

# **North Shore Credit Union**

Consolidated Financial Statements

**December 31, 2009**

(in thousands of dollars)

## MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with the requirements of the Credit Union Incorporation Act and appropriate generally accepted accounting principles in Canada and include amounts based on informed judgments and estimates of the expected effects of current events and transactions. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating and system controls. Controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability, and careful selection and training of personnel, the application of accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records, as well as a continued program of extensive internal audits. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, and that assets are safeguarded against unauthorized use or disposition.

The Board of Directors has appointed an Audit Committee, comprised of at least three Directors of the Credit Union. The committee meets regularly with management, the internal auditors and the external auditors to review accounting, auditing, internal control and financial reporting matters. The external and the internal auditors may access this committee, without management present, to discuss the results of their work if required.

PricewaterhouseCoopers LLP have been appointed by the membership as independent auditors to examine and report on the consolidated financial statements and their report follows. They have had full and free access to the records of the Credit Union, the internal auditor and the Audit Committee of the Board.



Christopher Catliff  
President and Chief Executive Officer



William H. Keen  
Vice President, Finance and  
Chief Financial Officer

North Vancouver, B.C.  
February 10, 2010

February 9, 2010

## Auditors' Report

### To the Members of North Shore Credit Union

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

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

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

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

# North Shore Credit Union

## Consolidated Balance Sheet

As at December 31, 2009

(in thousands of dollars)

	2009 \$	2008 \$
<b>Assets</b>		
Cash and cash resources	57,193	28,652
Loans (note 3)	1,337,112	1,206,738
Other assets and investments (note 4)	125,523	113,337
Premises and equipment (note 5)	22,241	25,140
Intangible assets (note 6)	7,658	811
Prepaid expenses, deposits and accounts receivable (note 7)	6,246	30,393
Future income taxes	1,341	-
	<u>1,557,314</u>	<u>1,405,071</u>
<b>Liabilities</b>		
Members' accounts (note 8)	1,367,807	1,257,899
Accounts payable and accrued liabilities	9,625	10,148
Borrowings (note 9)	80,000	39,931
Future income taxes	-	662
Preferred equity shares (note 10)	2,895	3,297
	<u>1,460,327</u>	<u>1,311,937</u>
<b>Members' Equity</b>		
Appraisal excess (note 2)	1,072	1,102
Equity shares (note 10)	10,572	10,655
Retained earnings	79,641	73,392
	<u>91,285</u>	<u>85,149</u>
Accumulated other comprehensive income (note 2)	5,702	7,985
	<u>96,987</u>	<u>93,134</u>
	<u>1,557,314</u>	<u>1,405,071</u>

**Commitments and contingencies** (note 19)

**On behalf of the Board**

 Director

 Director

# North Shore Credit Union

## Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2009

(in thousands of dollars)

	2009 \$	2008 \$
<b>Appraisal excess - Beginning of year</b>	1,102	1,132
Amortization	(30)	(30)
<b>Appraisal excess - End of year</b>	<u>1,072</u>	<u>1,102</u>
<b>Equity shares - Beginning of year</b>	10,655	10,870
Cash redemptions - net of cash share issuance during the year	(83)	(215)
<b>Equity shares - End of year</b>	<u>10,572</u>	<u>10,655</u>
<b>Retained earnings - Beginning of year</b>	73,392	66,174
Net income for the year	6,522	7,463
Amortization of appraisal excess	30	30
Dividends on equity shares - net of tax	(303)	(275)
<b>Retained earnings - End of year</b>	<u>79,641</u>	<u>73,392</u>
<b>Accumulated other comprehensive income (loss) - Beginning of year</b>	7,985	(25)
Other comprehensive (loss) income for the year	(2,283)	8,010
<b>Accumulated other comprehensive income - End of year</b>	<u>5,702</u>	<u>7,985</u>
<b>Total Members' Equity</b>	<u><u>96,987</u></u>	<u><u>93,134</u></u>

# North Shore Credit Union

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

(in thousands of dollars)

	2009 \$	2008 \$
<b>Interest income</b>		
Loans	62,961	69,303
Investments	7,421	4,923
	<u>70,382</u>	<u>74,226</u>
<b>Interest expense</b>		
Deposits	30,695	39,106
Borrowed funds	392	2,703
	<u>31,087</u>	<u>41,809</u>
<b>Net interest income</b>	39,295	32,417
<b>Other income</b> (note 16)	12,404	18,349
	<u>51,699</u>	<u>50,766</u>
<b>Non-interest expenses</b>		
Administrative (note 17)	43,327	38,948
Provision for credit losses (note 3)	737	2,850
	<u>44,064</u>	<u>41,798</u>
<b>Net operating income</b>	7,635	8,968
Dividends on membership equity shares	42	37
Donations	77	90
	<u>119</u>	<u>127</u>
<b>Income before income taxes</b>	7,516	8,841
<b>Provision for (recovery of) income taxes</b> (note 18)		
Current	764	1,805
Future	230	(427)
	<u>994</u>	<u>1,378</u>
<b>Net income for the year</b>	6,522	7,463
<b>Other comprehensive (loss) income</b> - net of tax (note 14)		
Net change in unrealized gains on hedges	95	8,010
Transfer to net income of gains on terminated cash flow hedges meeting hedge accounting criteria	(2,378)	-
	<u>(2,283)</u>	<u>8,010</u>
<b>Comprehensive income for the year</b>	<u>4,239</u>	<u>15,473</u>

**North Shore Credit Union**  
**Consolidated Statement of Cash Flows**  
**For the year ended December 31, 2009**

(in thousands of dollars)

