

# Building a Better Credit Union.

Steinbach Credit Union 2009 Annual Report



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**Building** /'bild-ing/ *n. & v.* 1 a permanent fixed structure forming an enclosure and providing protection. 2 the construction of such structures.

In a time when many companies were getting smaller, holding back on expansion or disappearing all together, Steinbach Credit Union saw a need and an opportunity to grow its business for all its members. A few short months after its annual meeting, SCU will open the doors to its newest and largest branch, located on Winnipeg's bustling east side. Find out how SCU continues to build that trust on every level and why it remains Manitoba's largest and most successful credit union.



## Message from the President

As the world finishes the first decade of the 21st century and begins to climb out of the economic tailspin of the past 12 months, I'm proud to say that SCU remains in a very solid position from which to build for the future.

The opening of our newest branch undoubtedly sets the tone for an exciting year and is a building truly worthy of note. This 42,000 square-foot, 4 storey, full-service, branch located at 1575 Lagimodiere Boulevard in Winnipeg, is one of the largest private sector commercial developments currently being undertaken in Manitoba, and will be one of the largest credit union branches in all of Canada, if not the largest.

The building uses 10.7 km of pipe and 39 heat pumps for its geothermal heating/cooling system, Tyndall stone from Manitoba quarries and features an indoor waterfall to create a comfortable and inviting atmosphere for all. The retail area will use teller pods, a new element in banking design in Manitoba and our drive-thru window will have a teller option during business hours. As well, we constructed a new drive-thru ATM at

997 St. Mary's Road in Winnipeg to better-serve our members in that area of the city. We now set our sites on the corporate office in Steinbach, our next building priority.



Our building theme also appeared internally as we launched our new internal banking system, which will enable us to provide an even higher level of quality service. As well, the upcoming year will see us become compliant with International Financial Reporting Standards (IFRS), the new accounting guidelines required for Canadian publicly accountable, profit-oriented enterprises.

Once again, we saw many new members join our ranks with the majority looking for – and finding – added peace of mind with their deposits being 100% guaranteed through the Credit Union Deposit Guarantee Corporation. All our members continue to feel secure knowing their money is safe with us. Our members also know that their money continues to work in their community through our ongoing support of many local groups and ventures and through volunteer work carried out by SCU staff.

While the recent economic turmoil was hard on everyone, none suffered more than our friends in the agricultural sector. We understand the hardships our agricultural members are facing and we pledge our continued support in whatever way we can to help ensure this vital segment of our membership gets back on its feet in the coming year.

Credit union mergers continue at a record pace. As well, BC and Ontario merged their Credit Union Central operations. A movement towards a prairie Credit Union Central with Alberta, Saskatchewan and Manitoba is also being considered.

As President of SCU, I thank our CEO Glenn Friesen and his leadership team for their tireless work throughout a very busy year. As well, a huge thanks to all the staff for once again going above and beyond to provide all our members with service that is truly unparalleled. And thanks to my fellow board members whose support, dedication and work make each of us proud to serve this great institution.

Of course a very special thank you goes to all our members – new and old – who provide the solid foundation on which we continue to build for the future. Thanks for a wonderful 2009 and we look forward to building something even better 2010!

*Ted Falk* Ted Falk, President



Ted Falk  
President



Reg Penner  
Vice-President



Carl Doerksen  
2nd Vice-President



Bryan Rempel  
Director



Russ Fast  
Director



Alan Barkman  
Director



Sieg Peters  
Director



Doris Martens  
Director



Jeremy Hildebrand  
Director

## The SCU Board of Directors

## The SCU Executive Leadership Team



Glenn Friesen  
Chief Executive  
Officer



Don Loewen  
Chief Financial  
Officer



Kevin Sitka  
Chief Operating  
Officer



*Top to bottom, left to right:*

Andy Alguire, Vice-President, Information Technology

Rhonda Bretecher, Vice-President, Human Resources

Tim Friesen, Vice-President, Risk

Lynette Gillen, Vice-President, Sales & Service

James Gosselin, Vice-President, Corporate Lending

Jennifer Mullen-Berube, Vice-President, Corporate Development

Donna Wankling, Vice-President, Marketing

## Message from the Chief Executive Officer

The most significant change for SCU in 2009 was the conversion to our new banking system; a massive undertaking that meant a wholesale change to our entire inner workings and auxiliary services. As far as conversions go, ours was an incredible success and we now have an expandable platform that will allow us to keep pace with future changes in the financial industry. I thank the entire staff for their hard work and extra hours that were needed to make things go so smoothly. I also thank our members for your ongoing patience as we become familiar with the system and its capabilities.

The changes did not stop there. Our new branch on Lagimodiere Boulevard in Winnipeg is set to open; we began offering home insurance through CUMIS; we began offering Tax Free Savings Accounts (TFSA) allowing members to deposit up to \$5,000/year and not be charged tax on the interest earned: all designed to better serve our members.

