectations, as there were more participants than anticipated. As a result, total Concentra Trust revenue including personal trust, corporate trust and registered plans exceeded budget by approximately $124,000 or 1.6%.

In 2009 an extensive review of Registered Plan programs was undertaken, resulting in pricing adjustments effective for 2010. This change was communicated to clients in 2009. Program enhancements were implemented in 2009 with new resources added to provide administrative and training support to credit unions. These changes will permit the programs to retain integrity and remain relevant and sustainable in the years to come.

Card Operations

Since the retail credit card business was sold effective October 1, 2007, and the merchant processing business conducted by CAI Acquiring Inc. through United Network Payment Services partnership was sold effective January 1, 2008, the Card Operations held no active business assets and as such there were no further capital requirements. Therefore, during 2008, Concentra Financial redeemed the Class C subordinated debentures totalling $22.5 million and No. 3 subordinated debentures totalling $10.0

million. Furthermore, a dividend of $8.0 million was paid in 2008 from contributed surplus to the Class C shareholders following the reduction of the stated capital of the Class C shares issued from $8.0 million to $2.00. The shares held in CAI Acquiring Inc. were subsequently sold to the Class C shareholders effective January 1, 2009, at the net book value of the investment in CAI Acquiring Inc., which approximated the fair value at the time of the sale. No dividends were paid to Class C shareholders in 2009 (2008 - $12.4 million).

Risk Management Overview

As a financial institution, Concentra Financial takes on credit and market risk within the risk tolerance specified by the Board through policy to create value for its shareholders. These portfolios of risk reflect the company's competencies and capacities and are evaluated, managed, and priced on the basis of the changing business conditions in the competitive environment. Effective management of operational, strategic, liquidity, and legal and regulatory risk strengthens the ability of the company to achieve its objectives and meet obligations. Risk aware decisions, reflected in strategy and action, optimize opportunity and capacity to create value for shareholders.

Concentra Financial defines enterprise risk management as: a process, effected by a company's Board of Directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the company, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of corporate objectives.

The enterprise risk management objective of Concentra Financial is twofold:

- to improve shareholder value through optimization of risk and capital and risk-based decision making; and
- to perform well in a risk-based regulatory environment.

Key elements of the company's enterprise risk framework include: corporate governance and structure, policy, reporting, risk culture and risk categorization. The strong governance, ethics, values, and leadership and co-operative principles of Concentra Financial provide a firm foundation for the company's risk culture.

Roles and Responsibilities

Board of Directors

The Board of Directors is responsible for overseeing an effective risk management process. Risk tolerances are set by the Board through policy and provide the mechanism and basis for subsequent monitoring, measurement and reporting. All Board policies are reviewed annually.

On a quarterly basis, the Board reviews a Chief Risk Officer's Report, which contains a forward looking economic risk assessment, emerging uncertainties that could impact the business plan as well as the strategic plans for future years, and the status of current risk levels relative to the corporate risk appetite.

The Audit and Risk Committee assists the Board in discharging its responsibilities with respect to risk. The Audit and Risk Committee reviews quarterly risk reports in detail and recommends an enterprise risk framework to the Board that includes the company's risk philosophy and risk tolerances, risk management process and risk policies.

Management

Executive management is responsible for implementing strategies and policies approved by the Board and for developing processes that identify, assess, monitor and control risks. Risk reporting occurs on a regular basis through a formal reporting process.

Key risk management committees include:

- Executive Leadership Risk Committee – established by the President and Chief Executive Officer, comprised of executive management, and responsible to:
  - implement board level risk management strategies and policies;
  - review enterprise risk reporting and direct action to manage risk levels; and
  - direct actions to protect the company during a business continuity and/or pandemic event.
- Asset-Liability Committee – established by the Board, comprised of executive, senior and operating management, and responsible to:
  - develop and monitor strategies for the management of the balance sheet and monitor financial performance against these strategies;
  - review and discuss environmental conditions impacting the financial position and performance of the company including economic, financial and market conditions; and
  - review, assess and approve enterprise level risk management strategies.
- Credit Committee – established by the Board, comprised of members of executive management approved by the President and Chief Executive Officer and responsible to approve large credits upon the recommendation of the Vice-President, Chief Credit Officer (CCO).

Management and supervisory personnel are responsible for ensuring that policy and related standards and procedures are communicated to and understood by all employees. All employees are responsible for complying with policy and related standards and procedures, as well as participating in optimizing risk within their functional areas.

Oversight and Independent Functions

Concentra Financial has established a risk management division that recommends policy for risk tolerances, oversees and reports on risk, provides risk related decision support to the Board, management and business units, and designs, develops, implements and maintains the legislative compliance management framework for the company. The risk management division is segregated from other business units and is managed under the direction of the Executive Vice-President, Chief Risk Officer, Chief Compliance Officer who reports to the President and Chief Executive Officer, and has unfettered access to the Board.

Concentra Financial has an independent audit function, which provides independent and objective internal audit services to management and the Board. The internal audit mandate, which outlines the authority, responsibility, and accountability of the internal audit function, is reviewed and approved by the Audit and Risk Committee at least every two years. The internal auditor meets separately and in camera with the Audit and Risk Committee on a regular basis.

Risk Categories

The various risks encountered by the company are classified and defined within one of six categories: credit, market, liquidity, legal and regulatory, operational and strategic.

Credit Risk

Credit risk arises from a counterparty's inability or unwillingness to fully meet its contractual obligations. The credit risk on securities, loans, and mortgages relates to principal and interest amounts. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

Activities in place to manage the company's credit risk profile include: setting credit concentration policy limits by issuer group, issuer, industry and geographic region; restricting investments in unrated commercial debt securities; implementing prudent credit granting criteria; effectively managing monitored and non-productive assets; and, undertaking conservative valuation and loss recognition practices.

In addition, the CCO plays a key role in managing the credit risk of Concentra Financial. The CCO manages the credit risk function and is responsible for delegating credit approval limits to business units and approving loan, lease and mortgage applications in excess of the credit authority delegated. In addition, the CCO undertakes an overall systematic review of the credit adjudication process on an annual basis and the results of the review are provided to the Board.

The overall credit risk position is monitored in reference to an internally generated composite weighted average risk rating calculation. Further, quantitative assessment of credit risk is included in the internal capital assessment process.

On a quarterly basis, the Monitored and Non-Productive Asset Report and the Large Lending Credits Report, outlining credit quality issues and key lending concentrations respectively, are issued to the Audit and Risk Committee and the Board.

Market Risk

Market risk arises from three components:

- Interest rate risk which results from movements in interest rates. This risk results primarily from timing differences in the repricing of assets and liabilities, both on- and off-balance sheet, as they mature or are contractually re-priced.
- Price risk which results from changes in the market price of an asset or liability.
- Foreign exchange risk which results from movements in foreign exchange rates.

Activities in place to manage the company's market risk profile include: establishing prudent market risk limits, investing in marketable securities, utilizing off-balance sheet instruments to manage interest rate risk levels, simulating the impact of interest rate changes and monitoring exposure to foreign currencies.

The market risk position is monitored in reference to the impact of interest rate changes on adjusted net interest income and the economic value of equity. Further, quantitative assessment of market risk is included in the internal capital assessment process.

Liquidity Risk

Liquidity risk arises from the inability to generate or obtain necessary cash or equivalents in a timely manner, at a reasonable price, to meet on- and off-balance sheet commitments as they come due, and without incurring unacceptable losses.

Activities in place to manage the company's liquidity risk profile include: establishing prudent liquidity policies, regular monitoring of cash flows, maintaining prudent levels of cash and cash equivalents, securitizing assets, maintaining external credit facilities, undertaking stress testing, maintaining a liquidity contingency plan and maintaining an investment grade market rating.

The liquidity risk position is monitored in reference to a liquid asset ratio calculation (liquid assets as a percentage of total assets). Further, quantitative assessment of liquidity risk is included in the internal capital assessment process.

Legal and Regulatory Risk

Legal and regulatory risk arises from an institution's potential non-conformance with laws, rules, regulations, prescribed practices or ethical standards in the jurisdiction in which the organization operates. This includes breaches in fiduciary duties or obligations in the course of providing investment advice to other persons or holding, administering, managing or investing assets on behalf of other persons.

The Chief Compliance Officer is responsible to ensure that key day to day legislative compliance management controls throughout the company are sufficiently robust to control compliance with all regulatory legislative requirements. The Chief Compliance Officer reports legislative compliance matters to executive management and the Board.

Concentra Financial has a Chief Anti-Money Laundering Officer in place to manage corporate-wide measures to combat money laundering and terrorist financing activity risks within the company. The Chief Anti-Money Laundering Officer reports to executive management and the Board on anti-money laundering and anti-terrorist financing matters.

Concentra Financial has a Privacy Officer in place to monitor, report on, and be accountable on a day to day basis for the company's compliance with applicable federal and provincial privacy legislation.

In addition, Concentra Financial has a Code of Conduct/Conflict of Interest corporate policy that must be followed by all Board members, officers, and employees.

The company's policies set out requirements for the quantity and quality of capital the company is required to maintain, as well as policies that address capital impairment and dividends. On an annual basis management prepares a capital plan which projects future growth and recommends strategies to meet regulatory obligations and achieve management objectives. The capital plan is presented to the Board of Directors with the Capital Plan Risk Report. Management prepares a quarterly internal capital adequacy report which measures capital available to protect against possible losses related to risk. Internal capital calculations supplement regulatory capital and focus on optimizing the use of available capital capacity and ensuring long term economic sustainability of operations.

Operational Risk

Operational risk arises from problems in the performance of business functions or processes. Exposures to this risk can result from deficiencies or breakdowns in internal controls or processes, technology failures, human errors or dishonesty, or natural catastrophes. Operational risk also includes reputation risk which arises from a lack of confidence in an institution by key stakeholders.

The key operational risk management objectives of the company are to:

- provide awareness of significant operational risk;
- facilitate appropriate decisions to act upon operational risk;
- empower business units with the responsibility and accountability for operational risks assumed; and
- monitor and report on operational risk.

Quantitative assessment of operational risk is included in the internal capital assessment process.

Strategic Risk

Strategic risk arises from an institution's inability to implement appropriate business plans, strategies, decision making and resource allocation, and an inability to adapt to changes in its business environment.

Strategic planning is conducted by the Board on a regular basis. Operational planning and budgeting is conducted by management to develop the annual business plan which is presented to the Board of Directors with the Financial Plan Risk Report.

Executive management undertakes risk profiling on an annual basis to identify key risks affecting the successful achievement of its strategic goals. The key risks are assessed based on the probability of the risk occurring and impact to the company if the risk were to occur. Action plans are developed for key risks and responsibility is assigned to members of executive management to ensure the probability of the risk occurring will be reduced to an acceptable level. Key risks are re-assessed and action plan progress is monitored on a quarterly basis. Quantitative assessment of strategic risk is included in the internal capital risk assessment process.

Regulatory Capital Management

Capital levels are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and take into account forecasted capital needs and markets. Maintaining adequate regulatory capital is the goal in order to be considered well capitalized, protect customer deposits and provide capacity for internal growth and strategic opportunities, all the while providing a satisfactory return for shareholders.

Basel II

Effective January 1, 2008, OSFI required Canadian financial institutions to calculate, manage and report their regulatory capital ratios in accordance with a new capital management framework, commonly known as Basel II. Basel II is applied to Concentra Financial based on the consolidated financial statements. The company has implemented the standardized approach to calculating risk-weighted assets for credit risk and the basic indicator approach to calculate risk-weighted assets for operational risk.

Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 regulatory capital comprises the more permanent components of capital and consists of share capital and retained earnings, excluding accumulated other comprehensive income. In addition, goodwill and other items as prescribed by OSFI are deducted from Tier 1 regulatory capital. Tier 2 regulatory capital consists of subordinated debentures, which qualify as Tier 2B capital, less deductions as prescribed by OSFI. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital. For further details on the terms and conditions of share capital and subordinated debentures, refer to Notes 16 and 17 to the Consolidated Financial Statements and to Note 27 for additional disclosure on regulatory capital management.

Regulatory ratios are calculated by dividing Tier 1 regulatory capital and Total regulatory capital by risk-weighted assets (RWA). The calculation of RWA is determined from OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for operational risk. The company does not meet the qualifying criteria for computing market risk, which is the value of the trading book assets or liabilities being at least 10% of total assets and exceeding $1 billion. In addition, OSFI formally establishes risk-based capital targets for deposit-taking institutions. Current OSFI targets are a minimum Tier 1 regulatory capital to RWA ratio of 7% and a minimum Total regulatory capital to RWA ratio of 10%. In addition to the Tier I regulatory capital to RWA ratio and Total regulatory capital to RWA ratio, Canadian financial institutions are required to ensure that their Assets to capital multiple, which is calculated by dividing gross adjusted assets by Total regulatory capital, does not exceed a maximum level prescribed by OSFI.

Throughout 2009 and 2008, the company has been in compliance with OSFI prescribed capital adequacy requirements.

The capital structure and regulatory ratios at year end are shown in the following table.

(Thousands of Dollars)	**Basel II 2009**	**Basel II 2008**
Tier 1 Capital		
Common shares	133,254	133,254
Retained earnings	69,141	38,702
Non-cumulative perpetual preferred shares	3,990	3,990
Goodwill	(19,248)	(19,248)
Securitization-related deductions	(570)	(1,000)
Other	(37)	(112)
Total Tier 1 Capital	186,530	155,586
Tier 2 Capital		
Subordinated debentures (Tier 2B)	73,350	53,350
Other	(36)	(111)
Total Tier 2 Capital	73,314	53,239
Total Regulatory Capital	259,844	208,825
Substantial investments	n/a	n/a
First-loss facility	n/a	n/a
Total Regulatory Capital	259,844	208,825
Risk-Weighted Assets		
Credit Risk	1,416,185	1,562,499
Market Risk	n/a	n/a
Operational Risk	147,738	125,271
Total Risk-Weighted Assets	1,563,923	1,687,770
Capital Ratios		
Tier 1 regulatory capital to risk-weighted assets	11.9%	9.2%
Total regulatory capital to risk-weighted assets	16.6%	12.4%
Assets to capital multiple	14.2X	18.4X

Risk-Weighted Assets

(Thousands of Dollars)	2009					
	Gross Credit Risk Exposure	Average of Risk Weights	Standardized Approach	Basic Indicator Approach	Other	Total RWA
Credit Risk						
Corporate	885,273	93%	823,882	n/a	n/a	823,882
Sovereign	376,411	2%	7,516	n/a	n/a	7,516
Bank	457,559	20%	91,512	n/a	n/a	91,512
Retail residential mortgages	1,827,643	20%	361,726	n/a	n/a	361,726
Other retail, excluding small business entities	235	75%	176	n/a	n/a	176
Equity	3,770	100%	3,770	n/a	n/a	3,770
Securitization exposures	149,378	50%	75,328	n/a	n/a	75,328
Other credit risk-weighted assets	102,215	19%	n/a	n/a	52,275	52,275
Total Credit Risk	3,802,484		1,363,910	n/a	52,275	1,416,185
Operational Risk			n/a	147,738	n/a	147,738
Total	3,802,484		1,363,910	147,738	52,275	1,563,923

(Thousands of Dollars)	2008					
	Gross Credit Risk Exposure	Average of Risk Weights	Standardized Approach	Basic Indicator Approach	Other	Total RWA
Credit Risk						
Corporate	1,009,884	88%	891,192	n/a	n/a	891,192
Sovereign	201,270	0%	-	n/a	n/a	-
Bank	448,477	20%	89,695	n/a	n/a	89,695
Retail residential mortgages	2,040,214	21%	423,280	n/a	n/a	423,280
Other retail, excluding small business entities	203	75%	152	n/a	n/a	152
Equity	3,770	100%	3,770	n/a	n/a	3,770
Securitization exposures	227,399	62%	141,193	n/a	n/a	141,193
Other credit risk-weighted assets	68,757	19%	n/a	n/a	13,217	13,217
Total Credit Risk	3,999,974		1,549,282	n/a	13,217	1,562,499
Operational Risk			n/a	125,271	n/a	125,271
Total	3,999,974		1,549,282	125,271	13,217	1,687,770

Subsidiary Capital

Concentra Trust has individual responsibility for maintaining compliance with regulatory capital adequacy requirements. Throughout 2009 and 2008, Concentra Trust has been in compliance with OSFI prescribed capital adequacy requirements.