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>Cash flows provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the year	6,522	7,463
Items not affecting working capital		
Gain on securitization of loans	(620)	-
Amortization	2,638	2,773
Amortization of servicing liability	(2,626)	(2,046)
Provision for credit losses	737	2,850
Future income taxes	230	(427)
Gain on sale of investment	(719)	(1,762)
Impairment of investment	500	-
	<u>6,662</u>	<u>8,851</u>
Changes in non-cash working capital items	22,083	(23,999)
	<u>28,745</u>	<u>(15,148)</u>
<b>Investing activities</b>		
Net change in loans	(140,437)	(67,688)
Net purchase of term deposits	(16,902)	(493)
Net change in other assets and investments	3,525	8,502
Purchase of premises and equipment	(4,619)	(977)
Purchase of intangible assets	(1,967)	(3,179)
Proceeds on sale of investment	1,061	2,144
	<u>(159,339)</u>	<u>(61,691)</u>
<b>Financing activities</b>		
Net change in members' accounts	109,908	86,613
Proceeds on securitization of loans	9,946	-
Net change in borrowings	40,069	(9,102)
Net payments on redemption of equity shares	(485)	(1,888)
Dividends paid	(303)	(275)
	<u>159,135</u>	<u>75,348</u>
<b>Increase (decrease) in cash and cash resources</b>	<b>28,541</b>	<b>(1,491)</b>
<b>Cash and cash resources - Beginning of year</b>	<b>28,652</b>	<b>30,143</b>
<b>Cash and cash resources - End of year</b>	<b>57,193</b>	<b>28,652</b>
<b>Supplementary cash flow information</b>		
Income taxes paid	<u>1,647</u>	<u>1,656</u>
Interest paid	<u>32,747</u>	<u>41,771</u>

# North Shore Credit Union

## Notes to Consolidated Financial Statements

### December 31, 2009

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(in thousands of dollars)

#### 1 Nature of business

North Shore Credit Union (the Credit Union) was incorporated in 1941 under the British Columbia Credit Union Incorporation Act. The operation of the Credit Union is regulated under the British Columbia Financial Institutions Act. The Credit Union provides financial services to members located principally in the Lower Mainland and the Sea to Sky Corridor of British Columbia.

#### 2 Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The following paragraphs describe the Credit Union's significant accounting policies:

##### **Principles of consolidation**

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Credit Union, its wholly owned subsidiaries North Shore Capital Corporation, NORCU Insurance Services Ltd., Community Pacific Financial Inc., North Shore Technology Inc. and North Shore Leasing Ltd., and its 51%-owned subsidiary United Mortgage Group Ltd. Investments in companies over which the Credit Union has significant influence are accounted for by the equity method and are included in other assets. The Credit Union's share of earnings from these investments is included in other income. Intercompany activities are eliminated.

##### **Change in accounting policies**

##### *Credit Risk and Fair Value*

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

# North Shore Credit Union

## Notes to Consolidated Financial Statements

### December 31, 2009

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(in thousands of dollars)

#### *Goodwill and Intangible Assets*

On January 1, 2009, the Credit Union adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, *Goodwill and Intangible Assets*, which is effective for financial years beginning on or after October 1, 2008. Section 3064 replaces CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*, and CICA Handbook Section 3450, *Research and Development Costs*. Section 3064 establishes requirements for recognition, measurement, presentation and disclosure of goodwill and intangible assets, and other CICA guidance within the CICA Handbook has been updated to ensure consistency with Section 3064. The adoption of the new standard and other related changes has resulted in separate presentation of intangible assets from premises and equipment on the consolidated balance sheet and in the note disclosure.

#### *Financial Instruments - Recognition and Measurement*

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

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

The adoption of the above changes for its fiscal 2009 financial statements did not have an impact on the Credit Union's financial position or net income.

#### *Financial Instruments - Disclosures*

On January 1, 2008, the Credit Union adopted CICA Handbook Sections 3862, *Financial Instruments - Disclosures*, and 3863, *Financial Instruments - Presentation*. These standards revise and replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, and enhance disclosure requirements regarding the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards impacted the disclosures the Credit Union provides but did not affect the Credit Union's financial position or net income.

# North Shore Credit Union

## Notes to Consolidated Financial Statements

### December 31, 2009

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(in thousands of dollars)

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

The adoption of the above disclosure changes has been incorporated into note 13.

#### **Future accounting policy changes**

In February 2008, the CICA affirmed its intention to transition Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS). The Credit Union's consolidated financial statements will be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011 and will include comparative information for the prior year.

During 2009, the Credit Union commenced its transition initiative supported by a formal governance structure. The project continues to progress on track with its transition plan. The project includes the following phases: diagnostic, design and planning, solution development, and implementation. The diagnostic and the design and planning phases are complete, and the solution development phase will continue with respect to the underlying financial reporting and business processes and controls.

The impact of transition to IFRS on the Credit Union's financial statements for the current standards is not yet determinable. The Credit Union continues to monitor the International Accounting Standards Board's proposed changes to standards during Canada's transition to IFRS. These proposed changes may have a significant impact on the implementation plan and future financial statements.

#### **Classification and measurement of financial assets and liabilities**

All financial assets must be classified at initial recognition as trading, available-for-sale (AFS), held-to-maturity (HTM), or loans and receivables based on the purpose for which the instrument was acquired and its characteristics. All financial assets and all derivatives are measured at fair value with the exception of loans and receivables, debt securities classified as HTM, and AFS equities that do not have quoted market values in an active market. All financial liabilities, other than derivatives, are carried at amortized cost. Interest income and expense are recognized on an accrual basis using the effective interest rate method.

#### **Cash and cash resources**

Cash and cash resources comprise balances with less than 90 days' maturity from the date of acquisition, including cash and deposits with Central 1, treasury bills, cheques and other items in transit. Cash and cash resources are designated as held-for-trading.