As far as growth goes, it was a banner year. Our assets grew by \$342 million, a 13.6% increase; a record year in terms of absolute dollars with assets now approaching \$3 billion. This is truly a remarkable story considering the \$1 billion milestone was passed just eight years ago. Our loans also experienced healthy growth of \$282 million, a 13.4% increase, and we continued to add thousands of new members to the SCU family.

Late in the year we launched our reconstructed website featuring a new, clean look, a customizable home page, near real-time stock updates and a mobile site option suitable for browsing the site on your cell phone or PDA.

In these times of increased privacy challenges SCU is turning to chip card technology to further keep our members' funds and information safe. Having already launched SCU MasterCard with this new fraud protection, we look forward to starting to issue chip enabled debit cards. Watch for SCU communications regarding this state-of-the-art product this coming year.



SCU is built from the community and to demonstrate this principle we supported many school and community groups throughout the year. We also had great fun sponsoring local events such as our annual pancake breakfast and Christmas Choir Program.

We're also continuing to centralize functions within SCU to look for further efficiencies that we can leverage back to our members in terms of even greater service levels and better rates. On the member satisfaction side of things, our research shows that 95% of SCU members report being very satisfied and willing to recommend SCU to family and friends. Word-of-mouth is so important to building our business and I urge all members to take full advantage of the SCU member referral program. A staff satisfaction study showed 86% of staff being satisfied with SCU as an employer, a number we're very proud of and one we're always striving to improve.

As you can see, changes and developments were everywhere and I extend a huge thank you to the Board for its support and direction. I offer thanks to the Executive Leadership Team and all our staff for continuing to go above and beyond the call of duty while changes happened all around them. And I thank our members for your continued support and trust. As I say every year, I truly enjoy meeting each of you, and am looking forward to yet another great year.

A handwritten signature in black ink, appearing to read 'G. Friesen'. The signature is stylized and written over a white background.

Glenn Friesen  
Chief Executive Officer

A photograph showing the silhouettes of several construction workers on a building site. The workers are positioned against a bright, golden-yellow sky, likely at sunset or sunrise. One worker on the left is pointing towards the right. Another worker in the center is holding a long, vertical pipe. The foreground and middle ground are filled with the dark, skeletal structures of a building under construction, including rebar and steel beams.

Building for the Future.

**Build** — /bild/ *n.* & *v.* To establish, develop, make or accumulate gradually.




Upon entering the Winnipeg market in 2003, SCU embarked on an era of growth that had never been seen at any time in its distinguished history. Careful planning combined with attractive products and services allowed that growth to continue unabated through 2009 despite a world-wide financial crisis during the year. Today, nowhere is this growth more evident than in the construction of our newest branch. One of the largest financial institution buildings in all of Canada, it boasts several environmentally-friendly features, and is truly a symbol of the steady growth SCU has enjoyed right from day one. Since the beginning members have recognized this spirit and have supported and trusted SCU as the place to invest their money; and with an increase of over 13% in total assets in 2009, that trust continues to be built.

## Mortgages & Savings

Saving and lending is the foundation of every financial institution and SCU is no different. Since it began, Steinbach Credit Union has built up its business by paying fair rates for savings and issuing mortgages that allow members to flourish. All members – new and old alike – have come to expect this level of service and commitment: and we deliver. Our reputation is built on time-honoured practices. This has led to a stable and balanced approach in all that we do; an approach that has garnered continued growth in all aspects of our business be it personal, commercial or agricultural.



A low-angle photograph of a large steel building under construction. The structure is composed of a complex network of dark metal beams and columns, forming a grid-like framework. The sky is a clear, bright blue, with a large, bright sun flare in the upper left corner that creates a strong lens flare effect across the top of the image. The perspective is looking up at the structure, emphasizing its height and scale.

**Build up** — 1 increase in size or strength.  
2 gradually become established.

A photograph of a large industrial building under construction. The image shows a complex steel truss roof structure with corrugated metal panels. In the foreground, there is a curved metal railing made of vertical bars. The building's interior is visible, showing a grid of steel columns and beams. The lighting is bright, suggesting an open or well-lit interior. The overall scene conveys a sense of ongoing construction and industrial development.

**Build on** — To make further  
advances after achieving success.




Like the infrastructure of a building, products and services act as the lifeblood of a business. SCU is proud to offer a full range of products that can meet the needs of our members. Flexible mortgages, loans, lines of credit, credit cards and secure savings and investment options lead the list of what's available for individual members. Business and agricultural members can

access products and services tailored to meet their specific needs including business mortgages, loans, lines of credit, corporate credit cards, chequing packages, savings options, automatic fund transfers, and insurance coverage. All are designed to help make running a business or farm easier and more efficient than ever.