The following table provides the regulatory ratios at year end.

	Basel II 2009	Basel II 2008
Capital Ratios		
Tier 1 regulatory capital to risk-weighted assets	93.6%	89.8%
Total regulatory capital to risk-weighted assets	93.6%	89.8%
Assets to capital multiple	1.0X	1.0X

Management Responsibility for Financial Reporting

The accompanying Consolidated Financial Statements of Concentra Financial Services Association (Concentra Financial) were prepared by management who is responsible for the integrity and fairness of the information presented and for ensuring that all the information in the annual report is consistent with the Consolidated Financial Statements. This responsibility includes the selection of appropriate accounting policies and making objective judgments and estimates in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada.

In discharging this responsibility for the integrity and fairness of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains the necessary systems of internal control to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. This control is augmented by written policies and procedures, the careful selection and training of qualified staff, the creation of organizational structures that provide a well defined division of responsibilities and the communication of policies and guidelines for business conduct throughout Concentra Financial. This system of internal controls is supplemented by an internal audit function which carries out periodic reviews of the operations of Concentra Financial.

The Board of Directors carries out its responsibilities for reviewing the Consolidated Financial Statements through its Audit and Risk Committee which is composed entirely of Directors who are neither officers nor employees of Concentra Financial. The Audit and Risk Committee reviews the Consolidated Financial Statements and recommends approval to the Board of Directors. Other responsibilities of the Audit and Risk Committee include meeting regularly with management, internal audit and the company's external auditors, Deloitte and Touche LLP, to discuss the effectiveness of internal controls over the financial reporting process as well as the planning and results of the external audit. Both the external and internal auditors have full and free access to the Audit and Risk Committee.

The Superintendent of Financial Institutions Canada examines and inquires into the business affairs of Concentra Financial as deemed necessary to determine whether the provisions of the Cooperative Credit Associations Act (Canada) are being duly observed and that Concentra Financial is in a sound financial condition.

External auditors are appointed by the members of Concentra Financial, upon the recommendation of the Audit and Risk Committee, to perform an independent audit of the Consolidated Financial Statements and provide an opinion thereon; their report is presented separately.

February 2, 2010
Myrna J. Bentley, President and Chief Executive Officer
Daryl Kelln, Executive Vice-President and Chief Financial Officer

Auditors' Report

To the Members of
Concentra Financial Services Association

We have audited the consolidated balance sheet of Concentra Financial Services Association as at December 31, 2009 and the consolidated statements of income, comprehensive income, retained earnings and accumulated other comprehensive income (loss) and cash flows for the year then ended. These financial statements are the responsibility of the Company'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 Company 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.

Chartered Accountants

Regina, Saskatchewan
February 2, 2010

CONSOLIDATED BALANCE SHEET

DECEMBER 31
(Thousands of Dollars)

	2009	2008
ASSETS		
Cash resources	14,298	6,754
Securities (Note 5)	959,380	858,850
Loans (Notes 6 and 7)	2,613,807	2,874,771
Premises and equipment (Note 9)	3,446	3,893
Goodwill (Note 10)	19,248	19,248
Other assets (Note 11)	76,183	71,100
Assets from discontinued operations (Note 3)	8,883	9,105
	3,695,245	3,843,721
LIABILITIES		
Deposits (Note 13)	3,097,872	3,534,393
Loans and notes payable (Note 14)	243,577	9,881
Other liabilities (Note 15)	70,957	77,926
Subordinated debentures (Note 16)	73,732	53,570
Liabilities from discontinued operations (Note 3)	3,204	5,030
	3,489,342	3,680,800
MEMBERS' EQUITY		
Share capital (Note 17)	137,244	137,244
Retained earnings	69,141	38,702
Accumulated other comprehensive income (loss)	(482)	(13,025)
	205,903	162,921
	3,695,245	3,843,721

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.

See accompanying notes

Approved by

Myrna J. Bentley, President and Chief Executive Officer
Allan Morin, Director and Chair, Audit and Risk Committee
Wayne G. McLeod, Board Chair

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31
(Thousands of Dollars)

	2009	2008
INTEREST INCOME		
Loans	138,792	139,943
Securities	29,555	44,303
	168,347	184,246
INTEREST EXPENSE		
Deposits	108,879	130,096
Loans and notes	683	4,894
Subordinated debentures	3,235	2,355
Other direct expenses	555	551
	113,352	137,896
NET INTEREST INCOME	54,995	46,350
Provision for credit losses (Note 7)	600	4,970
NET INTEREST MARGIN	54,395	41,380
NON-INTEREST INCOME		
Fee for service	8,600	13,090
Gain (loss) on securities (Note 5)	4,534	(9,282)
Income from securitized assets (Note 8)	24,754	25,538
Other non-interest income	5,675	4,631
Unrealized and realized gains (losses) on derivatives (Note 22)	(13,663)	(24,147)
	29,900	9,830
	84,295	51,210
NON-INTEREST EXPENSE		
Salaries and employee benefits	29,827	26,829
Professional and advisory services	11,421	10,157
Occupancy	1,666	1,646
General business	5,897	6,193
	48,811	44,825
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	35,484	6,385
Provision for income taxes (Note 19)	6,497	1,515
NET INCOME FROM CONTINUING OPERATIONS	28,987	4,870
Income from discontinued operations, net of tax (Note 3)	1,715	2,872
NET INCOME	30,702	7,742

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31
(Thousands of Dollars)

	2009	2008
NET INCOME	30,702	7,742
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES		
Net unrealized gains (losses) on available-for-sale securities	17,358	(5,216)
Reclassification of (gains) losses on available-for-sale securities to income	(4,815)	6,905
OTHER COMPREHENSIVE INCOME (LOSS)	12,543	1,689
TOTAL COMPREHENSIVE INCOME	43,245	9,431

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.

See accompanying notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

YEAR ENDED DECEMBER 31
(Thousands of Dollars)

	2009	2008
RETAINED EARNINGS		
Balance, beginning of year	38,702	42,071
Net income	30,702	7,742
Dividends, Class B shares	(311)	(311)
Dividends, Class C shares	-	(12,401)
Reduction in income taxes (Note 19)	48	1,601
RETAINED EARNINGS, END OF YEAR	69,141	38,702
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of year	(13,025)	(14,714)
Other comprehensive income (loss)	12,543	1,689
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF YEAR	(482)	(13,025)
RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF YEAR	68,659	25,677

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31
(Thousands of Dollars)

	2009	2008
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		
Net income from continuing operations	28,987	4,870
Adjustments to determine net cash from (used in) operating activities		
Amortization of premises and equipment (Note 9)	960	972
Other amortization	8,133	5,177
Provision for credit losses (Note 7)	600	4,970
Realized losses (gains)	22,625	14,050
Gains from asset securitizations (Note 8)	(22,784)	(21,163)
Future income taxes	(5,909)	(2,383)
Changes in operating assets and liabilities		
Net accrued interest receivable and payable	(9,745)	4,754
Net unrealized (gains) losses on derivatives (Note 22)	(15,704)	19,209
Current income taxes payable	(372)	3,172
Other assets	(6,364)	(66,172)
Other liabilities	(13,881)	48,698
Net cash (used in) provided by operating activities from continuing operations	(13,454)	16,154
Net cash provided by (used in) operating activities from discontinued operations (Note 3)	1,545	(3,731)
Net cash (used in) from operating activities	(11,909)	12,423
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Proceeds from sales and maturities of securities	4,086,204	4,461,905
Purchase of securities	(4,173,162)	(4,180,134)
Change in loans, net of loan securitizations	(276,762)	(960,184)
Proceeds from loan securitizations (Note 8)	557,931	417,257
Premises and equipment purchases, net of disposals	(513)	908
Net cash provided by (used in) investing activities from continuing operations	193,698	(260,248)
Net cash (used in) provided by investing activities from discontinued operations (Note 3)	(1,434)	55,332
Net cash from (used in) investing activities	192,264	(204,916)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Deposits, net of withdrawals	(426,234)	540,330
Loans and notes payable, net of repayments	233,696	(351,895)
Proceeds from issuance of subordinated debentures (Note 16)	19,990	24,972
Dividends paid	(311)	(311)
Distributions from discontinued operations	111	277
Reduction in income taxes from dividends paid	48	56
Net cash (used in) provided by financing activities from continuing operations	(172,700)	213,429
Net cash used in financing activities from discontinued operations (Note 3)	(111)	(51,601)
Net cash (used in) from financing activities	(172,811)	161,828
NET INCREASE (DECREASE) IN CASH RESOURCES	7,544	(30,665)
Cash resources from continuing operations, beginning of year	6,754	37,419
Cash resources from discontinued operations, beginning of year	-	-
CASH RESOURCES FROM CONTINUING OPERATIONS, END OF YEAR	14,298	6,754
CASH RESOURCES FROM DISCONTINUED OPERATIONS, END OF YEAR	-	-
SUPPLEMENTAL INFORMATION		
Amount of interest paid in year	127,996	147,789
Amount of income taxes paid in year	960	726

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009
(Thousands of Dollars)

1. INCORPORATION AND GOVERNING LEGISLATION

Effective December 31, 2004, Co-operative Trust Company of Canada was continued as Concentra Financial Services Association (the Company) and carries on business pursuant to the *Cooperative Credit Associations Act (Canada)*.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with subsection 292(4) of the *Cooperative Credit Association Act (Canada)* which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these consolidated financial statements, including the accounting requirements of OSFI, are summarized below. These accounting policies conform, in all material respects, to Canadian generally accepted accounting principles.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and net income. Certain estimates including allowances for credit losses, goodwill, fair values of financial instruments, income taxes and accounting for securitizations and variable interest entities require management to make subjective and complex judgments. Accordingly, actual results could differ from those estimates thereby impacting the consolidated financial statements.

The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below.

Basis of Consolidation

The Company conducts business through various corporate structures including subsidiaries and other investments. The consolidated financial statements include the Company's assets, liabilities and results of operations, after the elimination of intercompany transactions and balances, of all subsidiaries and variable interest entities for which the Company has determined it is the primary beneficiary.

The Company applies the principles of equity accounting for investments where the Company has significant influence over operating, investing and financing activities of an entity. For the sole investment in a variable interest entity for which the Company is determined not to be the primary beneficiary the investment is recorded using the equity method. Under the equity method, the investment is initially recorded at cost and is adjusted for the Company's proportionate share of net income or loss and dividends received. These investments are recorded in other assets on the consolidated balance sheet and the Company's proportionate share of net income or loss is recorded as other non-interest income on the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The following are included in the consolidated financial statements of the Company:

Concentra Trust – The Company owns 100% of the common shares of Concentra Trust; as such, these consolidated financial statements include the assets and liabilities and results of operations of this wholly owned subsidiary.

CAI Acquiring Inc. – The Company owned 100% of the common shares of CAI Acquiring Inc. (CAI Acquiring), but sold the investment on January 1, 2009 (Note 20). The Company had determined CAI Acquiring was a variable interest entity in which the Company was not the primary beneficiary; as such, the Company's investment in CAI Acquiring was being accounted for under the equity method of accounting. Income was recorded in non-interest income in the discontinued operations.

Celero Solutions – The Company's 5.8% interest in Celero Solutions, an unincorporated entity, is recorded using the cost method of accounting. Under this method the investment is initially recorded at cost and income is recognized only to the extent any distributions are received or receivable. Losses, other than a temporary decline in value, are recorded in other non-interest income.

Significant Accounting Changes

On January 1, 2009, the Company adopted one new accounting standard and two accounting standard amendments that were issued by the Canadian Institute of Chartered Accountants (CICA): handbook Section 3064, *Goodwill and Intangible Assets;* amendment to handbook Section 3855, *Financial Instruments – Recognition and Measurement,* and amendment to handbook Section 3862, *Financial Instruments – Disclosures.*

Section 3064, which replaces Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs,* establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. As a result of adopting the new standard, certain software costs previously recorded in premises and equipment are now recorded as other intangible assets in the consolidated balance sheet with restatement of prior year balances. Accordingly, the Company reclassified $1,566 as at December 31, 2009 (2008 - $1,461) from premises and equipment to other intangible assets.

Amendments to Section 3855 related to the topics of the effective interest method and the impairment of financial assets. The amendment provides clarification that the effective interest method is a method of calculating the amortized cost of one or a group of financial assets or financial liabilities for the purposes of determining impairment and of allocating the interest income or interest expense over the relevant period. This new guidance did not have a material effect on the financial position or earnings of the Company.

The amendments with respect to impairment of financial assets include changing the classification into which debt instruments are required and permitted to be classified and eliminating the distinction between debt securities and other debt instruments. As a result, debt instruments that are not quoted in an active market may be classified as loans and receivables, and impairment will be assessed using the incurred credit loss model. Loans and receivables that the Company intends to sell immediately or in the near term must be classified as held-for-trading and loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available-for-sale.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The amendments also permit reclassifying financial assets from the held-for-trading and available-for-sale classification into the loans and receivables classification under specified circumstances. They also require reversing an impairment loss relating to an available-for-sale debt instrument when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized. The adoption of this amendment did not have a material impact on the financial position or earnings of the Company.

Amendments to Section 3862 resulted in additional note disclosure with respect to fair value measurements and liquidity risk.

In January 2009, Emerging Issues Committee (EIC) Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* was issued and was early adopted for 2008. EIC 173 clarifies how the Company's own credit risk and the credit risk of a counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. This EIC was retrospectively applied without restatement and had no impact on opening retained earnings.