# North Shore Credit Union

## Notes to Consolidated Financial Statements

### December 31, 2009

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(in thousands of dollars)

#### **Loans**

Loans are recorded at amortized cost, net of an allowance for credit losses on impaired loans. Interest income is recorded on an accrual basis, unless impaired, using the effective interest rate method.

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of principal and interest, generally when interest or principal is 90 days past due, unless the loan is well secured and in the process of collection. A provision for losses incurred on impaired loans is made to reduce the carrying amount to the estimated realizable amount.

Loans are written off against the related allowance for credit losses if there is no realistic prospect of future recovery and all collateral has been realized or transferred to the Credit Union. In subsequent periods, any recoveries of amounts previously written off are credited to the allowance for credit losses.

#### **Effective interest rate**

Interest income and expense for all financial instruments measured at amortized cost are recognized in interest income and interest expense using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shortened period, to the net carrying amount of the financial asset or liability. Fees related to loan origination, including commitment, restructuring and renegotiation fees, are considered an integral part of the yield earned on a loan and are included in the loan balance, with amortization accounted for using the effective interest rate method.

#### **Securitization of loans**

The Credit Union periodically securitizes loans by selling to independent special-purpose trusts that issue securities to investors. These transactions are accounted for as sales when the Credit Union is deemed to surrender control over such assets and consideration other than beneficial interests in these transferred assets has been received by the Credit Union in exchange. The Credit Union retains interests in the securitized loans such as servicing obligations and cash reserve accounts. Gains and losses on these transactions are recognized in other income and depend in part on the previous carrying amounts of the loans involved in the transfer, which is allocated between the loans sold and the retained interests, based on their relative fair value at the date of transfer. The Credit Union determines fair value based on the present value of future expected cash flows using management's best estimate of key assumptions such as repayment rates and excess spread. Generally, the loans are transferred on a fully serviced basis. As a result, the Credit Union recognizes a servicing liability on the date of transfer. Retained interests are classified as AFS securities and are reviewed for impairment. Income from securitized assets comprises income from retained interests and servicing income, and is reported in the consolidated statement of income and comprehensive income as other income.

# North Shore Credit Union

## Notes to Consolidated Financial Statements

### December 31, 2009

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(in thousands of dollars)

#### **Investments**

Investments in equity shares are designated as AFS securities and investments in term deposits are designated as HTM securities. Equity shares held by the Credit Union do not have quoted market values in an active market and are carried at cost. HTM securities are also carried at cost, and realized gains and losses on sale and writedowns to reflect other-than-temporary impairments in value are included in net income. Dividends from equity securities are included in other income, and interest income from HTM securities is included in interest income from investments.

#### **Derivative financial instruments**

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

In the ordinary course of business, the Credit Union enters into various derivative contracts for hedging purposes, including interest rate swaps. Derivative financial instruments are used to manage interest rate and foreign currency risk as part of the Credit Union's asset and liability management program and are accounted for on an accrual basis to the extent they meet hedge accounting criteria. For derivative instruments designated as hedges, the Credit Union formally documents all relationships between hedging instruments and hedged items as well as the risk management objective and strategy for undertaking various hedging transactions. The Credit Union also formally assesses, at both hedge inception and on an ongoing basis, whether the derivatives that are used in the hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Derivatives are carried on the consolidated balance sheet at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value.

#### *Fair value hedges*

The Credit Union designates fair value hedges primarily as part of interest rate risk management strategies that use derivatives to hedge changes in the fair value of financial instruments with fixed interest rates. Changes in fair value of the hedging derivatives are recognized in net interest income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated and the basis adjustment applied to the hedged item is then amortized over the remaining term of the original hedge. If the hedged item is sold, the unamortized basis adjustments are recognized immediately in income.

# North Shore Credit Union

## Notes to Consolidated Financial Statements

### December 31, 2009

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(in thousands of dollars)

#### *Cash flow hedges*

The Credit Union designates cash flow hedges primarily as part of interest rate risk management strategies that use derivatives and other financial instruments to mitigate risk from variable cash flows by effectively converting certain variable rate financial instruments to fixed rate financial instruments and for hedging forecasted foreign currency denominated cash flows. The effective portion of the change in fair value of the derivative instruments is recorded through other comprehensive income until the variability in cash flows being hedged is recognized in income in future accounting periods, at which time an appropriate portion of the amount that was in accumulated other comprehensive income (AOCI) is reclassified into income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated and any remaining amount in AOCI remains there until it is recognized in income when the variability in cash flows hedged or the hedged forecast transaction is ultimately recognized in income.

#### **Premises and equipment**

Premises and equipment are recorded at cost less accumulated amortization. The head office site is recorded at cost plus an appraisal excess based on a valuation performed in 1981, less accumulated amortization. Other land is recorded at cost. The appraisal excess relating to the building is being amortized and transferred to retained earnings at an amount equal to the rate of amortization on the related building. Amortization is determined on a straight-line basis using the following rates:

Land	not amortized
Buildings	up to 40 years
Furniture, fixtures and other assets	3 - 12 years
Leasehold improvements	term of the lease period

#### **Intangible assets**

Intangible assets are recorded at cost less accumulated amortization. Amortization is determined on a straight-line basis using the following rates:

Banking system	15 years
Other software systems	3 years

#### **Equity and non-equity shares**

The capital of the Credit Union is divided into several classes of shares designated as equity and one class designated as non-equity. Equity shares are entitled to the residual interest in the equity of the Credit Union. With certain exceptions, all members of the Credit Union are required to own a minimum of 25 Class A Membership Equity shares. Equity shares are redeemable upon the occurrence of certain events and are transferable between members at the discretion of the Board of Directors. The Credit Union redeems, transfers or purchases equity shares, at a par value of \$1, together with any dividends declared but unpaid. The directors may limit the number of equity shares redeemed in any one year to 15% of the total outstanding, and redemptions would be restricted if they would reduce the Credit Union's capital below required levels.