## Products and Services





## A History of Growth

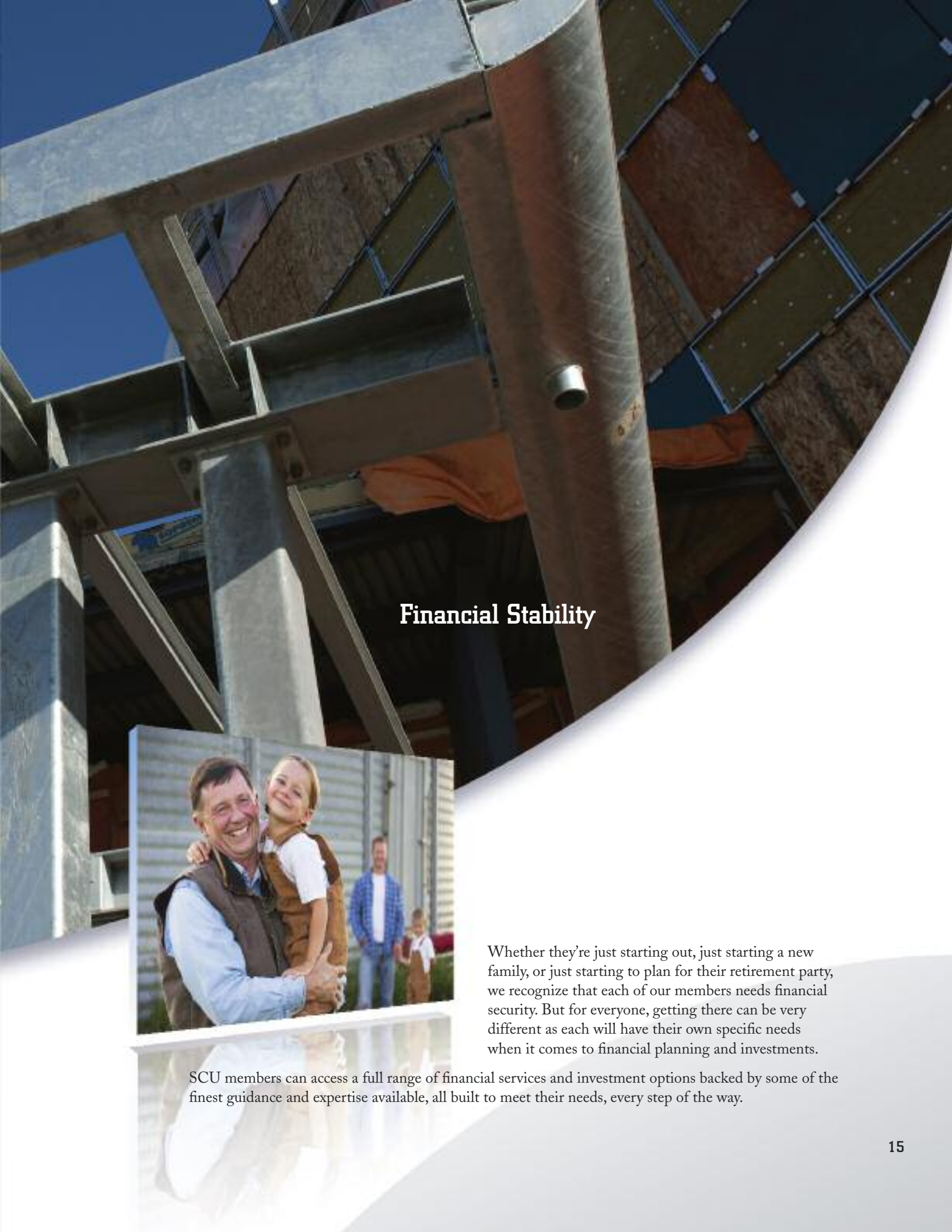
From day one to the present, SCU has always been there for its members, through good times and bad. While we offer modern products and services, we never change the fundamental way we do business. This allows us to provide the solid foundation on which our members can build for their future. More than anything, this has helped us to have continuous growth while building a credit union that is second to none in what it offers. Our unwavering commitment keeps us growing stronger with every passing year. History does repeat itself... and for that, our members are thankful.



Build on — To add.

**Building** /'bild-ing/ *v.* A steady increase in something (momentum, effort, sound, excitement).





## Financial Stability



Whether they're just starting out, just starting a new family, or just starting to plan for their retirement party, we recognize that each of our members needs financial security. But for everyone, getting there can be very different as each will have their own specific needs when it comes to financial planning and investments.

SCU members can access a full range of financial services and investment options backed by some of the finest guidance and expertise available, all built to meet their needs, every step of the way.



## Convenience

One of the keys to growing a membership base is to make it easy for members to find you and interact with you. SCU has increased its footprint in unprecedented fashion in 2009. Our new branch on Lagimodiere Boulevard is set to open. A new drive-thru ATM location on St. Mary's Road will add to a growing list of convenient neighbourhood locations. Of course, this is all built on our renowned member-friendly service at our main branch in Steinbach and the Linden Ridge branch in Winnipeg. Our re-vamped website makes it easier than ever to carry out transactions from wherever a computer and internet access are available, including your cell phone and PDA, and is a service more and more members are using on a regular basis.

**Build** — /bild/ *n. & v.* Construct by putting parts or material together.





**Build** — /bild/ *n.* & *v.* To commission, finance and oversee the building of.

## Flexible Options

As times change, so must we. The amount of change at SCU over the past 12 months is unprecedented. From the implementation of a new banking system that will allow for future growth and expansion, to the building of our biggest branch office, our members have witnessed change at every level and every facet of what we do.