On January 1, 2008, the Company adopted three new accounting standards that were issued by the CICA: handbook Section 1535, *Capital Disclosures*; handbook Section 3862, *Financial Instruments – Disclosures;* and handbook Section 3863, *Financial Instruments – Presentation*. These sections resulted in additional note disclosure.

Section 1535 specifies the disclosure of (i) the Company's objectives, policies and processes for managing capital; (ii) quantitative data about what the Company regards as capital; (iii) whether the Company has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace handbook Section 3861, *Financial Instruments – Disclosure and Presentation,* revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new standards place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Cash Resources

Cash resources consist of cash and securities maturing within one business day.

Securities

Securities are classified as available-for-sale and held-for-trading.

Investments in equity and debt securities, which may be sold in response to changes in market conditions or for liquidity purposes, are classified as available-for-sale securities. These securities are carried at their fair value with the difference between the fair value and amortized cost recorded in other comprehensive income (loss) (OCI), net of tax. Purchase premiums or discounts on available-for-sale securities are amortized over the life of the security using the effective interest method and are recognized in securities interest income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Gains and losses realized on disposal of available-for-sale securities are included in gain (loss) on securities. Dividend and interest income accruing on available-for-sale securities is recorded in securities interest income. These securities are also subject to periodic impairment review. Declines in fair value deemed to be temporary are recorded in OCI and those deemed to be other than temporary are recorded in net income. Transactions to purchase or sell these items are recorded on the trade date and transaction costs are immediately recorded in other direct expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

When securities contain embedded derivatives where it is not reasonably possible to separately estimate a reliable fair value for the embedded derivatives, the combined securities and embedded derivatives are classified as held-for-trading securities and reported at their total fair value. Realized and unrealized gains and losses on these securities are recorded in gain (loss) on securities. Interest income accruing on held-for-trading securities is recorded in securities interest income. Transactions to purchase or sell these items are recorded on the trade date and transaction costs are immediately recorded in other direct expenses. The Company does not have a trading program for securities.

Securities under repurchase agreements are treated as collateralized borrowing transactions and are classified as available-for-sale and recorded at fair value. Interest incurred on repurchase agreements is included in loans and notes interest expense. Obligations related to assets sold under repurchase agreements are recorded in loans and notes payable.

Loans

Loans are recorded at amortized cost, less any allowances for credit losses plus accrued interest. Debt instruments that are not quoted in an active market are classified as loans and receivables and impairment is assessed using the incurred credit loss model. Loans that the company intends to sell immediately or in the near term are classified as held-for-trading. Loans for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are classified as available-for-sale.

Loans are classified as impaired and the accrual of interest is discontinued when, in management's judgment, there is no longer reasonable assurance of the timely repayment of principal and interest.

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectability of principal or interest.

Property held for resale acquired through the settlement of loans is valued at the lower of the outstanding balance of the loan at the date of acquisition adjusted for costs incurred subsequent to foreclosure or repossession and the estimated net realizable value of the property.

Loan fees, premiums and commissions paid on the acquisition of loans are amortized to loan interest income using the effective interest method.

Allowance for Credit Losses

The Company maintains an allowance to absorb credit-related losses in portfolios of both on- and off-balance sheet items. The allowance for credit losses consists of specific and general allowances, which are reviewed by management on a quarterly basis. The allowance for credit losses is deducted from the related asset category.

Specific allowances are established as a result of reviews of individual assets and represent the amount required to reduce the carrying values to estimated realizable amounts. For loans, specific allowances are established by reviewing specific arrears, the credit-worthiness of individual borrowers and the collateral underlying the loan. When there is reasonable doubt that the full amount of principal and interest will be collected, the carrying amount of the loan is reduced to its estimated realizable value. In cases where it is practical to estimate future cash flows, the loan is written down to the estimated future net cash flows from the loan discounted at the rate inherent in the loan. In subsequent periods, recoveries of amounts previously written off and any increase in carrying value of the loan are charged to the provision for credit losses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

General allowances are established to reflect provisions for losses which are prudent in nature but cannot be determined on an individual basis. The Company maintains general allowances at a level commensurate with the underlying credit risk within the Company's loan portfolio based upon management's judgment considering historical credit experience, portfolio composition and business and economic conditions.

Asset Securitization

The Company periodically securitizes groups of assets by selling them to independent special purpose trusts. As part of these transactions, the Company generally retains an interest in the securitized assets, such as servicing rights and various forms of recourse including over-collateralization, rights to excess spread and a cash reserve account.

Securitization transactions are recorded in accordance with Canadian accounting guidelines for transfers of receivables. These transactions are accounted for as sales and the assets are removed from the consolidated balance sheet when the Company is deemed to have surrendered control over the assets and receives consideration other than the beneficial interests in the transferred assets.

Gains and losses on these transactions are recorded in income from securitized assets on the date of the transaction and depend in part on the allocation of the previous carrying amount between the assets sold and any retained interests based on their relative fair value at the date of transfer.

Fair value is based on market prices when available. However, as quotes are usually not available for retained interests, fair value is determined using the present value of future expected cash flows estimated in relation to assumptions on yield, payment rates, excess spread, the cost of funds, credit losses, and discount rates commensurate with the risks involved.

Retained interests in securitized assets are classified as securities on the consolidated balance sheet and recorded at the lower of the allocated carrying value and the fair value. Retained interests are periodically reviewed for impairment and those impairments deemed to be other than temporary are recorded in income from securitized assets.

Assets are transferred on a fully serviced basis. When the benefits of servicing provide more than adequate compensation, a servicing asset is recognized in other assets. When the benefits of servicing are not expected to be adequate, a servicing liability is recorded in other liabilities. A servicing asset or liability is recorded at fair value at the date of sale and is amortized to income over the average expected life of the assets. Servicing assets and liabilities are periodically reviewed for impairment or increased obligation with any impairment or increased obligation charged to income from securitized assets.

Premises and Equipment

Premises and equipment are stated at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the related assets which has been determined to be: 40 years for the building; 5 years for building improvements; 10 years for office equipment and 3 to 5 years for computer equipment. Gains and losses on disposals are recorded in non-interest expense.

Other Intangibles

Other Intangibles are stated at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the software which has been determined to be 3 to 5 years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business Combinations, Goodwill and Intangibles

All business combinations are accounted for using the purchase method of accounting. Goodwill represents the excess of the purchase price over the fair value of net identifiable assets acquired in business combinations and is assigned to specific reporting units of a business segment. Goodwill is evaluated for impairment on an annual basis or more often if events or circumstances indicate there may be impairment. If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill. Any goodwill impairment is charged to income in the period in which the impairment is identified.

Identifiable intangibles are recognized separately from goodwill and are included in other assets. Intangible assets with a finite life arising from the acquisition of business assets are recorded at their fair value at the time of the purchase and amortized on a straight-line basis over the period in which the Company expects to derive the economic benefit from those assets.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes whereby future income taxes are determined based on the difference between the carrying value of assets or liabilities and their tax bases using the tax rates expected to be in effect when the asset or liability is settled. Income taxes recorded in the consolidated statement of income include the current and future portion of the expenses. Income taxes applicable to items charged to members' equity are netted against such items. Future income tax assets and future income tax liabilities are recorded in other assets or other liabilities as applicable.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The Company follows a fair value hierarchy to categorize the inputs used to measure fair value. Fair values are determined by reference to quoted bid or asking prices, as appropriate, in the most advantageous active market for that instrument to which the Company has immediate access (Level 1). Where bid and ask prices are unavailable, the Company uses the closing price of the most recent transaction of that instrument. In the absence of an active market, the Company determines fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market-based inputs. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company looks primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates, and price and rate volatilities, as applicable (Level 2). In limited circumstances, the Company uses one or more input parameters that are not based on observable market data or uses observable inputs that require significant adjustment based on unobservable inputs (Level 3). The Company believes that using possible alternative assumptions will not result in significantly different fair values.

The credit quality of financial assets and financial liabilities, including derivative instruments, is considered in determining the fair value of these instruments. In determining the credit quality of the instrument both the Company's own credit risk and the risk of the counterparty are considered elements of this credit quality.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Income

Section 1530 introduced comprehensive income, which consists of net income and OCI, net of tax. Comprehensive income represents changes in members' equity during the year arising from transactions and other events with non-owner sources. OCI includes unrealized gains and losses on financial assets classified as available-for-sale, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments. The Company includes in the consolidated financial statements a consolidated statement of comprehensive income for the changes in these items. The cumulative changes in OCI are included in accumulated other comprehensive income (loss) (AOCI), which is presented as a category of members' equity on the consolidated balance sheet.

Financial Instruments – Recognition and Measurement

Section 3855 established standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Commissions on residential mortgages originated by the Company, and transaction costs incurred in the issuance of subordinated debentures, are capitalized on initial recognition and amortized using the effective interest method. Other transaction costs on financial instruments are expensed as incurred.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recorded in gain (loss) on securities. Financial assets classified as loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial assets are presented as securities on the consolidated balance sheet and measured at fair value with unrealized gains and losses being recorded in OCI.

Derivative instruments are recorded on the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in unrealized and realized gains and losses on derivatives, with the exception of derivative instruments designated in effective cash flow hedges which are recorded in OCI.

Other significant accounting implications of Section 3855 include the use of the effective interest method for capitalized transaction costs or fees, premiums or discounts earned on financial instruments measured at amortized cost, and the recognition of the inception fair value of the obligation undertaken in issuing a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline 14, Disclosure of Guarantees. Subsequent re-measurement at fair value is not required unless the financial guarantee also meets the definition of a derivative. These guarantees are re-measured at fair value and reported as a derivative in other assets or other liabilities, as appropriate.

Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In the ordinary course of business, the Company enters into derivative transactions to hedge interest rate and foreign currency risks, and for economic and

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

asset/liability management purposes. The Company does not have a trading program for derivatives. The Company also enters into derivative transactions on an intermediary basis on behalf of credit unions.

Economic and asset/liability management derivatives are used to manage interest rate and currency exposure on the Company's balance sheet, but do not meet the specific criteria to qualify as hedge derivatives. These derivatives include contracts that reposition the Company's overall interest rate and foreign exchange risk profile. Bond options are part of interest rate derivatives and the option premium is included in fee for service income.

Economic and asset/liability management derivatives are reported on the balance sheet at their fair value. Derivatives with a positive fair value are recorded in other assets as derivative related assets and derivatives with a negative fair value are recorded in other liabilities as derivative related liabilities. Realized gains and losses are recorded in unrealized and realized gains and losses on derivatives. Unrealized gains and losses are recorded in unrealized and realized gains and losses on derivatives.

The Company may enter into derivative contracts or may act as an intermediary on behalf of a client or credit union utilizing derivative contracts. These derivatives do not qualify for hedge accounting and are carried at fair value on a gross basis as derivative-related amounts in other assets or other liabilities with changes in fair value recorded in unrealized and realized gains and losses on derivatives.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivative are the same as those of a free standing derivative; and, c) the combined instrument or contract is not measured at fair value with changes in fair value recorded in unrealized and realized gains and losses on derivatives. These embedded derivatives are measured at fair value with changes therein recorded in unrealized and realized gains and losses on derivatives. The Company selected January 1, 2003, as the transition date for embedded derivatives; as such those contracts issued, acquired or substantively modified on or after the transition date were examined.

Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. The Company uses derivatives and non-derivative financial instruments in hedging strategies to manage its exposures to interest rate and foreign currency risks. When derivatives are used to manage exposures, the Company determines for each derivative whether hedge accounting can be applied. Hedge accounting is applied where a derivative is highly effective in offsetting either changes in the fair value or cash flows attributable to the risk being hedged, both at inception and over the life of the underlying asset or liability. The hedging relationship is documented at inception detailing the hedging relationship and the particular risk management objective and strategy for undertaking the hedge transaction. The documentation must demonstrate a high correlation at inception and throughout the contract period between the derivative contract and the Company's exposure. If these criteria are not met, the derivative contract does not qualify for hedge accounting treatment and is designated as asset/liability management. When derivatives qualify for hedge accounting, the net return is recognized over the life of the agreement as an adjustment to net interest income.

Hedge accounting is discontinued prospectively when it is determined that the derivative is not highly effective as a hedge, or the derivative is terminated or sold. Any gains or losses previously recognized in

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

OCI are carried forward and recognized in net interest income in the same period or periods during which the hedged item affects income. Hedge accounting is also discontinued upon the sale or early termination of the hedged item and any gains or losses previously recognized in OCI are charged to net interest income immediately upon closing of the hedged item.

Cash flow hedge
In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of taxes, is recorded in OCI while the ineffective portion is recorded in net interest income. When hedge accounting is discontinued, the amounts previously recorded in OCI are reclassified to net interest income during the periods when the variability in the cash flows of the hedged item affects net interest income. Gains and losses on derivatives are reclassified immediately to net income when the hedged item is sold or early terminated. The Company uses interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability, and all components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness.

Fair value hedge
In a fair value hedging relationship, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk and recognized in net interest income. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which are also recognized in net interest income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged items are amortized to net income over the remaining term of the original hedging relationship.

The Company predominantly uses interest rate swaps to hedge exposure to the changes in a fixed interest rate instrument's fair value caused by changes in interest rates.

Assets Under Administration

Assets administered or managed by the Company on behalf of estates, trusts and agencies are recorded separately from the Company's assets and are not included on the consolidated balance sheet.

Subordinated Debentures

Transaction costs, premiums and discounts incurred in the issuance of subordinated debentures are amortized to interest expense using the effective interest method.

Future Accounting Changes

In February 2008, the Canadian Accounting Standards Board announced that all publicly accountable entities, such as the Company due to its fiduciary responsibilities, will be required to adopt International Financial Reporting Standards (IFRS) for financial statements relating to fiscal years beginning on or after January 1, 2011, including the restatement of comparative period financial statements on the same basis. The transition from Canadian generally accepted accounting principles to IFRS will be applicable to the Company for the year ending December 31, 2011. The Company is currently assessing the potential impact of the transition to IFRS on financial statements, disclosures, financial reporting systems and controls, and business activities.

In December 2008, the CICA issued Section 1582, *Business Combinations*, which replaced Section 1581 *Business Combinations*, and Section 1601 *Consolidated Financial Statements* and Section 1602 *Non-controlling Interests*, which replaced Section 1600, *Consolidated Financial Statements*. The new Sections will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2011. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the requirements under IFRS. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

3. DISCONTINUED OPERATIONS

Effective January 1, 2008, CAI Acquiring sold its partnership interest in United Network Payment Solutions (UNPS).

The consideration received, net assets sold and other deductions were:

	2008 ($)
Consideration received	
Cash	13,241
	13,241
Net assets sold	
Investment in United Network Payment Solutions	11,358
Liabilities assumed by purchaser	(26)
	11,332
Other deductions	
Intangible assets related to partnership interest	932
Costs incurred on sale	148
	1,080
Gain on sale of partnership interest	829

This gain on sale of partnership interest was included in the net earnings for 2008 of CAI Acquiring of $1,208 and was included in non-interest income of discontinued operations. See also note 20.