# **North Shore Credit Union**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009**

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(in thousands of dollars)

Equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

Non-equity shares are withdrawable from the Credit Union on demand.

#### **Accumulated other comprehensive income**

AOCI is included on the consolidated balance sheet as a separate component (net of tax) of members' equity, and includes net unrealized gains and losses on AFS securities, and the effective portion of gains and losses on derivative instruments designated within cash flow hedges. When gains or losses are realized through sale or impairment, they are transferred from AOCI to income.

#### **Income taxes**

Income taxes are calculated using the asset and liability method. Temporary differences arising from the difference between the tax basis of an asset and liability and its carrying amount on the consolidated balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using the tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. The Credit Union accounts for uncertain tax positions using the contingent liability model, whereby a provision is set aside only if it is considered likely that a payment will be required to be made.

#### **Foreign currency translation**

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

#### **Use of estimates**

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the revenues and expenses during the year. Significant areas requiring the use of estimates relate to determining impaired loan provisions, valuing retained interests on securitizations and other financial instruments, assessing useful lives for amortization, and calculating income taxes. Financial results, as determined by actual events, may differ from those estimates and the difference could be significant.

**North Shore Credit Union**  
Notes to Consolidated Financial Statements  
December 31, 2009

(in thousands of dollars)

**3 Loans**

	2009 \$	2008 \$
<b>Retail</b>		
Residential mortgages	914,868	824,782
Personal loans	23,324	24,198
<b>Business loans</b>	401,807	361,085
	1,339,999	1,210,065
Accrued interest	2,603	2,863
	1,342,602	1,212,928
Less: Allowance for credit losses	5,490	6,190
	<u>1,337,112</u>	<u>1,206,738</u>

**Letters of credit**

In the normal course of business, the Credit Union issues letters of credit on behalf of its members. These undrawn amounts are not included in the consolidated balance sheet and, as at December 31, 2009, amounted to \$2,899 (2008 - \$3,668). All letters of credit are 100% collateralized by deposits held by the Credit Union and are reviewed annually. Deposit securities are registered as to the Credit Union's priority interest in the security.

**Allowance for loan losses and impaired loans**

					2009	2008
	Balance - Beginning of year \$	Write-offs \$	Recoveries \$	Provision for credit losses \$	Balance - End of year \$	Balance - End of year \$
<b>Retail</b>						
Residential mortgages	377	-	-	(341)	36	377
Personal loans	116	621	47	765	307	116
<b>Business loans</b>	2,550	863	-	373	2,060	2,550
Total specific allowance	3,043	1,484	47	797	2,403	3,043
General allowance	3,147	-	-	(60)	3,087	3,147
	<u>6,190</u>	<u>1,484</u>	<u>47</u>	<u>737</u>	<u>5,490</u>	<u>6,190</u>

**North Shore Credit Union**  
Notes to Consolidated Financial Statements  
December 31, 2009

(in thousands of dollars)

**Loans past due but not impaired**

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

	30 - 89 days \$	90 days and greater \$	Total \$
<b>Retail</b>			
Residential mortgages	5,889	2,962	8,851
Personal loans	36	80	116
<b>Business loans</b>	38	453	491
	<u>5,963</u>	<u>3,495</u>	<u>9,458</u>

The estimated fair value of the collateral held by the Credit Union as security for the above loans was \$16,800 (2008 - \$19,442).

**Impaired loans**

	2009		2008	
	Gross \$	Specific allowance \$	Net \$	Net \$
<b>Retail</b>				
Residential mortgages	12,431	36	12,395	7,084
Personal loans	325	307	18	63
<b>Business loans</b>	2,515	2,060	455	13,647
	<u>15,271</u>	<u>2,403</u>	<u>12,868</u>	<u>20,794</u>

The estimated fair value of the collateral held by the Credit Union as security for the above loans was \$28,560 (2008 - \$65,172).

The principal collateral and other credit enhancements that the Credit Union holds as security for loans include (i) insurance over mortgages, (ii) residential lots and properties, (iii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iv) recourse to the commercial real estate properties being financed, and (v) recourse to liquid assets, guarantees and securities.

**North Shore Credit Union**  
Notes to Consolidated Financial Statements  
December 31, 2009

(in thousands of dollars)

**4 Other assets and investments**

	2009 \$	2008 \$
Available-for-sale		
Retained interests in mortgages sold (note 15)	5,763	9,833
Central 1 - Series B shares (a)	3,488	3,496
Central 1 - Series E shares (a)	1	-
Other (a)	827	1,187
Equity interest in Pacific Spirit Properties (Sechelt) Limited Partnership	1,408	1,687
Held-to-maturity		
Term deposits over 90 days' maturity	114,036	97,134
	<u>125,523</u>	<u>113,337</u>

- a) These financial instruments are carried at cost on the consolidated balance sheet as they do not have quoted market values in an active market.
- b) On December 31, 2009, the Credit Union sold its shares in Cumis Group Ltd. to Central 1. The sale of shares resulted in a gain of \$719, which is included in other income. On December 31, 2008, the Credit Union sold its 50% interest in North Shore Insurance Services Ltd. to a third party. The sale of shares resulted in a gain of \$1,762.
- c) In 2009, the Credit Union recorded an impairment loss of \$500 on the equity interest in Pacific Spirit Properties (Sechelt) Limited Partnership. As of December 31, 2009, the Credit Union had a loan receivable in the amount of \$2,000 (2008 - \$2,000) outstanding from Pacific Spirit Properties (Sechelt) Limited Partnership on normal commercial terms.

**5 Premises and equipment**

	2009		2008	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	4,751	-	4,751	4,751
Buildings	17,808	5,539	12,269	9,946
Furniture, fixtures and other assets	8,969	5,202	3,767	8,576
Leasehold improvements	2,871	1,417	1,454	1,867
	<u>34,399</u>	<u>12,158</u>	<u>22,241</u>	<u>25,140</u>

Amortization expense for the year was \$2,140 (2008 - \$2,247) (note 17).