New drive-thru tellers, state-of-the-art chip card technology, a more intuitive website; all examples of changes that allow for a more integrated and flexible banking experience that will suit virtually every members' need no matter where they live.



## Building a Strong Sense of Community

As we build our credit union, we also build the communities around us. By supporting special events and projects that are important to our members, we help meet their needs on a much deeper level. Helping to build vibrant communities, cultural organizations and neighbourhoods goes a long way towards building a better place to live for all of us. And SCU staff continue to support local causes that lead to the growth of vital local projects and endeavours every year.





**Builder** — /bildɜr/ *n.* Someone who builds.

# Financial Statements and Notes

## 2009 Highlights

Asset Growth	\$341.5 million
Loan Growth	\$281.8 million
Deposit Growth	\$324.2 million
Membership Growth	3.4%

## Auditors' Report

January 28, 2010

To the Members of  
Steinbach Credit Union Limited

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

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

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

*PricewaterhouseCoopers LLP*

Chartered Accountants

## Consolidated Balance Sheet

As at December 31, 2009

	2009	2008
<b>Assets</b>		
Funds on hand and on deposit	\$ 165,164,119	\$ 67,714,890
Investments (note 3)	255,036,481	310,494,766
Loans to members (note 4)	2,388,466,501	2,106,706,226
Property and equipment (note 5)	37,362,589	20,524,296
Other assets (note 6)	6,101,170	5,176,301
	<b>\$ 2,852,130,860</b>	<b>\$ 2,510,616,479</b>
<b>Liabilities</b>		
Members' deposits (note 8)	\$ 2,683,600,641	\$ 2,359,445,376
Accounts payable (note 9)	12,106,629	9,291,010
	<b>2,695,707,270</b>	<b>2,368,736,386</b>
<b>Members' Equity (note 10)</b>		
Members' shares (note 11)	377,400	365,025
Retained surplus	156,046,190	141,515,068
	<b>156,423,590</b>	<b>141,880,093</b>
	<b>\$ 2,852,130,860</b>	<b>\$ 2,510,616,479</b>

Approved by the Board of Directors



Director



Director

## Consolidated Statement of Net Income, Comprehensive Income and Retained Surplus

For the year ended December 31, 2009

	2009	2008
<b>Income</b>		
Interest from loans to members	\$ 88,836,000	\$ 97,473,074
Investment income	10,073,141	18,753,050
	<u>98,909,141</u>	<u>116,226,124</u>
<b>Cost of funds</b>		
Interest paid to members	56,208,565	71,292,674
<b>Financial margin</b>	<u>42,700,576</u>	<u>44,933,450</u>
<b>Operating expenses</b>		
Administrative	12,218,838	10,290,194
Member security	1,572,621	2,367,738
Occupancy	3,008,750	2,455,565
Organizational	1,450,083	1,230,530
Personnel	19,805,231	17,370,317
	<u>38,055,523</u>	<u>33,714,344</u>
Less: Other income	13,381,069	10,853,606
	<u>24,674,454</u>	<u>22,860,738</u>
<b>Income before provisions for doubtful loans and income taxes</b>	<u>18,026,122</u>	<u>22,072,712</u>
<b>Provision for doubtful loans</b>	1,300,000	—
<b>Income before income taxes</b>	<u>16,726,122</u>	<u>22,072,712</u>
<b>Provision for income taxes (note 12)</b>	2,195,000	4,380,000
<b>Net income and comprehensive income for the year</b>	<u>14,531,122</u>	<u>17,692,712</u>
<b>Retained surplus – Beginning of year</b>	141,515,068	123,822,356
<b>Retained surplus – End of year</b>	<u>\$ 156,046,190</u>	<u>\$ 141,515,068</u>

## Consolidated Statement of Cash Flows

For the year ended December 31, 2009

	2009	2008
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income and comprehensive income for the year	\$ 14,531,122	\$ 17,692,712
Items not affecting cash		
Amortization expense	1,974,908	1,494,594
Future income taxes	325,000	155,000
Loss (gain) on sale of property and equipment	1,856	(3,703)
Provision for doubtful loans	1,300,000	–
	18,132,886	19,338,603
Net change in non-cash working capital items	1,565,750	(955,588)
	19,698,636	18,383,015
<b>Investing activities</b>		
Loans to members – net of repayments	(283,060,275)	(378,889,333)
Net decrease in investments	55,458,285	118,195,671
Property and equipment acquisitions	(18,815,057)	(3,817,732)
Proceeds on disposal of property and equipment	–	9,800
	(246,417,047)	(264,501,594)
<b>Financing activities</b>		
Members' deposits – net of withdrawals	324,155,265	226,289,669
Issue of members' shares – net of redemptions	12,375	14,230
	324,167,640	226,303,899
Net increase (decrease) in funds on hand and on deposit	97,449,229	(19,814,680)
Funds on hand and on deposit – Beginning of year	67,714,890	87,529,570
Funds on hand and on deposit – End of year	\$ 165,164,119	\$ 67,714,890
<b>Supplemental information</b>		
Interest received	\$ 100,037,369	\$ 119,351,530
Interest paid	54,047,410	66,895,316
Income taxes paid	3,440,374	4,665,011

## Notes to Consolidated Financial Statements

December 31, 2009

### 1. Change in accounting policies

On January 1, 2009, the Credit Union adopted the following amendments to accounting standards that were issued by The Canadian Institute of Chartered Accountants (“CICA”): Handbook Section 1506, “Accounting Changes”, Section 3025, “Impaired Loans”, Section 3855, “Financial Instruments – Recognition and Measurement”, and Section 3862, “Financial Instruments – Disclosures”.