On May 30, 2007, it was announced that an agreement was reached to sell the retail credit card business. This transaction required approval of OSFI, which was received on September 21, 2007. The sale transaction date was October 1, 2007.

As a condition of the purchaser purchasing the net assets of the retail credit card business, the Company entered into a non-competition and non-solicitation agreement (NCA) with the purchaser. The NCA imposes certain restrictions on the Company including restrictions on business activities involving credit cards and on business restructurings, such as mergers, acquisitions and sales, involving an entity that offers credit card services or holds credit risk associated with credit cards other than for passive investment purposes. The purchase price allocated to this NCA has been deferred and is being amortized from the date of sale over the four year restriction period. As such, the amount that is attributed to the period after year end is recorded as deferred revenue and will be recorded in net income over the remaining months of the restriction period. The allocation of the NCA is 7% to the Class A shareholders and 93% to the Class C shareholders.

3. DISCONTINUED OPERATIONS (continued)

The related assets and liabilities have been reported as assets from discontinued operations and liabilities from discontinued operations on the consolidated balance sheet. The related results of operations have been presented as discontinued operations in the consolidated statement of income and cash flows for the periods presented.

	2009 ($)	2008 ($)
Statement of Assets		
Securities (Note 5)	8,414	6,937
Other assets[1] (Note 11)	469	2,168
Assets from discontinued operations (Note 24)	8,883	9,105

[1]Includes investment in CAI Acquiring of $nil (2008 - $43) (Note 11)

	2009 ($)	2008 ($)
Statement of Liabilities		
Other liabilities (Note 15)	3,204	5,030
Liabilities from discontinued operations	3,204	5,030

	2009 ($)	2008 ($)
Statement of Income		
Interest income	134	1,144
Interest expense	-	938
Net interest income	134	206
Non-interest income[1]	-	1,208
Non-interest expense	25	157
Income before gain and income taxes	109	1,257
Gain on sale of retail credit card business	1,825	1,825
Income before income taxes	1,934	3,082
Provision for income taxes (Note 19)	219	210
Income from discontinued operations, net of tax (Note 24)	1,715	2,872

[1]Includes CAI Acquiring net earnings of $nil (2008 - $1,208) (Note 20)

	2009 ($)	2008 ($)
Statement of Cash Flows		
Cash flows provided by (used in)		
Operating activities	1,545	(3,731)
Investing activities	(1,434)	55,332
Financing activities	(111)	(51,601)
Net increase in cash resources	-	-

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments are based on relevant market prices and information available at that time. Due to the use of subjective judgment and uncertainties, the aggregate fair value amounts shown should not be interpreted as necessarily being realizable in an immediate settlement of the instruments. The table outlines the fair values for financial instruments only and does not include assets or liabilities that are not considered financial instruments, such as premises and equipment, goodwill and intangible assets.

Cash resources, accounts receivable (included in other assets) and accounts payable and accrued expenses (included in other liabilities) are all short-term in nature and as such, their carrying value approximates fair value.

The fair value of securities is established using market prices when available. The fair value of retained interests in securitized assets classified as available-for-sale is calculated using discounted cash flows based on various assumptions.

The estimated value of loans reflects changes in general interest rates which have occurred since the loans were originated. Moreover, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. The fair value of fixed interest rate loans is calculated using discounted cash flows based on current rates of interest for similar lending arrangements. The fair value of floating interest rate loans is approximately equal to carrying value.

The carrying value of deposits with no stated maturity or loans and notes payable due on demand is assumed to approximate fair value. For the remainder of the deposits, fair value is calculated using discounted cash flows based on current market interest rates for similar maturities.

The fair value of subordinated debentures is calculated using discounted cash flows based on current market interest rates for similar maturities.

The fair value of derivative financial instruments is calculated by referring to the appropriate current market yields with matching terms to maturity. The fair values reflect the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date.

Any changes in the fair values of financial instruments classified or designated as held-for-trading and available-for-sale securities are recorded in net income and OCI, respectively. The cumulative changes in the fair values of available-for-sale securities previously recorded in AOCI are reclassified to net income when they are derecognized or the decline in value is considered to be other than temporary. Available-for-sale securities measured at fair value or cost are assessed for impairment at each reporting date. As at December 31, 2009, the pre-tax and after-tax unrealized losses for available-for-sale securities measured at fair value amounted to $9,244 (2008 - $20,517) and $4,062 (2008 - $16,781) respectively. The Company does not consider the available-for-sale securities measured at fair value of $962,372 (2008 - $862,017) to be other than temporarily impaired as at December 31, 2009. As at December 31, 2009, the pre-tax and after-tax unrealized gains on the available-for-sale securities totaled $8,146 (2008 - $4,592) and $3,579 (2008 - $3,756), respectively. The net after-tax unrealized losses for the year are reflected in unrealized gains and losses on available-for-sale securities in AOCI. Derivatives that are not designated in hedging relationships are classified as held-for-trading and changes in the fair values of such derivative instruments are recorded in net income.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2009 ($)					
	Financial Instruments Required to be Classified as Held-for-Trading	Available-for-Sale Instruments Measured at Fair Value	Available-for-Sale Instruments Measured at Cost	Loans and Receivables and Other Liabilities	Total Carrying Value	Fair Value
Financial assets						
Securities	1,652	953,958	3,770	-	959,380	959,380
Loans	-	-	-	2,613,807	2,613,807	2,626,380
Derivative related amounts	30,618	-	-	-	30,618	30,618
Assets from discontinued operations	-	8,414	-	-	8,414	8,414
Financial liabilities						
Deposits	-	-	-	3,097,872	3,097,872	3,150,387
Loans and notes payable	-	-	-	243,577	243,577	243,581
Subordinated debentures	-	-	-	73,732	73,732	69,194
Derivative related amounts	43,239	-	-	-	43,239	43,239

	2008 ($)					
	Financial Instruments Required to be Classified as Held-for-Trading	Available-for-Sale Instruments Measured at Fair Value	Available-for-Sale Instruments Measured at Cost	Loans and Receivables and Other Liabilities	Total Carrying Value	Fair Value
Financial assets						
Securities	-	855,080	3,770	-	858,850	858,850
Loans	-	-	-	2,874,771	2,874,771	2,916,604
Derivative related amounts	34,865	-	-	-	34,865	34,865
Assets from discontinued operations	-	6,937	-	-	6,937	6,937
Financial liabilities						
Deposits	-	-	-	3,534,393	3,534,393	3,592,748
Loans and notes payable	-	-	-	9,881	9,881	9,881
Subordinated debentures	-	-	-	53,570	53,570	41,563
Derivative related amounts	58,788	-	-	-	58,788	58,788

4. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Company's financial assets which are measured at fair value are categorized by fair value hierarchy levels as follows:

	2009 ($)			
	Available-for-Sale Securities	Held-for-Trading Securities	Derivative Related Assets	Derivative Related Liabilities
Level 1	-	-	-	-
Level 2	959,538	1,652	30,618	43,239
Level 3	6,604	-	-	-
	966,142	1,652	30,618	43,239
Continuing operations	957,728	1,652	30,618	43,239
Discontinued operations	8,414	-	-	-

The beginning and ending balances for assets that are measured on the balance sheet at fair value based on a valuation technique for which the Company uses one or more input parameters that are not based on observable market data or uses observable inputs that require significant adjustment based on unobservable inputs (Level 3) are as follows:

	2009 ($)
	Available-for-Sale Securities
Level 3, beginning of year	6,287
Total gains or (losses)	
In net income	(1,605)
In other comprehensive income (loss)	36
Issues	1,886
Transfer out of Level 3	-
Level 3, end of year	6,604
Total gains or (losses) for the period included in net income for assets and liabilities held at the end of the reporting period	(1,605)

5. SECURITIES

The securities portfolio is comprised of a large number of securities carrying a variety of terms and conditions. Approximately 75.64% (2008 – 84.34%) of the portfolio bears interest at fixed rates and pays interest semi-annually and/or upon maturity. The remainder of the portfolio earns interest at variable rates and pays interest monthly or quarterly, provides a return of dividends over varying periods of time or provides an index-linked return.

Government securities are comprised of securities issued or guaranteed by Canadian federal, provincial and municipal governments. Corporate securities are comprised of commercial paper, medium term notes and co-operative equities.

Securities of $397,821 (2008 – $264,998) have been pledged as collateral or held in a segregated safekeeping account for various obligations of the Company. Of these securities, $144,300 (2008 - $nil) are securities sold under repurchase agreements.

5. SECURITIES (continued)

The maturity dates and weighted average effective interest rates for the securities portfolio are as follows:

	2009 ($)						2008 ($)
	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	No Fixed Maturity	Total	Total
Available-for-Sale							
Government							
Federal							
Fair value ($)	-	14,999	92,968	-	-	107,967	21,019
Amortized cost ($)	-	15,008	93,389	-	-	108,397	20,704
Rate (%)[1]	-	0.42%	1.57%	-	-	1.41%	4.30%
Provincial							
Fair value ($)	-	45,551	196,581	22,929	-	265,061	188,598
Amortized cost ($)	-	45,364	196,836	22,716	-	264,916	186,185
Rate (%)[1]	-	1.88%	1.82%	4.07%	-	2.02%	4.22%
Municipal							
Fair value ($)	-	-	5,721	-	-	5,721	23,404
Amortized cost ($)	-	-	5,481	-	-	5,481	22,957
Rate (%)[1]	-	-	4.20%	-	-	4.20%	4.24%
Corporate							
Chartered banks							
Fair value ($)	34,995	59,229	98,892	40,403	15,305	248,824	136,378
Amortized cost ($)	34,994	59,026	96,386	38,994	15,305	244,705	145,728
Rate (%)[1]	0.29%	1.80%	2.96%	4.73%	2.50%	2.57%	4.95%
Co-operatives							
Fair value ($)	-	1,499	-	24,012	3,770	29,281	25,282
Amortized cost ($)	-	1,506	-	24,012	3,770	29,288	25,294
Rate (%)[1]	-	4.05%	-	2.49%	-	2.25%	3.38%
Other corporate							
Fair value ($)	12,702	19,062	49,027	8,600	-	89,391	243,496
Amortized cost ($)	12,695	19,016	48,681	9,044	-	89,436	249,936
Rate (%)[1]	0.99%	1.92%	3.82%	5.44%	-	3.17%	3.31%
Mortgage-backed							
Fair value ($)	9,199	23,270	39,074	51,770	-	123,313	142,575
Amortized cost ($)	9,199	25,418	40,851	52,949	-	128,417	143,810
Rate (%)[1]	0.50%	4.82%	4.56%	4.40%	-	4.24%	4.36%
Asset-backed							
Fair value ($)	-	320	89,905	1,522	-	91,747	78,774
Amortized cost ($)	-	320	89,907	1,536	-	91,763	80,837
Rate (%)[1]	-	4.95%	2.27%	4.01%	-	2.30%	5.11%
Total fair value	56,896	163,930	572,168	149,236	19,075	961,305	859,526
Total amortized cost	56,888	165,658	571,531	149,251	19,075	962,403	875,451
Held-for-Trading							
Fair value ($)	-	-	-	1,652	-	1,652	-
Total carrying value	56,896	163,930	572,168	150,888	19,075	962,957	859,526
Accrued interest						4,837	6,261
						967,794	865,787
Continuing operations						959,380	858,850
Discontinued operations[2] (Note 3)						8,414	6,937

[1]The weighted average rate is based on the carrying value at the end of the year for the respective securities.

[2]Includes carrying value of $8,414 (2008 - $6,937) and accrued interest of $nil (2008 - $nil).

5. SECURITIES (continued)

Unrealized Gains and Losses on Available-for-Sale Securities

	2009 ($)				2008 ($)			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Government	378,794	962	(1,007)	378,749	229,846	3,275	(100)	233,021
Corporate	363,429	5,520	(1,453)	367,496	420,958	917	(16,719)	405,156
Mortgage backed	128,417	988	(6,092)	123,313	143,810	389	(1,624)	142,575
Asset backed	91,763	676	(692)	91,747	80,837	11	(2,074)	78,774
	962,403	8,146	(9,244)	961,305	875,451	4,592	(20,517)	859,526
Continuing operations	953,989	8,146	(9,244)	952,891	868,514	4,592	(20,517)	852,589
Discontinued operations	8,414	-	-	8,414	6,937	-	-	6,937

Gains and Losses on Securities

	2009 ($)	2008 ($)
Realized gains on available-for-sale securities	9,571	3,575
Realized losses on available-for-sale securities	(3,880)	(8)
Other than temporary impairment on available-for-sale securities	-	(11,755)
Realized gains on held-for-trading securities	10	-
Realized losses on held-for-trading securities	(109)	-
Unrealized losses on held-for-trading securities	(5)	-
Impairment charges related to assets managed on behalf of estates, trusts and agencies	(1,053)	(1,094)
Gain (loss) on securities	4,534	(9,282)

In August 2007, a market disruption event occurred in the Canadian financial sector. A large number of non-bank sponsored or third-party Asset Backed Commercial Paper (ABCP) conduits experienced a liquidity event or market disruption. Due to the lack of liquidity in the ABCP market, a group representing banks, assets providers and major investors reached the “Montreal Accord” on August 16, 2007, with respect to most of the conduits for ABCP. The Montreal Accord provided for a standstill agreement with respect to actions relating to ABCP outstanding for each of the covered conduits and was focused on restructuring the outstanding ABCP into long-term floating rate notes (FRNs).

In September 2007, the Pan-Canadian Investors Committee (the Committee) on non-bank-sponsored ABCP was formed. The Committee developed a restructuring plan (the Plan) for the frozen ABCP. On March 17, 2008, the Committee announced that it had filed an application with the Superior Court of Justice of Ontario under the *Companies’ Creditors Arrangement Act* asking the court to call a meeting of ABCP noteholders to vote on the Committee’s restructuring plan. The Plan proposed to replace the affected ABCP with new longer-term floating rate notes with maturities designed to more closely match the maturities of the underlying assets. The Plan also provided, in certain circumstances, for the pooling of certain assets into Master Asset Vehicles (MAV) as well as the establishment of new margin funding facilities to support any collateral calls that may occur in the future. The series of affected ABCP supported in whole or in part by synthetic assets was to be pooled into MAV I for those investors who had elected to commit their pro rata share of a margin funding facility associated with their underlying assets and MAV II for investors who

5. SECURITIES (continued)

have elected to commit less than, or none of their pro rata share of a margin funding facility, in which case third parties would fund the remaining portion. In connection with the contribution to MAV I or MAV II of assets supported by the margin funding facility, investors were to receive a mix of Class A-1, Class A-2, Class B, Class C and IA Tracking notes with an expected maturity of December 2016. A further vehicle secured exclusively by traditional assets or by 100% ineligible assets was to be created under MAV III. Two main types of notes were to be created in MAV III: TA tracking notes for traditional assets and IA tracking notes for ineligible assets. All tracking notes were to be tied to the net return and maturities of their respective underlying assets.