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**6 Intangible assets**

			<b>2009</b>	<b>2008</b>
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>	<b>\$</b>
		<b>\$</b>		
Banking system	6,725	37	6,688	-
Other software systems	2,323	1,353	970	811
	<u>9,048</u>	<u>1,390</u>	<u>7,658</u>	<u>811</u>

Amortization expense for the year was \$498 (2008 - \$526) (note 17).

**7 Prepaid expenses, deposits and accounts receivable**

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Prepaid expenses and deposits	2,174	3,012
Accounts receivable	2,421	2,644
Deferred expenses	894	874
Derivatives (note 14)	757	23,863
	<u>6,246</u>	<u>30,393</u>

**8 Members' accounts**

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Chequing and savings	383,584	289,020
Term deposits	776,142	766,594
Registered retirement savings plans	132,171	125,628
Registered retirement income funds	60,690	59,832
Registered education savings plans	2,224	2,145
Members' non-equity shares	140	164
Accrued interest	12,856	14,516
	<u>1,367,807</u>	<u>1,257,899</u>

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**Funds held in trust**

The Credit Union holds funds in segregated accounts for members investing in self-directed registered retirement savings plans, treasury bills and mutual funds. The value of the market investments, including publicly traded securities, mutual fund units and treasury bills, is determined using the quoted market amounts. The value of mortgages, private company shares and Canada Savings Bonds is determined using the original cost amount. These funds, which are not included in the consolidated balance sheet at December 31, 2009, amount to \$414,683 (2008 - \$341,755).

**9 Borrowings**

A general assignment of loans has been pledged as security for the revolving lines of credit with Central 1 of \$140,500 (2008 - \$131,400), Caisse Centrale Desjardins of \$60,000 (2008 - \$60,000), and Canadian Imperial Bank of Commerce (CIBC) of \$30,000 (2008 - \$30,000). The loans are repayable within a range of 30 to 90 days and have a weighted average rate of interest of 0.8%.

As at December 31, 2009, the balances outstanding on the lines of credit were as follows:

	2009 \$	2008 \$
Caisse Centrale Desjardins	-	39,931
Central 1	80,000	-
	<u>80,000</u>	<u>39,931</u>

**10 Equity shares**

The Credit Union has authorized an unlimited number of equity shares, each with a par value of \$1. Outstanding shares consist of the following share classes:

- Members' accounts - Class E Life Insurance Savings Non-equity shares
- Members' equity - Class A Membership Equity shares, Class B Transaction Equity shares, Class C Investment Equity shares and Class E Equity shares
- Preferred equity - Class G to Q Preferred Equity shares

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Shares outstanding are as follows:

**Preferred equity shares**

	2009 \$	2008 \$
Beginning of year	3,297	4,969
Cash redemptions - net of cash share issuance during the year	(402)	(1,672)
End of year	<u>2,895</u>	<u>3,297</u>

**Equity shares**

	2009 \$	2008 \$
Beginning of year	10,655	10,870
Cash redemptions - net of cash share issuance during the year	(83)	(215)
End of year	<u>10,572</u>	<u>10,655</u>

**11 Capital management**

The Financial Institutions Act requires the Credit Union to maintain a prescribed capital base at all times. This base consists primarily of equity shares and retained earnings. Assets are assigned a risk weighting based on credit risk. The capital ratio required is the prescribed capital base as a percentage of risk-weighted assets. The Credit Union's capital base is managed in accordance with these regulatory guidelines and is regularly reviewed and approved by the Board. The purpose is to maintain adequate regulatory capital to be considered well capitalized, protect member deposits and provide capacity for internally generated growth and strategic opportunities. The Financial Institutions Act regulations prescribe a total capital ratio of 8%. At December 31, 2009, the Credit Union's capital ratio exceeded the required capital ratio. The Credit Union's capital base consists of a primary capital base of \$89,588 (2008 - \$83,799) of retained earnings and members' equity shares and a secondary capital base of \$2,897 (2008 - \$3,297) of preferred equity shares.

# North Shore Credit Union

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## 12 Nature and extent of risks arising from financial instruments

The Credit Union is exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments. Below is a description of those risks and how the Credit Union manages its exposure.

### a) Credit risk

Credit risk is the risk that the Credit Union will incur a loss because a member fails to meet an obligation. Risk management policies are implemented by management and the Board. These policies include evaluating the member's ability to repay the loan when it is originally granted and subsequently renewed and regularly monitoring member information such as delinquent and over-limit amounts. The Credit Union provides lending and deposit activities primarily in the Lower Mainland and Sea to Sky Corridor of British Columbia. Accordingly, the repayment by its members is influenced by the economic status of those areas.

#### Risk measurement

The credit risk portfolio is classified as retail and business, and the Credit Union employs different risk measurement processes for each portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. The Credit Union uses the following rating system for its retail, business and derivative credit exposures:

#### *Credit quality of retail exposures*

The Credit Union's credit underwriting methodology and risk modelling are customer rather than product focussed. Generally, decisions on consumer loans are based on an assessment of the credit risk of the individual borrower and risk ratings, which are generated using predictive scoring models. Individual credit requests are processed by proprietary adjudication software designed to calculate the maximum debt for which the customer qualifies. The proprietary software is customized to the Credit Union's lending policies, procedures and processes with risk tolerance being incorporated into the decision making matrices. The software manages the borrower's application information and Credit Bureau data by using predictive score cards and decision matrices and processes that generate an accurate credit decision as to the amount, rate and conditions that mirror the Credit Union's "best in class" experiential lenders. The Credit Union's retail portfolio consists of a number of relatively small loans to a large number of borrowers.