#### Accounting changes

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

#### Impaired loans

The AcSB amended CICA Handbook Section 3025, “Impaired Loans” to conform to the definition of a loan to that in amended CICA Handbook Section 3855 and to include held-to-maturity (“HTM”) investments within its scope.

#### Financial Instruments – Recognition and Measurement

The AcSB amended CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurement”, as follows:

- Allows debt securities that are not quoted in an active market to be classified as loans and receivables;
- On adoption, permits eligible debt securities currently classified as available for sale (“AFS”) to be transferred to HTM or loans and receivables;
- Changes the impairment rules for HTM debt securities, whether quoted or not, from the fair value model to the incurred credit losses model;
- Requires the reversal of an impairment loss for AFS debt securities when recovery of fair value occurs subsequently and is based on objective evidence of an event occurring after the loss; and
- Provides additional guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category.

The Credit Union has elected not to reclassify any of its debt securities at adoption of the amended standard. There were no impairment losses recognized on AFS debt securities in previous years. As a result, the amendment requiring reversal of impairment losses for AFS debt securities has no impact on the 2009 consolidated financial statements.

#### Financial Instruments – Disclosures

The AcSB amended CICA Handbook Section 3862, “Financial Instruments – Disclosures”, to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The additional disclosure requirements about fair value measurements are intended to provide users of the financial statements with the ability to assess the reliability of an entity’s fair value measurements, and have been incorporated into the Credit Union’s note disclosure for fair value of financial instruments (note 14).

The application of the aforementioned standards only impacted the Credit Union’s disclosures included in the consolidated financial statements.

## Notes to Consolidated Financial Statements

December 31, 2009

### 2. Significant accounting policies

The consolidated financial statements include the accounts of Steinbach Credit Union Limited and its wholly-owned subsidiary, 5621268 Manitoba Ltd. and its related equity accounted investment. The investment is recorded at cost and is increased for the proportionate share of post-acquisition earnings and decreased by post-acquisition losses.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. The significant accounting policies used in these consolidated financial statements are as follows:

#### Funds on hand and on deposit

Funds on hand and on deposit consist of cash and deposits with other financial institutions.

#### Investments

Contract deposits are classified as held to maturity and are recorded at amortized cost. Shares in Credit Union Central of Manitoba ("Central") are not actively traded in a quoted market and are recorded at cost.

Investments in bonds and debentures, and the N.H.A. insured mortgage are carried at amortized cost. Premiums or discounts related to the purchase of bonds and debentures, and the N.H.A. insured mortgage are amortized and recorded as interest income over the life of the investment.

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

#### Loans

Loans are initially recognized at fair value and are subsequently recorded at amortized cost using the effective interest method of amortization. Loans are stated net of an allowance established to recognize estimated probable losses. Property held for resale is valued at the lower of cost and estimated net realizable value. At December 31, 2009, there was no property held for resale. Loans are written off when there is no realistic prospect of recovering the loan in full. Recoveries on loans previously written off are taken into income.

#### Allowance for doubtful loans

The Credit Union maintains allowances for doubtful loans that reduce the carrying value of loans identified as impaired to their estimated realizable amounts. A loan is considered impaired if it is more than 90 days past due and the Credit Union no longer has reasonable assurance that the full amount of the principal and interest will be collected in accordance with the terms of the loan agreement. Estimated realizable amounts are determined by estimating the fair value of security underlying the loans and deducting costs of realization, or by discounting the expected future cash flows at the effective interest rate. Changes in the estimated realizable amounts arising subsequent to initial impairment recognition are recorded as a charge or credit for loan impairment.

## Notes to Consolidated Financial Statements

December 31, 2009

In addition to a specific allowance against identified impaired loans, the Credit Union maintains a non-specific allowance to cover impairment which is inherent in the loan portfolio and is estimated based upon historical loss experience and prevailing economic conditions.

### Revenue recognition

Interest on loans is recorded as income using the effective interest rate method except for loans which are considered impaired. Recognition of income ceases when it becomes apparent that the loan is impaired.

### Property and equipment

Property and equipment are recorded at acquisition cost and amortization is provided over the estimated useful life of the assets as follows:

Buildings	5% declining balance or 40 years straight line
Furniture and equipment	20% – 30% declining balance or 5 years straight-line
Computer equipment	4 years straight-line
Banking software	9 years straight-line

Amortization is not provided for construction in progress until the assets are ready for use.