The Plan was approved by approximately 96% of the noteholders on April 25, 2008 and, on June 5, 2008, the Superior Court of Justice of Ontario sanctioned the Plan for third-party structured ABCP. On December 24, 2008, the Committee announced that it had finalized a series of revisions to the existing Plan and announced a scheduled closing date of January 16, 2009, for the reorganization.

At December 31, 2008, the Company held $22,945 principal amount of securities covered by the Montreal Accord. On January 7, 2009, a $6,000 holding included in the principal amount of securities covered by the Montreal Accord matured and was repaid in full. On January 20, 2009, an additional $3,145 holding included in the principal amount of securities covered by the Montreal Accord was repaid in full.

On January 19, 2009, the Company received various classes of MAV II and MAV III TA Tracking notes in exchange for the remaining principal amount of securities of $13,800 (carrying value of $10,122, net of fair value impairment of $3,678) covered by the Montreal Accord at December 31, 2008. Securities with a par value of $13,756 were assessed to have a fair value of $10,775 on the exchange date. This resulted in a gain on exchange of $1,029 including the subsequent receipt of $376 for interest on the previous securities. Of these MAV notes received, notes with a fair value of $8,956 were classified as available-for-sale and $1,819 were classified as held-for-trading. DBRS Limited (DBRS) provisionally rated the Class A-1 and Class A-2 notes of MAV I and MAV II at a credit rating of A. DBRS did not rate any other notes that are held by the Company.

In April 2009, DBRS announced that it was placing MAV II Class A-2 notes Under Review with Negative Implications, and on August 11, 2009, DBRS downgraded the MAV II Class A-2 notes to a credit rating of BBB and maintained the rating Under Review with Negative Implications.

During the year the Company received $7,302 of principal and interest payments on the MAV notes held. The fair value at December 31, 2009, is $4,512.

At December 31, 2008, the Company also managed $14,800 principal amount of ABCP with respect to assets managed on behalf of estates, trusts and agencies. At the dates at which the Company acquired the original investments, the ABCP was rated R-1 (High) by DBRS, the highest credit rating for commercial paper, since the ABCP was issued by conduits that were set up as special purpose entities holding tranches of securities that had a credit rating of AAA. On January 19, 2009, the Company received MAV II notes of various classes in exchange for the principal amount of ABCP held with respect to assets managed on behalf of estates, trusts and agencies of $14,800 (carrying value of $11,944, net of fair value impairment of $2,856) held at that date. Securities with a par value of $14,653 were assessed to have a fair value of $8,957 on the exchange date. This resulted in a loss on exchange of $2,477, net of the subsequent receipt of $510 for interest on the previous securities. During the year the Company received $154 of principal and interest payments on the MAV notes held. The fair value at December 31, 2009, is $10,227. This resulted in a recovery of $1,424 during the year.

5. SECURITIES (continued)

For the purposes of valuation of the MAV notes for 2009, the Company is using a discounted cash flow model. For purposes of the ABCP valuation in 2008, the Company based the valuation on existing underlying assets using the following approach: (1) review each conduit and classify the holding by asset type; (2) find model values for that asset class by applying appropriate leverage for the underlying assets; (3) model using appropriate indices to measure credit spreads; and, (4) recognize a value for cash that had been accumulated in the conduits that would be disbursed on closing of the Plan.

At December 31, 2008, the Company held $21,000 principal in Collateralized Debt Obligation (CDO) securities. At the date that the Company acquired these securities, the CDO securities had a credit rating of AA or above.

At December 31, 2008, an other than temporary fair value impairment was recognized of $10,825. On October 19, 2009, the Company negotiated a settlement for $13,500 principal in CDO securities ($7,025 carrying value) with the issuer. As a result of the settlement, cash of $8,358 was received with $8,210 related to principal and $148 related to accrued interest on these CDO securities. This resulted in a $1,185 recovery of the previously recorded impairment loss. The one remaining CDO, with principal of $7,500 and fair value as of December 31, 2008, of $3,150, was fully written down during the year due to a credit rating decrease to default and subsequent withdrawal as a result of defaults in the underlying assets causing a loss of the full value of the security.

6. LOANS

	2009 ($)					2008 ($)
	Residential Mortgages	Commercial Mortgages	Commercial Loans	Credit Union Loans	Total	Total
Performing	1,791,891	335,520	425,833	23,050	2,576,294	2,853,365
Impaired	19,343	-	16,382	-	35,725	20,662
Specific allowance	(342)	-	(3,325)	-	(3,667)	(2,296)
Net impaired	19,001	-	13,057	-	32,058	18,366
Property held for resale	2,868	-	-	-	2,868	192
Specific allowance	-	-	-	-	-	-
Net property held for resale	2,868	-	-	-	2,868	192
	1,813,760	335,520	438,890	23,050	2,611,220	2,871,923
General allowance					(9,043)	(10,422)
Accrued interest					11,630	13,270
Total loans net of allowance for credit losses					2,613,807	2,874,771

Approximately 80.2% (2008 – 80.9%) of the loan portfolio bears interest at fixed rates and the remainder bears interest at variable rates. Approximately 76.4% (2008 – 71.3%) of the total loan portfolio is subject to interest penalties if the borrower repays or resets the interest rate prior to maturity.

6. LOANS (continued)

The repricing dates, which approximate maturity dates, and weighted average effective interest rates for the loan portfolio are as follows:

	2009 ($)					2008 ($)
	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total	Total
Residential mortgages						
Amortized cost ($)	77,290	206,716	1,456,016	73,738	1,813,760	2,063,238
Rate (%)	5.51%	5.37%	4.83%	3.85%	4.88%	5.56%
Commercial mortgages						
Amortized cost ($)	20,322	34,823	236,413	43,962	335,520	304,414
Rate (%)	4.71%	5.25%	5.78%	5.41%	5.62%	5.64%
Commercial loans						
Amortized cost ($)	116,921	9,844	237,584	74,541	438,890	460,710
Rate (%)	3.89%	4.54%	5.45%	5.55%	5.04%	5.08%
Credit Union loans						
Amortized cost ($)	21,700	1,350	-	-	23,050	43,561
Rate (%)	3.25%	3.10%	-	-	3.24%	3.88%
Amortized cost	236,233	252,733	1,930,013	192,241	2,611,220	2,871,923

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 (1) less than 90 days past due, or (2) fully secured and collection efforts are reasonably expected to result in repayment.

	2009 ($)				2008 ($)			
	1 – 29 Days	30 – 89 Days	90 Days and Greater	Total	1 – 29 Days	30 – 89 Days	90 Days and Greater	Total
Residential mortgages	41,582	22,670	26,824	91,076	42,357	18,127	17,046	77,530
Commercial mortgages and loans	793	411	265	1,469	635	93	819	1,547
Total	42,375	23,081	27,089	92,545	42,992	18,220	17,865	79,077

7. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the Company's general and specific allowances:

	2009 ($)				
	Balance Beginning of Year	Write Offs	Recoveries	Provision for Credit Losses	Balance End of Year
Residential mortgages	2,186	(495)	148	-	1,839
Commercial mortgages	2,131	-	-	(225)	1,906
Commercial loans	8,401	(721)	460	825	8,965
Total allowance for credit losses	12,718	(1,216)	608	600	12,710
Specific allowances					
Residential mortgages	69	(495)	148	620	342
Commercial mortgages	-	-	-	-	-
Commercial loans	2,227	(721)	460	1,359	3,325
Total specific allowances	2,296	(1,216)	608	1,979	3,667
General allowances					
Residential mortgages	2,117	-	-	(620)	1,497
Commercial mortgages	2,131	-	-	(225)	1,906
Commercial loans	6,174	-	-	(534)	5,640
Total general allowances	10,422	-	-	(1,379)	9,043
Total allowance for credit losses	12,718	(1,216)	608	600	12,710

	2008 ($)				
Total allowance for credit losses	9,896	(2,283)	135	4,970	12,718

8. ASSET SECURITIZATION

The Company sells portfolios of insured residential mortgages to a qualifying special purpose entity under the Canada Mortgage Bond Program. At December 31, the outstanding principal mortgage balance was $1,071,845 (2008 - $639,551). The Company has accounted for each of these transactions as a sale and has transferred all the risks and rewards associated with these assets to the third party. The Company has retained the responsibility for servicing these mortgages. At December 31, the retained interest, including servicing asset, in the mortgage portfolio was $45,399 (2008 - $29,719) with an estimated fair value of $47,693 (2008 - $32,801). The Company does not expect to incur credit losses on insured residential mortgages.

The Company also sells Retirement Compensation Arrangement (RCA) loans to a qualifying special purpose entity. At December 31, the outstanding principal loan balance was $220,682 (2008 - $233,989). The Company has accounted for each of these transactions as a sale and has transferred all the risks and rewards associated with these assets to the third party. The Company has retained the responsibility for servicing these loans in return for a fee for service. The Company does not hold a retained interest in the loan portfolio and is not liable for credit losses on the portfolio.

8. ASSET SECURITIZATION (continued)

Prior to 2008, the Company sold a portfolio of uninsured residential mortgages to a qualifying special purpose entity. At December 31, the outstanding principal mortgage balance was $46,014 (2008 - $83,556). The Company has accounted for this transaction as a sale and has transferred all the risks and rewards associated with these assets to the third party. The Company has retained the responsibility for servicing these mortgages. At December 31, the retained interest in the mortgage portfolio was $1,899 (2008 - $3,536) with an estimated fair value of $1,899 (2008 - $3,536) and the present value of the servicing liability was $106 (2008 - $283).

The following table summarizes the Company's securitization activities for 2009 and 2008, including certain cash flows.

	2009 ($)			
	Uninsured Residential Mortgage Loans	**Insured Residential Mortgage Loans**	**RCA Loans**	**Total**
Securitized and sold	-	558,506	-	558,506
Retained interest, allocated carrying value[1]	-	28,876	-	28,876
Retained interest, estimated fair value[1]	-	30,373	-	30,373
Pre-tax gain on sale	-	22,784	-	22,784
Proceeds from new securitizations	-	557,931	-	557,931

[1]*Retained interest includes the servicing asset*

	2008 ($)			
	Uninsured Residential Mortgage Loans	**Insured Residential Mortgage Loans**	**RCA Loans**	**Total**
Securitized and sold	-	417,489	-	417,489
Retained interest, allocated carrying value[1]	-	27,510	-	27,510
Retained interest, estimated fair value[1]	-	29,291	-	29,291
Pre-tax gain on sale	-	21,163	-	21,163
Proceeds from new securitizations	-	417,257	-	417,257

[1]*Retained interest includes the servicing asset*

The following key assumptions are used to value the Company's retained interest:

	2009 (%)		2008 (%)	
	Uninsured Residential Mortgage Loans	**Insured Residential Mortgage Loans**	**Uninsured Residential Mortgage Loans**	**Insured Residential Mortgage Loans**
Expected weighted average life of pre-payable receivables (in years)	1.11	3.70	1.73	4.11
Yield	5.06	5.11	5.04	5.78
Payment rate	12.93	20.56	15.21	20.10
Discount rate	1.19	2.90	2.32	2.69
Cost of funds	1.15	3.15	2.25	3.78
Expected credit losses	0.01	0.01	0.01	0.01
Servicing rates	0.25	0.25	0.25	0.25

8. ASSET SECURITIZATION (continued)

The following table presents key economic assumptions and the sensitivity of the current fair value of the retained interest in the event of two adverse changes in each key assumption as at December 31. This sensitivity analysis is hypothetical and should be used with caution. Changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. The effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumptions. Generally, the changes in one factor may result in changes in another, which may magnify or counteract the sensitivity.

	2009 ($)		2008 ($)	
	Uninsured Residential Mortgage Loans	**Insured Residential Mortgage Loans**	**Uninsured Residential Mortgage Loans**	**Insured Residential Mortgage Loans**
Weighted average remaining service life (in years)	1.11	3.70	1.73	4.11
Yield				
Impact on fair value at 10% adverse change	-	-	-	-
Impact on fair value at 20% adverse change	-	-	-	-
Payment rate				
Impact on fair value at 10% adverse change	(12)	(552)	(33)	(136)
Impact on fair value at 20% adverse change	(23)	(1,130)	(66)	(380)
Discount rate				
Impact on fair value at 10% adverse change	(3)	(166)	(13)	(9)
Impact on fair value at 20% adverse change	(6)	(332)	(44)	(36)
Cost of funds				
Impact on fair value at 10% adverse change	(43)	(212)	(241)	-
Impact on fair value at 20% adverse change	(87)	(467)	(483)	-
Expected credit losses				
Impact on fair value at 10% adverse change	0	0	0	0
Impact on fair value at 20% adverse change	0	0	0	0

The Company acted as an intermediary with a third party in a securitization of residential mortgages, in exchange for a fixed program fee. The outstanding balance of the securitized mortgages at December 31 was $nil (2008 - $27,553). The Company had retained a counterparty risk in these transactions if one party failed to meet their obligations under the securitization agreements.

The Company also provides securitization co-ordination services to credit unions across Canada on a fee for service basis.

9. PREMISES AND EQUIPMENT

	2009 ($)			2008 ($)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	517	-	517	517	-	517
Building and improvements	8,190	6,254	1,936	7,985	5,796	2,189
Equipment	4,495	3,502	993	4,356	3,169	1,187
	13,202	9,756	3,446	12,858	8,965	3,893

Current year amortization expense of $960 (2008 - $972) is included in non-interest expense.

10. GOODWILL

The Company has completed the annual test for goodwill impairment and has determined that the goodwill is not impaired.

The carrying amount of goodwill of $19,248 (2008 - $19,248) is related to Financial Intermediation.

11. OTHER ASSETS

	2009 ($)		2008 ($)	
	Continuing Operations	Discontinued Operations (Note 3)	Continuing Operations	Discontinued Operations (Note 3)
Accounts receivable and other accruals	1,645	100	5,359	1,546
Prepaid and deferred costs	421	-	138	-
Derivative related assets (Note 22)	30,618	-	34,865	-
Investment in CAI Acquiring (Note 20)	-	-	-	43
Other intangibles (Note 12)	1,566	-	1,461	-
Other investments	282	-	-	-
Servicing asset	41,610	-	27,843	-
Future income tax assets (Note 19)	41	369	1,434	579
	76,183	469	71,100	2,168

12. OTHER INTANGIBLES

	2009 ($)			2008 ($)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Software	2,636	1,070	1,566	2,295	834	1,461
	2,636	1,070	1,566	2,295	834	1,461

Current year amortization expense of $418 (2008 - $467) is included in non-interest expense. Software with a carrying value of $258 (2008 - $470) is under development and therefore has not been amortized during the year.

13. DEPOSITS

The repricing dates, which approximate maturity dates, and weighted average effective interest rates for the Company's deposits are as follows:

	2009 ($)						2008 ($)
	On Demand	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total	Total
Deposits							
Amortized cost ($)	525,156	415,862	975,897	1,146,483	1,773	3,065,171	3,488,794
Rate (%)	0.28%	2.07%	2.66%	3.65%	4.79%	2.54%	3.60%
Accrued interest						32,701	45,599
						3,097,872	3,534,393

Deposits bear interest at rates determined by market conditions.