#### *Credit quality of business exposures*

Credit decisions are made based upon an assessment of the credit risk of the individual borrower. Key factors considered in the assessment include: the borrower's management; the borrower's current and projected financial results and credit statistics; the industry in which the borrower operates; and economic trends. The Credit Union has portfolio reviews as to credit quality of the credit portfolio on a regular basis to assess whether the economic trends or specific events may affect the performance of the portfolio.

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*Credit quality of derivative financial instruments*

The treasury area is responsible for the implementation of and compliance with credit policies established by the Credit Union for managing derivative credit exposures. Derivative-related credit risks are subject to the same credit approval, limit and monitoring standards used for managing other transactions that create credit exposures. These standards include evaluating counterparties as to creditworthiness and managing the size, diversification and maturity structure of the portfolios. The credit risk of derivatives traded over-the-counter is limited by dealing with counterparties that are creditworthy, and an ISDA has been established.

Credit risk exposure

The following table presents the maximum exposure to credit risk of financial instruments, before taking into account any collateral held or other credit enhancements:

	2009 \$	2008 \$
Cash and cash resources	57,193	28,652
Other assets		
Available-for-sale	5,763	9,833
Available-for-sale equity interests and other	5,724	6,370
Held-to-maturity	114,036	97,134
Loans		
Residential mortgages	914,868	824,782
Personal loans	23,324	24,198
Business loans	401,807	361,085
Accrued interest	2,603	2,863
Accounts receivable	2,421	2,644
Derivatives	757	23,863
<b>Total assets</b>	<b>1,528,496</b>	<b>1,381,424</b>
Credit instruments		
Commitments to extend credit		
Term to maturity less than one year	48,388	38,229
Term to maturity more than one year	30,779	2,714
Unconditionally cancellable commitments to extend credit relating to personal lines of credit	186,885	111,754
Off-balance sheet exposure to securitization	75,899	236,253
<b>Total credit exposure</b>	<b>1,870,447</b>	<b>1,770,374</b>

In the normal course of business, the Credit Union receives collateral on certain transactions to reduce its exposure to counterparty credit risk. Loans are secured by the personal covenant of the borrower and/or indemnitor with a majority of loans being secured by interests in real property or other quality personal property. The Credit Union is normally permitted to sell or re-pledge the collateral it receives under terms that are common and customary to standard derivative and lending activities.

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### b) Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum of 8% (2008 - 8%) liquidity at all times, based on total members' deposits and non-equity shares. At December 31, 2009, the Credit Union's liquidity exceeded the required level.

The table below presents the cash flows payable by the Credit Union under financial liabilities by remaining contractual maturities at December 31, 2009.

	Up to 3 months \$	3 to 12 months \$	1 to 5 years \$	Over 5 years \$	Total \$
Members' accounts	351,678	603,916	341,556	70,657	1,367,807
Borrowings	80,000	-	-	-	80,000
Preferred equity shares	1,326	734	755	80	2,895
Other liabilities	9,625	-	-	-	9,625
	<u>442,629</u>	<u>604,650</u>	<u>342,311</u>	<u>70,737</u>	<u>1,460,327</u>

### c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and credit spreads. The Credit Union is exposed to market risk in its asset/liability management activities, where interest rate is the most significant risk.

Interest rate risk is the risk that the value of the Credit Union's assets and liabilities will fluctuate due to changes in interest rates. In managing interest rate risk, the Credit Union relies primarily upon its asset/liability simulation model. The Credit Union also uses derivative products as part of its overall asset/liability management. Interest rate swaps are used to adjust the exposure to interest rate risk by modifying the repricing of the Credit Union's loan and deposit portfolios. At December 31, 2009, the Credit Union had entered into swap agreements with notional principal of \$144,234 (2008 - \$190,000 plus US\$60,000).

Gains (losses) realized on early settlement that have been deferred and are being amortized under the original terms of the hedged items at December 31, 2009 were \$5,875 (2008 - \$nil) and are included in AOCI (note 14).

#### Risk measurement

Market risk is subject to extensive risk management controls, and is managed within the framework of the Investment and Loan Policy as approved by the Board. The Assets and Liabilities Committee oversees the application of the framework set by the Board and monitors the Credit Union's market risk exposures and the activities that give rise to these exposures.

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The Credit Union uses a variety of metrics and models to measure and control market risk exposures. The principal measurement techniques are Earnings at Risk (EAR), stress testing, sensitivity analysis, simulation modeling, and gap analysis. These metrics are reviewed monthly by the Assets and Liabilities Committee and quarterly by the Board. EAR provides a measurement of the volatility of the next 12 months' financial margin. To complement EAR, the Credit Union applies stress testing scenarios to examine the impact of the largest swings in interest rates and the effect they may have on the Credit Union's forecasted financial margin. The stress testing program is designed to identify key risks and ensure that the Credit Union's capital can absorb potential losses from abnormal events. Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of assets and liabilities. Simulation modeling under various scenarios is particularly important for managing risk on the Credit Union's balance resulting from deposit, lending and investment products offered to its retail members.