### Income taxes

Income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates anticipated to be in effect when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences between the financial reporting and the income tax bases of the Credit Union's allowance for doubtful loans and property and equipment. Future income tax assets are recognized to the extent that realization is considered more likely than not.

### Translation of foreign currencies

Funds on hand and on deposit and members' deposits denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the balance sheet date. Foreign exchange gains and losses are recorded in other income at the rates prevailing at the time of the transaction.

### Derivative financial instruments

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recorded on the balance sheet at fair value. Changes in the value of the derivative instruments are recognized directly in income for the year. The Credit Union has no material derivative financial instruments.

## Notes to Consolidated Financial Statements

December 31, 2009

### 3. Investments

	2009	2008
Credit Union Central of Manitoba Limited		
Shares – at cost	\$ 39,046,597	\$ 35,154,797
Contract deposits	213,110,961	271,289,361
	<u>252,157,558</u>	<u>306,444,158</u>
Concentra Financial – shares	5,030	5,030
Bonds and debentures	725,000	500,320
N.H.A. insured mortgage	466,231	501,862
	<u>253,353,819</u>	<u>307,451,370</u>
Accrued interest receivable	1,682,662	3,043,396
	<u>\$ 255,036,481</u>	<u>\$ 310,494,766</u>

	Interest rates ranging from	Maturity dates ranging from
Contract deposits	1.06% – 4.574%	30 days – 3 years
Bonds and debentures	3.2%	5 years
N.H.A. insured mortgage	Credit Union standard loan rate plus 1.5%	1 year

### 4. Loans to members

At December 31, 2009, loans to members are presented net of allowances for doubtful loans totalling \$12,886,120 (2008 – \$11,946,371), consisting of specific allowances of \$8,470,630 (2008 – \$7,508,123) for loans considered impaired and \$4,415,490 (2008 – \$4,438,248) as non-specific allowances.

	Gross loan balance	Allowances	2009 Net loan balance	2008 Net loan balance
Consumer	\$ 1,240,618,073	\$ (299,685)	\$ 1,240,318,388	\$ 1,083,101,841
Agricultural	392,775,271	(6,348,000)	386,427,271	389,476,386
Commercial	762,961,981	(1,822,945)	761,139,036	633,801,457
	<u>2,396,355,325</u>	<u>(8,470,630)</u>	<u>2,387,884,695</u>	<u>2,106,379,684</u>
Accrued interest	4,997,296	–	4,997,296	4,764,790
Non-specific allowances	–	(4,415,490)	(4,415,490)	(4,438,248)
	<u>\$ 2,401,352,621</u>	<u>\$ (12,886,120)</u>	<u>\$ 2,388,466,501</u>	<u>\$ 2,106,706,226</u>

## Notes to Consolidated Financial Statements

December 31, 2009

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

	Impaired loan balance	Specific allowances	2009 Net loan balance	2008 Net loan balance
Consumer	\$ 3,314,680	\$ (299,685)	\$ 3,014,995	\$ 389,881
Agricultural	22,865,485	(6,348,000)	16,517,485	25,833,720
Commercial	7,478,532	(1,822,945)	5,655,587	5,366,020
	33,658,697	(8,470,630)	25,188,067	31,589,621
Accrued interest	698,577	–	698,577	347,540
	<u>\$ 34,357,274</u>	<u>\$ (8,470,630)</u>	<u>\$ 25,886,644</u>	<u>\$ 31,937,161</u>

The estimated fair value of the collateral held by the Credit Union as security for impaired loans is \$43,500,000 (2008 – \$41,500,000). The Credit Union has estimated the fair value of collateral based on an updated assessment of the security appraisal undertaken at the original funding assessment and management's knowledge of the market value of the security.

The total allowance for doubtful loans consists of:

	Consumer	Agricultural	Commercial	2009 Total	2008 Total
Specific provision	\$ 299,685	\$ 6,348,000	\$ 1,822,945	\$ 8,470,630	\$ 7,508,123
General provision	1,271,141	2,189,662	954,687	4,415,490	4,438,248
	<u>\$ 1,570,826</u>	<u>\$ 8,537,662</u>	<u>\$ 2,777,632</u>	<u>\$ 12,886,120</u>	<u>\$ 11,946,371</u>

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

	Consumer	Agricultural	Commercial	2009 Total	2008 Total
Balance – beginning of year	\$ 1,162,856	\$ 6,973,505	\$ 3,810,010	\$ 11,946,371	\$ 12,425,960
Provision for (recovery of) doubtful loans	584,259	1,692,565	(976,824)	1,300,000	–
	1,747,115	8,666,070	2,833,186	13,246,371	12,425,960
Loans written off in the year	(176,289)	(128,408)	(55,554)	(360,251)	(479,589)
Balance – end of year	<u>\$ 1,570,826</u>	<u>\$ 8,537,662</u>	<u>\$ 2,777,632</u>	<u>\$ 12,886,120</u>	<u>\$ 11,946,371</u>

## Notes to Consolidated Financial Statements

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### 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 at December 31, 2009 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.