14. LOANS AND NOTES PAYABLE

	2009 ($)	2008 ($)
Credit union funded administered loans	674	766
Lines of credit	41,857	9,115
Notes payable	56,487	-
Obligations related to assets sold under repurchase agreements	144,559	-
	243,577	9,881

The Company participates in administered loan programs in which credit unions provide funding for loans made by the Company to credit union members. These loans to credit union members are recorded as assets. The corresponding funding by the credit union is recorded as a liability as the credit union has the right to require the Company to provide the direct funding upon request. The Company records the revenue from the credit union member as loans interest income. Interest paid to the credit union is recorded as loans and notes interest expense. Loans to a maximum of $5,350 (2008 - $5,850) are authorized under this program. The outstanding balances of $674 (2008 – $766) had a weighted average effective interest rate of 0.88% (2008 – 1.77%).

The Company maintains a line of credit facility with SaskCentral of $50,000 (2008 – $50,000). The line of credit bears interest at prime less 0.50% (2008 – prime less 0.50%) with an effective interest rate at December 31 of 1.75% (2008 - 3.00%) and an outstanding balance of $41,857 (2008 - $9,115). The line of credit is partially secured by a deposit of $20,000 (2008 - $20,000) held by SaskCentral.

The Company also maintains line of credit facilities with another financial institution of $250,000 (2008 - $250,000). The lines of credit bear interest at the bankers acceptance rate plus 1.00% (2008 – bankers acceptance rate plus 0.45%) and are secured by residential mortgages.

The Company is authorized to issue a maximum of $300,000 (2008 - $300,000) under a commercial paper program. The Company has pledged securities with a market value of $210,000 (2008 - $210,000) to support commercial paper issuance. Notes payable consist of commercial paper maturing within 90 days and had a weighted average effective interest rate of 0.47% (2008 – nil%) at December 31. By policy, the Company may utilize additional credit facilities to a maximum of $500,000 (2008 – $500,000) related to securities repurchase agreements, subject to availability of qualified securities, for which outstanding balances of $144,559 (2008 - $nil) are secured by pledged securities. These repurchase agreements mature within 1 month (2008 – nil) and have a weighted average effective interest rate of 0.42% (2008 – nil%).

15. OTHER LIABILITIES

	2009 ($)		2008 ($)	
	Continuing Operations	Discontinued Operations (Note 3)	Continuing Operations	Discontinued Operations (Note 3)
Accounts payable and accrued expenses	22,788	10	18,554	11
Derivative related liabilities (Note 22)	43,239	-	58,788	-
Deferred revenue	282	3,194	297	5,019
Servicing liability	132	-	287	-
Future income tax liabilities (Note 19)	4,516	-	-	-
	70,957	3,204	77,926	5,030

16. SUBORDINATED DEBENTURES

The debentures are unsecured obligations and are subordinate in right of payment to the claims of depositors and certain other creditors. All cancellations, redemptions and exchanges of subordinated debentures are subject to the consent and approval of OSFI.

During the year, the company issued Variable Rate subordinated debentures totalling $20,000 (2008 - $25,000). The Company also redeemed in the prior year the Class C subordinated debentures totalling $22,468 and the No. 3 subordinated debentures totalling $10,000 due to the sale and discontinuance of the Card Operations.

	2009 ($)	2008 ($)
Series One	13,350	13,350
Series A Reset	15,000	15,000
Issuance costs	(244)	(323)
Premium on issuance	8	11
Series A Reset	14,764	14,688
Variable Rate – Issue 2009	20,000	-
Variable Rate – Issue 2008	25,000	25,000
Issuance costs	(30)	(26)
Variable Rate	44,970	24,974
Accrued interest	648	558
	73,732	53,570

The Series One non-convertible subordinated debentures, issued August 15, 2006, are unsecured and subordinated to deposits and other liabilities of the Company. Interest for the first 10 years is payable at a fixed rate set on August 15, 2006, equal to the current Government of Canada ten-year bond rate as announced by the Bank of Canada, plus 1.50% (5.82% at December 31, 2009; 5.82% at December 31, 2008). Interest for the final 5 years is payable at a fixed rate set on August 15, 2016, equal to the Government of Canada five-year bond rate as announced by the Bank of Canada, plus 1.75%. The maturity date of the debentures is August 15, 2021. The debentures are redeemable, at the option of the Company and subject to the approval of OSFI, not earlier than August 15, 2016. These debentures qualify as tier 2B capital.

16. SUBORDINATED DEBENTURES (continued)

Series A Reset subordinated debentures in two tranches totaling $15,000 were issued on June 26, 2007, and July 11, 2007, and are unsecured and subordinated to deposits and other liabilities of the Company. Interest for the first 5 years is payable semi-annually at a fixed rate equal to the current Government of Canada five-year bond rate as announced by the Bank of Canada, plus 1.55% (6.21% at December 31, 2009; 6.21% at December 31, 2008). Interest for the final 5 years is set equal to the 90-day bankers acceptance rate plus 2.05%, payable quarterly. The maturity date of the debentures is September 26, 2017. The debentures are redeemable at the option of the Company and subject to the approval of OSFI. These debentures qualify as tier 2B capital.

Variable Rate subordinated debentures, issued April 29, 2009, are unsecured and subordinated to deposits and other liabilities of the Company. Interest for the first 5 years is payable quarterly at an adjusted floating rate equal to the three month Canadian Deposit Offering Rate (CDOR) plus 5.13% (5.56% at December 31, 2009). Interest for the final 5 years is a quarterly adjusted floating rate equal to the three month CDOR plus 5.63%, payable quarterly. The maturity date of the debentures is April 29, 2019. The debentures are redeemable at the option of the Company and subject to the approval of OSFI. These debentures qualify as tier 2B capital.

Variable Rate subordinated debentures, issued July 30, 2008, are unsecured and subordinated to deposits and other liabilities of the Company. Interest for the first 5 years is payable quarterly at an adjusted floating rate equal to the three month CDOR plus 2.00% (2.44% at December 31, 2009; 3.63% at December 31, 2008). Interest for the final 5 years is a quarterly adjusted floating rate equal to the three month CDOR plus 2.50%, payable quarterly. The maturity date of the debentures is September 26, 2018. The debentures are redeemable at the option of the Company and subject to the approval of OSFI. These debentures qualify as tier 2B capital.

During 2008, Class C subordinated debentures were redeemed on September 15 subsequent to receiving OSFI approval on September 5. These subordinated debentures, issued April 1, 2005, were unsecured and subordinated to deposits and other liabilities of the Company. The interest rate on the debentures was established quarterly and was not to exceed 10% (3.86% at September 15, 2008). The maturity date of the debentures was December 19, 2015. The Company could redeem all or any portion of the principal amount of the debentures subject to the approval of OSFI. These debentures qualified as tier 2B capital.

During 2008, the No. 3 subordinated debentures were redeemed on July 21 subsequent to receiving OSFI approval on July 15. These subordinated debentures, issued March 29, 2006, were unsecured and subordinated to deposits and other liabilities of the Company. The interest rate on the debentures was established quarterly at the average of the major bank three month bankers acceptance rates, plus 0.45% (3.74% at July 21, 2008). The maturity date of the debentures was March 29, 2017. The subordinated debentures could not be redeemed in any event, including maturity, without approval of OSFI. These debentures qualified as tier 2B capital.

17. SHARE CAPITAL

The Company is authorized to issue an unlimited number of membership shares, an unlimited number of Class A shares, 399,054 Class B shares and 2,000 Class C shares.

Membership shares may only be issued at such time and to such persons as determined by a resolution of the Board of Directors (the Board). Membership shares are issued and redeemed at Ten Dollars ($10.00) per share and can only be transferred or redeemed subject to approval by the Board. Voting privileges are restricted to membership shares based on one vote per member, regardless of the number of membership shares held by a member.

Class A – Series 1 shares are entitled to receive dividends as declared by the Board and may only be issued to the holders of membership shares. Class A – Series 2 shares have the same entitlements as Class A – Series 1 shares except they may only be issued to SaskCentral or an affiliate of SaskCentral.

Class B shares are entitled to an annual, non-cumulative dividend of $0.78 per share (2008 - $0.78), subject to the rights of the Class C shares.

Class C shares are issued exclusively to SaskCentral or Alberta Central. Distribution of the earnings of the Card Operations is in accordance with the related Class C share agreements. These agreements result in 95% of the Card Operations earnings before October 1, 2007, and 100% of the subsequent Card Operations earnings, and 100% of the gain on any sale of the Card Operations being distributed by way of declaration of dividends to the Class C shareholders. Retained earnings of $5,652 (2008 - $4,048) are allocated to the Card Operations and are subject to distribution to the Class C shareholders based on the Class C share agreements.

The Class C shares were issued to provide capital for the Card Operations. Since the retail credit card business was sold effective October 1, 2007, and the merchant processing business conducted by CAI Acquiring through the UNPS partnership was sold effective January 1, 2008, the Card Operations held no active business assets and as such there were no further capital requirements. Therefore, on December 23, 2008, the stated capital of the Class C shares issued was reduced from $8 million to $2.00 in accordance with section 82 of the *Cooperative Credit Associations Act (Canada)* upon the approval of OSFI on December 19, 2008, and was credited to contributed surplus. Subsequently, on December 23, 2008, a dividend equal to the reduction in stated capital was paid to the holders of the Class C shares and was charged to contributed surplus. The issued Class C shares will remain outstanding until the expiration of the restriction period of the NCA (Note 3). Upon the expiration, the Class C shares can be redeemed for the book value which is defined as the stated value of the Class C shares plus any remaining retained earnings allocated to the Class C shares.

	2009 ($)	2008 ($)
Contributed Surplus		
Contributed surplus, beginning of year	-	-
Reduction in stated capital of Class C shares	-	8,000
Dividends paid to Class C shareholders	-	(8,000)
Contributed surplus, end of year	-	-

17. SHARE CAPITAL (continued)

The following table summarizes the shares issued and outstanding at December 31:

	2009		2008	
	Number of Shares Issued	$	Number of Shares Issued	$
Membership Shares	3,381	34	3,381	34
Class A – Series 1	3,400,582	34,365	3,400,582	34,365
Class A – Series 2	6,186,170	98,855	6,186,170	98,855
Class B	399,054	3,990	399,054	3,990
Class C	2,000	-	2,000	-
		137,244		137,244

The Company issued nil (2008 – 20) membership shares during the year.

18. PENSION BENEFITS

The Company provides pension benefits to qualified employees. Pension benefits of $1,295 (2008 - $1,410) were paid to defined contribution and supplementary employee retirement plans. These costs are included in salaries and employee benefits. As a defined contribution pension plan, the Company has no future liability or obligation for future contributions to fund benefits to plan members.

19. PROVISION FOR INCOME TAXES

Income taxes are included in the consolidated statement of income as follows:

	2009 ($)	2008 ($)
Continuing operations		
Current income tax expense (recovery)	593	(251)
Future income tax expense	5,904	1,766
	6,497	1,515
Income from discontinued operations, net of tax (Note 3)		
Current income tax expense	9	-
Future income tax expense	210	210
	219	210
	6,716	1,725

Income taxes are included in the consolidated statement of comprehensive income as follows:

	2009 ($)	2008 ($)
Net unrealized gains (losses) on available-for-sale securities		
Current income tax expense (recovery)	3,195	(2,168)
Future income tax expense	5	858
	3,200	(1,310)
Reclassification of (gains) losses on available-for-sale securities to income		
Current income tax (recovery) expense	(876)	1,499
	2,324	189

Income taxes are included in the consolidated statements of retained earnings and accumulated other comprehensive income (loss) as follows:

	2009 ($)	2008 ($)
Retained earnings		
Reduction in income taxes due to payment of dividends		
Current income tax recovery	(48)	(1,601)
	(48)	(1,601)

Total income tax reported in the consolidated financial statements:

	2009 ($)	2008 ($)
	8,992	313

Dividends, which are reflected in retained earnings, are normally deductible in determining current income subject to tax. A portion of the dividends paid in the prior year were paid subject to a tax election whereby the dividends were not deductible in determining current income subject to tax. The reduction in income tax resulting from the payment of dividends deductible in determining current income subject to tax is reflected in retained earnings.

19. PROVISION FOR INCOME TAXES (continued)

Reconciliation of the provision for income taxes from continuing operations:

	2009 ($)	2008 ($)
Combined federal and provincial income tax rate applied to income from operations	5,689	1,191
Provision for income taxes adjusted for the effect of:		
Non-deductible expenses	(25)	35
Future income tax expense resulting from tax rate changes	12	-
Other	821	289
	6,497	1,515

The components of future income taxes are as follows:

	2009 ($)		2008 ($)	
	Continuing Operations	Discontinued Operations (Note 3)	Continuing Operations	Discontinued Operations (Note 3)
Future income tax assets				
Securities	-	-	1,731	-
Unamortized transition loss and retained interest	165	-	259	-
Deferred revenue	-	354	-	556
Other	134	15	156	23
	299	369	2,146	579
Future income tax liabilities				
Securities	(49)	-	-	-
Loans	(4,563)	-	(950)	-
Other	(162)	-	(244)	-
	(4,774)	-	(1,194)	-
Net future income taxes	(4,475)	369	952	579

Net future income taxes are recorded in:

	2009 ($)		2008 ($)	
	Continuing Operations	Discontinued Operations (Note 3)	Continuing Operations	Discontinued Operations (Note 3)
Future income tax assets				
Other assets (Note 11)	41	369	1,434	579
	41	369	1,434	579
Future income tax liabilities				
Securities	-	-	(38)	-
Loans	-	-	(444)	-
Other liabilities (Note 15)	(4,516)	-	-	-
	(4,516)	-	(482)	-
Net future income taxes	(4,475)	369	952	579

20. INVESTMENT IN CAI ACQUIRING

The Company purchased 100% of the common shares of CAI Acquiring on May 10, 2002. CAI Acquiring was incorporated to acquire and service the credit card merchant processing business through its 48% partnership interest in UNPS. This partnership interest was sold effective January 1, 2008, as disclosed in Note 3. The shares held in CAI Acquiring were subsequently sold to the Class C shareholders effective January 1, 2009, at the net book value of the investment in CAI Acquiring, which approximated the fair value at the time of the sale.

Due to the provisions of the Class C Shares as described in Note 17, it had been determined that CAI Acquiring was a variable interest entity of which the Company was not the primary beneficiary as the majority of the variability in the earnings were absorbed by the holders of the Class C shares. As a result of the provisions of the Class C shares, the equity at risk of CAI Acquiring lacked the characteristics of a controlling financial interest.

The Company's investment in CAI Acquiring was being accounted for in accordance with the equity method of accounting as the Company did have significant influence through its equity investment. Distributions of Card Operations earnings derived from the Company's investment in CAI Acquiring were in accordance with the related Class C share agreements. These agreements result in 95% of the CAI Acquiring earnings before October 1, 2007, and 100% of the subsequent CAI Acquiring earnings, and 100% of the gain on any sale of the CAI Acquiring operations being distributed by way of declaration of dividends to the Class C shareholders.