Gap analysis is used to assess the interest rate sensitivity of the Credit Union's balance sheet resulting from its retail, business and wholesale funding operations. Under gap analysis, interest rate-sensitive assets, liabilities and derivative instruments are assigned to defined time periods, on the earlier of contractual repricing or maturity dates on the basis of expected repricing dates. The table below summarizes the Credit Union's exposure to interest rate risks. It includes the Credit Union's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

As at December 31, 2009	Up to 3 months \$	3 to 12 months \$	1 to 5 years \$	Over 5 years \$	Non- interest sensitive \$	Total \$
<b>Assets</b>						
Cash and cash resources	21,888	-	-	-	35,305	57,193
Loans	619,951	203,460	511,938	1,763	-	1,337,112
Other assets and investments	-	13,000	101,036	-	48,973	163,009
<b>Total financial assets</b>	<b>641,839</b>	<b>216,460</b>	<b>612,974</b>	<b>1,763</b>	<b>84,278</b>	<b>1,557,314</b>
<b>Liabilities</b>						
Members' accounts	403,254	637,062	256,854	70,637	-	1,367,807
Other liabilities	-	-	-	-	9,625	9,625
Borrowings	80,000	-	-	-	-	80,000
Preferred equity shares	1,326	734	755	80	-	2,895
Members' equity	-	-	-	-	96,987	96,987
<b>Total financial liabilities</b>	<b>484,580</b>	<b>637,796</b>	<b>257,609</b>	<b>70,717</b>	<b>106,612</b>	<b>1,557,314</b>
<b>On-balance sheet gap</b>	<b>157,259</b>	<b>(421,336)</b>	<b>355,365</b>	<b>(68,954)</b>	<b>(22,334)</b>	<b>-</b>
Derivatives	104,234	(10,000)	(94,234)	-	-	-
Securitization	(59,810)	27,702	31,629	479	-	-
<b>Total interest rate sensitivity gap</b>	<b>201,683</b>	<b>(403,634)</b>	<b>292,760</b>	<b>(68,475)</b>	<b>(22,334)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>201,683</b>	<b>(201,951)</b>	<b>90,809</b>	<b>22,334</b>	<b>-</b>	<b>-</b>

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As at December 31, 2008	Up to 3 months \$	3 to 12 months \$	1 to 5 years \$	Over 5 years \$	Non- interest sensitive \$	Total \$
<b>Assets</b>						
Cash and cash resources	18,291	6,061	-	-	4,300	28,652
Loans	622,458	189,468	389,687	5,125	-	1,206,738
Other assets and investments	17,207	21,837	69,234	-	61,403	169,681
<b>Total financial assets</b>	<b>657,956</b>	<b>217,366</b>	<b>458,921</b>	<b>5,125</b>	<b>65,703</b>	<b>1,405,071</b>
<b>Liabilities</b>						
Members' accounts	613,680	522,314	121,405	182	318	1,257,899
Other liabilities	310	252	1,532	180	8,536	10,810
Borrowings	39,931	-	-	-	-	39,931
Preferred equity shares	-	-	-	-	3,297	3,297
Members' equity	-	-	-	-	93,134	93,134
<b>Total financial liabilities</b>	<b>653,921</b>	<b>522,566</b>	<b>122,937</b>	<b>362</b>	<b>105,285</b>	<b>1,405,071</b>
On-balance sheet gap	4,035	(305,200)	335,984	4,763	(39,582)	-
Derivatives	(170,000)	(20,000)	190,000	-	-	-
Securitization	(174,148)	80,394	92,677	1,077	-	-
<b>Total interest rate sensitivity gap</b>	<b>(340,113)</b>	<b>(244,806)</b>	<b>618,661</b>	<b>5,840</b>	<b>(39,582)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(340,113)</b>	<b>(584,919)</b>	<b>33,742</b>	<b>39,582</b>	<b>-</b>	<b>-</b>

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The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming that no further hedging is undertaken. These measures are based upon assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's risk management initiatives.

	2009	2008
	Net interest income	Net interest income
	\$	\$
Before tax impact of		
1% increase in interest rates	1,680	(947)
1% decrease in interest rates	(1,658)	893

The Credit Union is also subject to currency risk. Currency risk arises on financial instruments that are denominated in a foreign currency. In June 2006, the Credit Union received a deposit in the amount of US\$60,000 which obligated the Credit Union to make US dollar interest rate payments. To reduce the exposure to the US exchange rate that this deposit generated, a cross currency interest rate swap was transacted whereby the US currency principal was exchanged for Canadian currency principal. Further, the swap entitled the Credit Union to receive US dollar interest payments while it was obligated to make Canadian dollar interest payments. The fair value of the swap at December 31, 2009 was \$nil (2008 - \$14,225) as the swap matured in the year and the obligation was settled in full.

**13 Fair values of financial instruments**

Fair value represents the Credit Union's estimate of the price at which a financial instrument could be exchanged in an orderly market in an arm's length transaction between knowledgeable and willing parties, under no compulsion to act.

In the absence of an active market, the Credit Union determines fair values based on prevailing market rates for instruments with similar characteristics and risk profiles. This determination also requires the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Credit Union looks primarily to external readily observable market inputs including factors such as interest rate yield curves and currency rates. In addition, the Credit Union uses internal input parameters that are based on the its own observable data to ensure that financial instruments are reported at fair values. The Credit Union believes that by using possible alternative assumptions to fair value, such financial instruments would not result in significantly different fair values.

Derivatives transactions are accounted for on a fair value basis.

Equity shares in Central 1 held by the Credit Union do not have quoted market values in an active market and are carried at cost.

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The fair value hierarchy has the following levels:

Level 1 - valuation based on unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - inputs that are not based on observable market data.