	1 – 30 days	31 – 60 days	61 days and greater	Total
Consumer	\$ 2,954,445	\$ 747,150	\$ 155,744	\$ 3,857,339
Agricultural	946,707	3,953,163	2,439,878	7,339,748
Commercial	4,351,188	1,959,176	731,059	7,041,423
	<u>\$ 8,252,340</u>	<u>\$ 6,659,489</u>	<u>\$ 3,326,681</u>	<u>\$ 18,238,510</u>

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance and mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

### 5. Property and equipment

	Cost	Accumulated amortization	2009 Net	2008 Net
Land	\$ 6,930,384	\$ –	\$ 6,930,384	\$ 6,606,277
Deposit on land	–	–	–	200,000
Buildings	15,470,963	5,171,920	10,299,043	7,668,399
Furniture and equipment	3,669,260	2,295,780	1,373,480	1,556,900
Computer equipment	6,573,045	4,675,160	1,897,885	1,838,605
Banking software	2,223,494	–	2,223,494	1,012,697
Construction in progress	14,638,303	–	14,638,303	1,641,418
	<u>\$ 49,505,449</u>	<u>\$ 12,142,860</u>	<u>\$ 37,362,589</u>	<u>\$ 20,524,296</u>

Amortization expense of \$1,974,908 (2008 – \$1,494,594) is included in administrative expense and occupancy expense in the consolidated statement of net income, comprehensive income and retained surplus.

### 6. Other assets

	2009	2008
Accounts receivable	\$ 792,875	\$ 955,469
Prepaid expenses	1,206,853	1,362,428
Income taxes recoverable	1,640,592	70,218
Equity investment	1,500,000	1,502,336
Future income tax asset (note 12)	960,850	1,285,850
	<u>\$ 6,101,170</u>	<u>\$ 5,176,301</u>

## Notes to Consolidated Financial Statements

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### 7. Line of credit

The Credit Union has approved lines of credit equal to 10% of its members' deposits with Central, or \$268,360,064. The line of credit with Central is payable on demand with interest payable on a variable rate basis. As collateral for the line of credit, the Credit Union has pledged an assignment of shares and deposits in Central and a general assignment of loans receivable from members. At December 31, 2009, the line of credit was unutilized.

### 8. Members' deposits

	2009	2008
Savings	\$ 1,686,787,853	\$ 1,506,117,024
Chequing	224,816,937	194,285,687
Term deposits	328,333,953	254,753,282
Registered products	430,711,897	393,507,194
Inactive accounts	77,627	70,970
	<u>2,670,728,267</u>	<u>2,348,734,157</u>
Accrued interest	12,872,374	10,711,219
	<u>\$ 2,683,600,641</u>	<u>\$ 2,359,445,376</u>

### 9. Accounts payable

	2009	2008
Credit Union Deposit Guarantee Corporation assessment	\$ 536,774	\$ 671,950
Accrued expenses and payables	10,306,479	8,081,872
Certified cheques	1,263,376	537,188
	<u>\$ 12,106,629</u>	<u>\$ 9,291,010</u>

### 10. Capital disclosures

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

#### Capital requirements

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

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

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

#### Liquidity reserve

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

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

## Notes to Consolidated Financial Statements

December 31, 2009

Capital is managed in accordance with policies established by the Board. Management regards a strong capital base as an integral part of the Credit Union's strategy. The Credit Union has a capital plan to provide a long-term forecast of capital requirements. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

### 11. Members' shares

Each member of the Credit Union has one vote, regardless of the number of shares that a member holds.

Each member must purchase one common share. No member may hold more than 10% of the issued shares in any class.

#### Authorized shares

##### Common shares

Authorized common share capital consists of an unlimited number of common shares, with an issue price per share to be not less than \$5 and redeemable in the amount of consideration received for the share. The total amount of common shares purchased or redeemed by the Credit Union shall not reduce the Credit Union's equity below 5% of assets.

##### Issued shares

	2009	2008
75,480 (2008 – 73,005) common shares	\$ 377,400	\$ 365,025

During the year, the Credit Union issued net 2,475 (2008 – 2,846) common shares.

### 12. Provision for income taxes

	2009	2008
Components of provision for income taxes		
Current income tax expense	\$ 1,870,000	\$ 4,225,000
Future income tax expense	325,000	155,000
	<u>\$ 2,195,000</u>	<u>\$ 4,380,000</u>

The total provision for income taxes in the consolidated statement of net income, comprehensive income and retained surplus is at a rate other than the combined federal and provincial income tax rates for the following reasons:

	2009	2008
Combined federal and provincial statutory income tax rates	31.5%	33.0%
Credit Union rate reduction	(19.5)	(20.0)
Income taxes at high corporate rate	–	5.3
Non deductible and other items	1.1	1.5
	<u>13.1%</u>	<u>19.8%</u>

## Notes to Consolidated Financial Statements

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### 13. Risk management

The Credit Union's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets and products.

Risk management is carried out by management who reports to the Board of Directors (the "Board"). The Board provides written principles for risk tolerance and overall risk management. Management reports to the Board on the Credit Union's compliance with the risk management policies. In addition, the Credit Union maintains an Internal Audit function which is responsible for independent review of risk management and the Credit Union's control environment.