The following table summarizes the consolidated financial statements of CAI Acquiring:

	2008 ($)
Assets	395
Liabilities	352
Non-interest income	275
Non-interest expense	104
Gain on sale of partnership interest	829
Provision for income taxes	(208)
Cash flows used in operating activities	(5,058)
Cash flows from investing activities	16,519
Cash flows used in financing activities	(12,030)

The following table summarizes the carrying amount of the Company's investment in CAI Acquiring:

	2009 ($)	2008 ($)
Equity, beginning of year	43	10,865
Net earnings (Note 3)	-	1,208
Distributions	-	(12,030)
Sale of investment	(43)	-
Equity, end of year (Note 11)	-	43

21. RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at the exchange amount which is the consideration established and agreed to by the parties. Some of these transactions and balances are recorded in the discontinued operations. The following table summarizes the balances outstanding at year end and transactions during the year not noted elsewhere in the consolidated financial statements.

SaskCentral provides banking and credit services for the Company. The Company provides consultative and administrative services to SaskCentral. It has been determined through the attributes of the Class C shares (Note 17) that SaskCentral is the primary beneficiary of the positive and negative variability of the Company's earnings.

CU Electronic Transaction Services (CUETS) is a joint venture owned equally by SaskCentral and Alberta Central.

Celero Solutions provides information technology services and support under the terms of a support services agreement.

	2009 ($)	2008 ($)
SaskCentral		
Dividends paid to	-	10,200
Due from included in other assets	42	184
Securities invested with	20,000	20,000
Interest earned on deposits and securities	173	845
Interest receivable on deposits and securities	173	802
Interest paid to	174	719
Interest payable to	14	21
Fee for service received from	714	653
Supplies purchased from	41	-
Non-interest expenses paid to	1,105	685
CUETS		
Deposits payable to	1,708	1,883
Interest paid to	9	63
Celero Solutions		
Loan receivable from	1,705	3,885
Investment in	283	-
Due to included in other liabilities	538	853
Fee for service received from	90	271
Capital assets purchased from	521	-
Fee for service paid to	4,996	4,957
CAI Acquiring		
Deposits payable to	43	395
Interest paid to	1	279

22. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. Derivative contracts are expressed in notional amounts. The notional amounts, which are off-balance sheet, do not represent amounts exchanged and, thus, are not a measure of the Company's exposure through the use of derivatives. The notional amount is the reference amount used to determine the payment required by contract and are a common measure of business volume.

Swaps are contractual agreements to exchange a series of cash flows based on agreed upon rates to a notional amount. Interest rate swaps are used to manage exposure to interest rate risk by modifying the repricing or interest rate characteristics of assets and liabilities. Exposure is managed through the exchange of fixed and floating interest rate payments based on notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell financial instruments at a fixed price at a fixed future date or within a fixed future period. For options purchased, a premium is paid for the right to exercise the option.

Foreign exchange forward contracts are contractual obligations to buy or sell one currency against another, for settlement on the day the contract expires. A forward contract manages the risk of fluctuating exchange rates by locking in a current price for a transaction that will take place in the future. Exposure is managed through entering into forward contracts.

The derivatives currently held or issued are for non-trading purposes. These derivatives are used in managing the Company's asset/liability activities and include investing and hedging activities.

Notional Amounts and Term to Maturity

	2009 ($)							2008 ($)
	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total	Trading	Other than Trading	Total
Asset/Liability Management								
Interest rate contracts								
Interest rate swaps	150,000	109,800	1,773,200	61,168	2,094,168	-	2,094,168	1,594,812
Forward rate agreement	-	-	-	-	-	-	-	6,419
Options purchased	-	1,250	300	-	1,550	-	1,550	1,253
Foreign exchange contracts	-	-	-	-	-	-	-	62,456
	150,000	111,050	1,773,500	61,168	2,095,718	-	2,095,718	1,664,940
As intermediary								
Interest rate contracts								
Interest rate swaps	20,071	40,000	753,848	60,000	873,919	-	873,919	1,072,541
Forward rate agreement	-	-	1,600	1,600	3,200	-	3,200	3,200
Foreign exchange contracts	54,659	19,409	-	-	74,068	-	74,068	-
	74,730	59,409	755,448	61,600	951,187	-	951,187	1,075,741

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair Value of Derivative Financial Instruments

	2009 ($)		2008 ($)	
	Positive	Negative	Positive	Negative
Asset/Liability Management				
Interest rate contracts				
Interest rate swaps	19,819	32,903	8,381	41,490
Forward Rate Agreement	-	-	9,016	-
Options purchased	204	-	183	-
Foreign exchange contracts	-	-	18	-
	20,023	32,903	17,598	41,490
As intermediary				
Interest rate contracts				
Interest rate swaps	10,429	10,203	17,134	17,182
Forward rate agreement	166	133	133	116
Foreign exchange contracts	-	-	-	-
	10,595	10,336	17,267	17,298

The Company is exposed to credit related losses in the event of non-performance by the counterparties to derivative contracts. The Company's credit exposure on the interest rate contracts is limited to the positive replacement cost (fair value) of the instruments as this represents the cost to replace these contracts at prevailing market rates if a default occurred. The Company mitigates exposures by limiting the counterparties to interest rate contracts to credit worthy Canadian financial institutions. In determining the credit quality of derivative instruments both the Company's own credit risk and the risk of the counterparty are considered elements of the credit quality.

Credit risk is measured by using a credit equivalent amount. The credit equivalent amount is derived from the sum of the positive replacement cost and the potential credit risk exposure which reflects the potential change in replacement cost in relation to the remaining term to maturity of the contract. The risk-weighted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table provides information in relation to the Company's credit risk exposure for derivative financial transactions. Positive replacement cost is derived from the fair value of derivative financial instruments (Note 4). Potential credit risk exposure and risk-weighted equivalents are calculated in accordance with OSFI capital adequacy guidelines.

	2009 ($)				2008 ($)
	Interest Rate Contracts	**Options**	**Foreign Exchange Contracts**	**Total**	**Total**
Notional amounts	2,971,287	1,550	74,068	3,046,905	2,740,681
Positive replacement cost	30,414	204	-	30,618	34,865
Potential credit risk exposure	14,485	99	740	15,324	13,626
Credit equivalent amount	44,899	303	740	45,942	48,490
Risk-weighted equivalent	8,980	61	148	9,189	9,699

Unrealized and Realized Gains and Losses on Derivatives

	2009 ($)	2008 ($)
Realized (losses) gains on derivatives	(29,367)	(4,938)
Unrealized gains (losses) on derivatives	15,704	(19,209)
Unrealized and realized gains (losses) on derivatives	(13,663)	(24,147)

23. CONTRACTUAL REPRICING SCHEDULE

The Company's exposure to interest rate risk can be measured by the mismatch, or gap, between the assets, liabilities and off-balance sheet instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time periods.

Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield. The table below shows the Company's gap position as at December 31.

23. CONTRACTUAL REPRICING SCHEDULE (continued)

	2009 ($)						
	On Demand	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total
Assets							
Cash resources	14,298	-	-	-	-	-	14,298
Securities	-	240,811	120,673	431,043	158,246	8,607	959,380
Effective interest rate (%)	-	2.45%	3.09%	2.08%	2.32%		
Loans	553,012	110,479	229,975	1,592,762	109,452	18,127	2,613,807
Effective interest rate (%)	2.98%	5.25%	5.42%	5.54%	5.41%		
Other assets	-	-	-	-	-	98,877	98,877
Assets from discontinued operations	-	8,414	-	-	-	469	8,883
	567,310	359,704	350,648	2,023,805	267,698	126,080	3,695,245
Liabilities							
Deposits	525,156	415,862	975,897	1,146,483	1,773	32,701	3,097,872
Effective interest rate (%)	0.28%	2.07%	2.66%	3.65%	4.79%		
Loans and notes payable	-	243,558	-	-	-	19	243,577
Effective interest rate (%)	-	0.66%	-	-	-		
Subordinated debentures	-	45,000	-	15,000	13,350	382	73,732
Effective interest rate (%)	-	3.83%	-	6.21%	5.82%		
Other liabilities	-	-	-	-	-	70,957	70,957
Liabilities from discontinued operations	-	-	-	-	-	3,204	3,204
Members' equity	-	-	-	-	-	205,903	205,903
	525,156	704,420	975,897	1,161,483	15,123	313,166	3,695,245
On-balance sheet gap	42,154	(344,716)	(625,249)	862,322	252,575	(187,086)	-
Off-balance sheet financial instruments							
Pay side instruments	-	(674,678)	(129,800)	(2,074,041)	(92,768)	-	(2,971,287)
Effective interest rate (%)	-	1.32%	4.06%	3.29%	3.95%		
Receive side instruments	-	2,466,680	20,000	453,007	31,600	-	2,971,287
Effective interest rate (%)	-	0.43%	4.99%	2.94%	3.31%		
Derivatives used for trading purposes	-	-	-	-	-	-	-
Effective interest rate (%)	-	-	-	-	-		
Off-balance sheet gap	-	1,792,002	(109,800)	(1,621,034)	(61,168)	-	-
Total gap	42,154	1,447,286	(735,049)	(758,712)	191,407	(187,086)	-

	2008 ($)						
	On Demand	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total
Continuing Operations							
On-balance sheet gap	(7,721)	(126,707)	(851,367)	735,164	420,545	(173,989)	(4,075)
Off-balance sheet gap	-	819,463	(51,978)	(729,817)	(37,668)	-	-
Total gap	(7,721)	692,756	(903,345)	5,347	382,877	(173,989)	(4,075)
Discontinued Operations							
On-balance sheet gap	-	6,937	-	-	-	(2,862)	4,075
Off-balance sheet gap	-	-	-	-	-	-	-
Total gap	-	6,937	-	-	-	(2,862)	4,075

23. CONTRACTUAL REPRICING SCHEDULE (continued)

The Company's interest rate sensitivity to a 100 basis point (bp) fluctuation in interest rates, as measured based on the current position at December 31, 2009, would be as outlined in the following table over the next 12 months if no remedial action was taken by the Company.

	2009 ($)		2008 ($)	
	Net Income	Other Comprehensive Income	Net Income	Other Comprehensive Income
Impact of:				
100 bp increase in rates	29,304	(12,994)	7,142	(18,789)
100 bp decrease in rates[1]	(7,346)	3,246	(7,142)	18,789

[1]For 2009 the sensitivity analysis utilizes 25 bp for the decrease as this is the current Bank of Canada rate and this rate would not decrease below zero.

24. SEGMENTED INFORMATION

The Company operates three main operating segments and each segment is managed separately as individual business units.

Financial Intermediation includes residential mortgage and corporate lending activities, personal and corporate deposit products, securities and treasury services as well as commercial banking and leasing activities.

Trust Operations consist of both personal and corporate trust products and services.

Card Operations consist of the remaining assets related to the discontinued credit card lending, merchant processing and acquiring operations and other card related products and services. These operations will be wound up when the NCA restriction period ends in 2011 as described in note 3.

Inter-segment transactions take place at terms which approximate fair values. The following highlights key financial information for the operations of these segments.

24. SEGMENTED INFORMATION (continued)

	2009 ($)				
	Financial Intermediation	Trust Operations	Card Operations[1]	Inter Segment Eliminations	Total
Interest income	168,471	257	-	(381)	168,347
Interest expense	113,643	-	-	(291)	113,352
Net interest income	54,828	257	-	(90)	54,995
Provision for credit losses	600	-	-	-	600
Net interest margin	54,228	257	-	(90)	54,395
Non-interest income	25,272	6,475	-	(1,847)	29,900
Non-interest expense	45,362	5,386	-	(1,937)	48,811
Income from continuing operations before income taxes	34,138	1,346	-	-	35,484
Provision for income taxes	6,116	381	-	-	6,497
Net income from continuing operations	28,022	965	-	-	28,987
Income from discontinued operations, net of tax	-	-	1,715	-	1,715
Net income	28,022	965	1,715	-	30,702
Total assets	3,702,400	13,949	8,883	(29,987)	3,695,245

[1]*Discontinued operations (Note 3)*

	2008 ($)				
	Financial Intermediation	Trust Operations	Card Operations[1]	Inter Segment Eliminations	Total
Interest income	184,869	324	-	(947)	184,246
Interest expense	138,854	-	-	(958)	137,896
Net interest income	46,015	324	-	11	46,350
Provision for credit losses	4,970	-	-	-	4,970
Net interest margin	41,045	324	-	11	41,380
Non-interest income	5,984	5,521	-	(1,675)	9,830
Non-interest expense	41,813	4,676	-	(1,664)	44,825
Income from continuing operations before income taxes	5,216	1,169	-	-	6,385
Provision for income taxes	1,133	382	-	-	1,515
Net income from continuing operations	4,083	787	-	-	4,870
Income from discontinued operations, net of tax	-	-	2,872	-	2,872
Net income	4,083	787	2,872	-	7,742
Total assets	3,849,687	13,233	9,105	(28,304)	3,843,721

[1]*Discontinued operations (Note 3)*

25. COMMITMENTS AND GUARANTEES

Lines of credit and loan commitments and letters of credit represent a maximum credit exposure to the Company. Many of these contracts will expire without being drawn upon and thereby reduces the Company's credit risk from the maximum commitment. The Company earns minimal fees on commitments. The Company has not issued any financial guarantee contracts.

	2009 ($)						2008 ($)
	On Demand	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total	Total
Lines of credit and loan commitments	97,355	72,482	135,195	32,900	-	337,932	550,338
Letters of credit	1,847	3,399	3,412	-	-	8,658	11,962
	99,202	75,881	138,607	32,900	-	346,590	562,300

The Company is responsible for its proportionate share of any operating and investment losses incurred by Celero Solutions.

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

As a financial institution, the Company is exposed to the following risks as a result of holding financial instruments: credit risk, market risk, and liquidity risk. The following is a description of these risks and how the exposure is managed.

Credit Risk

Credit risk arises from a counterparty's inability or unwillingness to fully meet its contractual obligations. The credit risk on securities, loans, and mortgages relates to principal and interest amounts. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

Objectives, Policies, and Methodologies

The Company manages credit risk by:

- Restricting the concentration of credit by issuer, issuer group, industry, and geographic region
- Aggregating credit exposures (including derivatives) to connected counterparties
- Determining appropriate levels of credit concentration commensurate with the ability to absorb credit losses while ensuring business continuity
- Restricting investments in commercial debt securities not rated by an approved rating agency
- Segregating business generation activities from credit risk management oversight
- Employing prudent credit granting criteria
- Using asset sales to manage credit exposure
- Managing monitored and non-productive assets effectively
- Monitoring the quality of the credit portfolio ensuring conservative valuation and timely recognition of losses through specific loss allowances and write downs
- Establishing general loss allowance levels based upon industry best practice methodology

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Board is responsible for approving the credit risk tolerances in the *Balance Sheet Policy* upon the recommendation of the Audit and Risk Committee. Further operating credit risk policies are outlined in the *Balance Sheet Operating Policy* which is within the authority of the President and Chief Executive Officer. Compliance to these policies is monitored on a monthly basis.