The following table illustrates the classification of the Credit Union's financial instruments within the fair value hierarchy as at December 31, 2009:

	Level 1 \$	Level 2 \$	Level 3 \$	Fair value \$
<b>Financial assets</b>				
Cash and cash resources	35,305	21,888	-	57,193
Other assets and investments				
Available-for-sale	-	-	5,763	5,763
Derivatives	-	757	-	757
	<u>35,305</u>	<u>22,645</u>	<u>5,763</u>	<u>63,713</u>

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The following table presents the fair value of both on- and off-balance sheet financial instruments:

	2009		2008	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
<b>Financial assets</b>				
Cash and cash resources	57,193	57,193	28,652	28,652
Loans				
Retail	938,192	953,220	848,980	867,745
Business	401,807	413,898	361,085	352,049
Other assets and investments				
Available-for-sale	5,763	5,763	9,833	9,833
Available-for-sale equity interests and other	5,724	5,724	6,370	6,370
Held-to-maturity	114,036	121,220	97,134	104,040
Prepaid expenses, deposits and accounts receivable				
Derivatives	757	757	23,863	23,863
Accounts receivable	2,421	2,421	2,644	2,644
	<u>1,525,893</u>	<u>1,560,196</u>	<u>1,378,561</u>	<u>1,395,196</u>
<b>Financial liabilities</b>				
Members' accounts	1,367,807	1,362,172	1,257,899	1,217,948
Accounts payable and accrued liabilities	9,625	9,625	10,148	10,148
Borrowings	80,000	80,000	39,931	39,931
Preferred equity shares	2,895	2,968	3,297	3,605
	<u>1,460,327</u>	<u>1,454,765</u>	<u>1,311,275</u>	<u>1,271,632</u>

The fair values of balance sheet items that are highly liquid or short-term in nature approximate their carrying values. The fair value of loans and members' accounts with fixed rates is estimated by discounting cash flows to maturity, with discount rates based on the current market rates for similar types of investments. The fair value of loans and members' accounts with variable rates of interest approximates their carrying value.

Interest rate fluctuation is the main cause of changes in the fair value of the Credit Union's financial instruments.

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**14 Derivatives**

The following table presents the notional amounts and carrying value of derivative instruments:

	2009			2008		
	Notional amount \$	Carrying value		Notional amount \$	Carrying value	
		Positive \$	Negative \$		Positive \$	Negative \$
Cross currency swap	US\$nil	-	-	US\$60,000	14,225	-
Cash flow hedges	50,000	137	(41)	190,000	9,638	-
Fair value hedges	26,000	47	-	-	-	-
Economic swaps	68,234	614	-	-	-	-
Total		798	(41)		23,863	-

As of December 31, 2009, \$136 (2008 - \$88) of the fair value of the hedges has been measured as ineffective and recorded in the current year's net income. Included in other comprehensive income is \$5,875 (2008 - \$8,010) of net gains related to cash flow hedges.

**15 Sales of residential mortgages**

The following table summarizes loans securitized during the year:

	Residential mortgages	
	2009 \$	2008 \$
Securitized and sold	9,896	-
Net cash proceeds received	9,946	-
Retained interests	741	-
Servicing liability	121	-
Gain on sale	620	-

At December 31, 2009, the total principal outstanding in respect of securitized loans amounted to \$89,085 (2008 - \$236,253). The retained interests in securitizations, included in other assets and investments, amounted to \$5,763 (2008 - \$9,833). Unamortized servicing liabilities included in accounts payable and accrued liabilities were \$1,247 (2008 - \$3,752).

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The key assumptions used to value the retained interests for the year were as follows:

	<u>Residential mortgages</u>	
	2009	2008
	\$	\$
Weighted average life of loans	1.50 years	1.65 years
Excess spread	2.83%	1.30%
Expected credit losses	-	-
Discount rate	2.04%	3.69%
Servicing cost	0.50%	0.50%

**16 Other income**

	2009	2008
	\$	\$
Account service fees	2,079	2,185
Commission	3,934	4,646
Lending fees	4,507	3,338
Gain on sale of investment (note 4(b))	719	1,762
Amortization of servicing liability	2,626	2,046
Retained interest revaluation	(3,325)	2,480
Gain on securitization	620	-
Other	1,244	1,892
	<u>12,404</u>	<u>18,349</u>

**17 Administrative expenses**

	2009	2008
	\$	\$
Staff salaries and benefits	23,576	21,429
General business	13,530	11,429
Amortization	2,638	2,773
Occupancy	2,483	2,399
Impairment of investment (note 4(c))	500	-
Capital tax	415	734
Central 1 dues	185	184
	<u>43,327</u>	<u>38,948</u>

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Included in staff salaries and benefits are amounts of \$1,468 (2008 - \$1,131) that relate to pension contributions. The Credit Union participates in a defined contribution (money purchase) pension plan and a multi-employer defined benefit plan administered by Central 1. The charge for the year relates to normal service costs only.

The date of the latest available actuarial valuation was December 31, 2006 when the plan actuary reported that the plan had an excess of plan assets over actuarial liabilities for accrued pension benefits of \$9,080. The next actuarial valuation will be completed as of December 31, 2009, with the results expected to be published during 2010.

The Credit Union does not provide any significant post-employment benefits other than pensions.

**18 Provision for income taxes**

The provision for income taxes differs from the amount that would be obtained by applying the combined Canadian basic federal and provincial tax rate to income before income taxes. These differences result from the following items:

	2009 \$	2008 \$
Income before income taxes	7,516	8,841
Combined Canadian basic federal and provincial income tax rate	40.50%	41.92%
Income taxes based on combined Canadian basic federal and provincial income tax rate	3,044	3,706
Decrease in income taxes resulting from		
Provincial abatement	(752)	(884)
Credit Union reduction	(1,201)	(1,035)
Other items	(97)	(409)
	<u>994</u>	<u>1,378</u>

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#### 19 Commitments and contingencies

Commitments under operating leases for premises and data servicing require minimum annual lease payments as follows:

	\$
2010	1,687
2011	1,637
2012	1,467
2013	1,192
2014	957
2015 and thereafter	<u>3,076</u>
	<u>10,016</u>

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

#### 20 Other information

At December 31, 2009, outstanding loans to directors, officers and employees totalled \$37,939 (2008 - \$37,001), which included 194 (2008 - 178) mortgages totalling \$37,420 (2008 - \$36,029) and 64 (2008 - 95) other loans totalling \$519 (2008 - \$972). During the year, directors, in their capacity as directors, received remuneration of \$155 (2008 - \$146) in aggregate.

#### 21 Comparative figures

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