The Company has a credit risk management function which is segregated from business generation activities. Credit risk management is responsible for delegating credit approval limits to business units and approving loan, lease, and mortgage applications in excess of the credit authority delegated. In addition, credit risk management undertakes an overall systematic review of the credit adjudication process on an annual basis and the results of the review are reported to the Board.

The Credit Committee, established by the Board and comprised of members of executive management, has the authority to approve large loans, leases, and mortgages upon the recommendation of credit risk management. The Asset-Liability Committee, established by the Board and comprised of members of executive, senior, and operating management, has the authority to set credit risk strategies for the securities portfolio within the risk tolerances in the *Balance Sheet Policy* and *Balance Sheet Operating Policy*.

The following reports, related to the management of credit risk, are provided to the Board on a quarterly basis:

- Large Lending Credits Report
- Monitored and Non-productive Assets Report
- Chief Risk Officer's Report

The credit risk objectives, policies, and methodologies have not changed materially from December 31, 2008.

Risk Measurement

In measuring credit risk under Basel II, the standardized approach is used. Under this approach, risk weights prescribed by OSFI are used to calculate risk-weighted assets for credit risk exposures.

The Company assumes credit risk in both the securities and loan portfolios. In the securities portfolio the Company supplements internal credit analysis with industry recognized rating agency data (DBRS or Standard and Poor's). In the loans portfolio the primary reliance is on internal risk ratings and a comprehensive review of the credit worthiness of the borrower. The Company does not transact in credit derivatives.

The overall credit risk position is monitored in reference to an internally generated composite weighted average risk rating calculation (weighted average risk rating of the securities and loan portfolio calculated based upon internal risk ratings). As at December 31, 2009, and December 31, 2008, the Company was well within the risk tolerance for this measure as set out by the Board in the *Balance Sheet Policy*.

Credit Quality Performance

Refer to Note 5 for information on the credit quality performance of the securities portfolio and Note 6 for information on the credit quality performance of the loan portfolio.

Credit risk concentrations indicate the relative sensitivity of performance to developments affecting a particular industry or geographic region. The following tables summarize the authorized credit exposures associated with on- and off-balance sheet financial instruments.

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Credit risk exposure by industry

	2009 ($)			2008 ($)
	Outstanding	Undrawn Commitments	Total	Total
Accommodation and food services	96,388	13,155	109,543	133,641
Administration and support, waste management and remediation services	6,036	-	6,036	5,385
Agriculture, forestry, fishing and hunting	5,654	4,471	10,125	13,354
Arts, entertainment and recreation	33,534	10	33,544	35,435
Automobile financing	1,520	-	1,520	31,690
Banking	210,041	-	210,041	147,192
Construction	81,954	40,062	122,016	156,174
Credit card issuing and financing	19,796	-	19,796	43,023
Credit union	34,174	71,133	105,307	240,555
Education services	2,340	28,005	30,345	31,659
Health care and social assistance	39,740	24,420	64,160	53,859
Information	24,513	-	24,513	59,163
Insurance carriers and related activities	20,862	-	20,862	10,186
Manufacturing	48,467	30,352	78,819	98,435
Mining and oil and gas extraction	56,996	7,666	64,662	148,442
Other	17,583	-	17,583	7,550
Other depository	35,185	-	35,185	13,656
Other - diversified holdings	64,741	-	64,741	90,667
Other non-depository	25,707	-	25,707	21,707
Other services	4,130	-	4,130	3,979
Professional, scientific and technical services	133	1,599	1,732	1,800
Public administration	367,214	33,730	400,944	234,754
Real estate	308,643	32,280	340,923	353,235
Rental and leasing services	15,322	1,307	16,629	47,935
Residential mortgages – conventional	955,899	15,705	971,604	1,204,176
Residential mortgages – insured	944,067	55,206	999,273	986,599
Retail trade	24,425	6,092	30,517	34,667
Securities, commodity contracts and other financial institutions	18,471	5,012	23,483	62,270
Transportation and warehousing	28,203	-	28,203	14,681
Utilities	3,955	150	4,105	4,384
Wholesale trade	41,540	62,084	103,624	101,824
Total Exposure	3,537,233	432,439	3,969,672	4,392,077

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Credit risk exposure by geographic region (loans)

	2009 ($)					
	Atlantic	Quebec	Ontario	Prairies and Territories	British Columbia	Total
Outstanding	148,362	20,414	900,026	994,367	461,363	2,524,532
Undrawn Commitments	12,080	-	50,006	268,958	24,753	355,797
Total Exposure	160,442	20,414	950,032	1,263,325	486,116	2,880,329

	2008 ($)					
	Atlantic	Quebec	Ontario	Prairies and Territories	British Columbia	Total
Outstanding	201,720	8,554	929,386	1,232,738	483,815	2,856,213
Undrawn Commitments	16,250	-	50,149	385,192	108,342	559,933
Total Exposure	217,970	8,554	979,535	1,617,930	592,157	3,416,146

Market Risk

Market risk arises from three components:

- Interest rate risk which results from movements in interest rates. This risk primarily results from timing differences in the re-pricing of assets and liabilities, both on- and off-balance sheet, as they mature or are contractually re-priced.
- Price risk which results from changes in the market price of an asset or liability
- Foreign exchange risk which results from movements in foreign exchange rates

Objectives, Policies, and Methodologies

The Company manages market risk by:

- Acquiring assets for asset/liability management purposes which are marketable with a minimal risk of price fluctuation
- Using off-balance sheet strategies
- Establishing market risk levels
- Monitoring exposure and simulating the impact of interest rate changes
- Monitoring exposure to changes in foreign exchange rates

In 2009 and 2008, the Company did not have a trading program.

The Board is responsible for approving the market risk tolerances in the *Balance Sheet Policy* upon the recommendation of the Audit and Risk Committee. Compliance to these policies is monitored on a monthly basis. These policies outline maximum limits for the exposure of adjusted net interest income and the economic value of equity to market risk.

The Asset-Liability Committee, established by the Board and comprised of members of executive, senior, and operating management, has the authority to set market risk strategies for the balance sheet within the risk tolerances in the *Balance Sheet Policy* and *Balance Sheet Operating Policy*. In addition, this committee monitors the monthly simulation of the impact of interest rate changes to ensure market risk levels remain within policy and strategy parameters, and reviews derivative holdings.

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Chief Risk Officer's Report, outlining market risk levels, is provided to the Board on a quarterly basis.

The market risk objectives and methodologies have not changed materially from December 31, 2008.

Risk Measurement

The risk position is measured on a monthly basis. Measurement of risk is based upon key assumptions such as future interest rate movements, asset growth, and funding mix. The short term (next 12 months) risk position is assessed by measuring both the impact of an immediate 100 bp shock and a 30% rate ramp scenario on total comprehensive income. The long term risk position is measured by both the impact of an immediate 100 bp shock and a 30% rate ramp scenario on the economic value of equity.

	2009 (%)		2008 (%)	
	Total Comprehensive Income	**Economic Value of Equity**	**Total Comprehensive Income**	**Economic Value of Equity**
Impact of:				
100 bp increase in rates	(23.4)	(7.4)	(131.1)	(7.5)
100 bp decrease in rates[1]	32.4	1.9	141.9	8.5
Impact of:				
30% rate ramp increase	(11.1)	(2.6)	(78.5)	1.2
30% rate ramp decrease	51.4	2.8	134.5	(1.6)

[1]The 2009 decrease in rates utilizes a 25 bp decrease as this is the current Bank of Canada rate and this rate would not decrease below zero.

Liquidity Risk

Liquidity risk arises from the inability to generate or obtain necessary cash or equivalents in a timely manner, at a reasonable price, to meet on- and off-balance sheet commitments as they become due, without incurring unacceptable losses.

Objectives, Policies, and Methodologies

The Company manages liquidity risk by:

- Daily monitoring of cash flows
- Maintaining sufficient cash and high quality cash equivalents to support daily liquidity needs
- Investing a prudent portion of the security portfolio in liquid, low-risk, unencumbered instruments
- Acquiring credit union, commercial, and retail deposits
- Accessing capital markets by the issuance of commercial paper and accessing asset securitization vehicles
- Maintaining external credit facilities including lines of credit to support daily liquidity needs and unforeseen liquidity events
- Undertaking monthly stress testing and maintaining a liquidity contingency plan
- Maintaining an investment grade market rating

The Board is responsible for approving the liquidity risk tolerances in the *Balance Sheet Policy* upon the recommendation of the Audit and Risk Committee. Further operating liquidity risk policies are outlined in the *Balance Sheet Operating Policy* which is within the authority of the President and Chief Executive Officer. Compliance to these policies is monitored on a monthly basis.

The Asset-Liability Committee, established by the Board and comprised of members of executive, senior, and operating management, has the authority to set liquidity risk strategies for the balance sheet within

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

the risk tolerances in the *Balance Sheet Policy* and *Balance Sheet Operating Policy*. In addition, this committee monitors the liquidity position and projections, including the results of stress testing.

The Chief Risk Officer's Report, outlining liquidity risk levels, is provided to the Board a quarterly basis.

The liquidity risk objectives, policies, and methodologies have not changed materially from December 31, 2008.

Contractual Obligations

In the normal course of business the Company enters into contracts that give rise to commitments of future minimum payments which affect our liquidity. Depending on the nature of these commitments, the obligations may be recorded on- and off-balance sheet. The following table provides a summary of our primary future contractual funding commitments.

	2009 ($)[1]					2008 ($)[1]
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total	Total
Loans and Notes Payable	242,944	633	-	-	243,577	9,881
Subordinated Debentures	648	-	-	73,084	73,732	53,570
Total Exposure	243,592	633	-	73,084	317,309	63,451

[1]The amounts presented exclude accrued interest except for the category within 3 months.

Risk Measurement

The assessment of the liquidity position reflects management's estimates, assumptions, and judgments relative to current and future company specific operations and market conditions.

The Company's liquidity position is monitored on a daily basis to ensure obligations can be met and cash resources are optimized for the balance sheet. The goal is to minimize the use of back stop liquidity facilities to ensure liquidity access during constrained liquidity conditions.

The on-balance sheet liquidity position is monitored in reference to the liquid asset ratio calculation (liquid assets as a percentage of total assets). At December 31, 2009, the liquid asset ratio was 26.5% (22.6% at December 31, 2008).

27. REGULATORY CAPITAL MANAGEMENT

The Company manages and monitors capital from several perspectives, including regulatory capital and Internal Capital Adequacy Assessment Process (ICAAP) capital. Capital levels for the Company are regulated pursuant to Capital Adequacy Requirements guidelines issued by OSFI, known as Basel II.

Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 regulatory capital comprises the more permanent components of capital and consists of share capital and retained earnings, excluding AOCI. In addition, goodwill and other items as prescribed by OSFI are deducted from Tier 1 regulatory capital. Tier 2 regulatory capital consists of subordinated debentures, which qualify as Tier 2B capital, less deductions as prescribed by OSFI. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital.

27. REGULATORY CAPITAL MANAGEMENT (continued)

Regulatory ratios are calculated by dividing Tier 1 regulatory capital and Total regulatory capital by risk-weighted assets (RWA). The calculation of RWA is determined from OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for operational risk. The Company does not meet the qualifying criteria for computing market risk, which is the value of the trading book assets or liabilities being at least 10% of total assets and exceeding $1 billion. In addition, OSFI formally establishes risk-based capital targets for deposit-taking institutions. Current OSFI targets are a minimum Tier 1 regulatory capital to RWA ratio of 7% and a minimum Total regulatory capital to RWA ratio of 10%. In addition to the Tier I regulatory capital to RWA ratio and Total regulatory capital to RWA ratio, Canadian financial institutions are required to ensure that their Assets to capital multiple, which is calculated by dividing gross adjusted assets by Total regulatory capital, does not exceed a maximum level prescribed by OSFI.

Throughout 2009 and 2008, the Company has been in compliance with OSFI prescribed capital adequacy requirements.

	2009	2008
Capital		
Tier 1 regulatory capital	186,530	155,586
Total regulatory capital	259,844	208,825
Risk-weighted assets		
Credit risk	1,416,185	1,562,499
Market risk	-	-
Operational risk	147,738	125,271
Total risk-weighted assets	1,563,923	1,687,770
Capital Ratios		
Tier 1 regulatory capital to risk-weighted assets	11.9%	9.2%
Total regulatory capital to risk-weighted assets	16.6%	12.4%
Assets to capital multiple	14.2X	18.4X

28. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board announced that all publicly accountable entities, such as the Company due to its fiduciary responsibilities, will be required to adopt International Financial Reporting Standards (IFRS) for financial statements relating to fiscal years beginning on or after January 1, 2011, including the restatement of comparative period financial statements on the same basis. The transition from Canadian generally accepted accounting principles to IFRS will be applicable to the Company for the year ending December 31, 2011.

The Company has commenced its IFRS conversion project and has established a formal project governance structure including an IFRS project sponsor to monitor progress and critical decisions in the transition to IFRS. Both internal project staff and external resources have been utilized to prepare for this conversion. Regular reporting is provided by the project team to senior management. Management reporting is provided to the Audit and Risk Committee and to the Board of Directors.

The Company has completed a preliminary assessment of the differences between Canadian generally accepted accounting principles and IFRS and the potential effects of IFRS to the accounting and reporting

28. INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

processes, information systems, business processes and external disclosures. This assessment has provided insight as to the most significant areas of difference applicable to the Company, which are securitized residential mortgages, more extensive presentation and disclosure requirements under IFRS, and impacts on regulatory requirements.

The Company has developed and is progressing on the implementation of the IFRS transition plan. Currently, the Company has formed work teams, including resources from various business units that have been established to perform action plan steps outlined in the detailed work plans. These involve assessing processes and procedures that require changing under IFRS, making recommendations on IFRS compliant accounting policies and implementing data collection processes to provide IFRS disclosure information.

The Company continues to monitor standards development as issued by the International Accounting Standards Board and the CICA, as well as regulatory developments as issued by OSFI, which may affect the timing, nature or disclosure of the Company's adoption of IFRS.

The transition from current Canadian generally accepted accounting principles to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. As the Company has not yet finalized its accounting policies and the final IFRS standards to be applied have not been determined, the Company is unable to quantify the impact of IFRS on its financial statements. The areas of significance identified above are based on available information and the Company's expectations as of the date of this disclosure and thus, are subject to change for new facts and circumstances.

29. CONTINGENT LIABILITY

Concentra Trust, a wholly owned subsidiary of the Company, has been named in two legal actions in the Province of Quebec, both of which relate to the same issues. As these matters are in the early stages, Concentra Trust is unable to determine the eventual outcome, and at this time cannot reasonably estimate any potential losses. Management will defend against these actions.

30. COMPARATIVE FIGURES

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

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