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and floating rates for various periods. The Credit Union seeks to earn an interest rate margin by investing these funds in high quality financial instruments – principally loans and mortgages. The primary types of financial risk which arise from this activity are interest rate, credit, liquidity, foreign exchange and price risk.

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

Activity	Risks	Method in managing risks
Investments and funds on hand and on deposit	Sensitivity to changes in interest rates, foreign exchange rates, and credit risk	Asset-liability matching, monitoring of investment restrictions and monitoring of counterparty risk
Loans to members	Sensitivity to changes in interest rates and credit risk	Asset-liability matching, periodic use of derivatives and monitoring of counterparty risk
Members' deposits	Sensitivity to changes in interest rates and foreign exchange rates	Asset-liability matching, periodic use of derivatives

#### Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Financial margin reported in the consolidated statement of net income, comprehensive income and retained surplus may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by management and reported to the Board of Directors.

## Notes to Consolidated Financial Statements

December 31, 2009

In managing interest rate risk, the Credit Union relies primarily upon the use of asset-liability and interest rate sensitivity models. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the re-pricing of the Credit Union's financial instruments. The Credit Union has not entered into any interest rate swaps in the current year.

Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at December 31, 2009, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by \$8,000 (2008 – \$500,000) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by \$8,000 (2008 – \$500,000) over the next 12 months.

Other types of interest rate risk may involve basis risk, the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristics (for example the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans). These risks are also monitored on a regular basis and are reported to the Board of Directors.

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

	Assets	Liabilities and members' equity	Net asset/ liability gap
<b>Expected repricing or maturity date</b>			
Less than one year	\$ 2,052,465,784	\$ 2,048,217,354	\$ 4,248,430
1 to 2 years	192,337,245	110,210,389	82,126,856
2 to 3 years	168,731,513	120,664,885	48,066,628
3 to 4 years	121,613,759	94,915,939	26,697,820
4 to 5 years	194,024,420	68,893,718	125,130,702
Over 5 years	44,628,101	–	44,628,101
Not interest sensitive	78,330,038	409,228,575	(330,898,537)
	<u>\$ 2,852,130,860</u>	<u>\$ 2,852,130,860</u>	<u>\$ –</u>

The average rate for interest bearing assets is 3.60% (2008 – 4.27%) and for interest bearing liabilities is 2.32% (2008 – 2.95%).

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

## Notes to Consolidated Financial Statements

December 31, 2009

### Credit risk

Credit risk is the risk that a Credit Union member or counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy of Manitoba or deterioration in lending sectors which represent a concentration within the Credit Union's loan portfolio may result in losses that are different from those provided for at the balance sheet date.

Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in loans to members and investing activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is reported to the Board of Directors.

Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member.

The Board of Directors is responsible for approving and monitoring the Credit Union's tolerance for credit exposures which it does through review and approval of the Credit Union's lending policies and credit scoring system and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits and prior to advancing funds to a member, an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and to establish that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The classes of financial instruments to which the Credit Union is most exposed are loans to members, funds on hand and on deposit and investments.

Credit risk exposure	Outstanding	Undrawn commitments	Total exposure
Funds on hand and on deposit	\$ 165,164,119	\$ –	\$ 165,164,119
Investments	255,036,481	–	255,036,481
Consumer loans	1,240,618,073	141,860,892	1,382,478,965
Agricultural loans	392,775,271	107,483,884	500,259,155
Commercial loans	762,961,981	149,340,465	912,302,446
<b>Total exposure</b>	<b>\$ 2,816,555,925</b>	<b>\$ 398,685,241</b>	<b>\$ 3,215,241,166</b>

#### a) Funds on hand and on deposit and investments

Credit risk related to funds on hand and on deposit and investments is considered insignificant as substantially all of these assets are invested with Central.

#### b) Consumer loans

Consumer loans primarily consist of personal loans, and \$1,112,392,796 (2008 – \$972,352,395) of real estate mortgages which are fully secured by residential property. The Credit Union's policy is to not exceed a loan-to-value ratio of 80%.

## Notes to Consolidated Financial Statements

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### c) Agricultural and commercial loans and lines of credit

The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The Credit Union's commercial lending is well diversified by industry type, as follows:

	2009	2008
Agricultural	34.0%	38.3%
Construction	9.5%	10.2%
Retail	2.8%	7.2%
Hospitality	10.0%	7.7%
Industrial	8.8%	6.3%
Residential rental	19.6%	13.3%
Commercial rental	15.3%	17.0%

The credit quality of the loan portfolio for those loans which are neither past due or impaired can be assessed by reference to the Credit Union Deposit Guarantee Corporation's risk rating model. The Credit Union assesses the probability of a default using the above risk rating tools and taking into account statistical analysis as well as the experience and judgement of the Credit department. Loans to members are divided into eight segments and are regularly reviewed and updated as appropriate.

Excellent risk	0.3%
Very good risk	1.7%
Good risk	61.5%
Acceptable risk	31.8%
Caution risk	1.7%
At risk	0.0%
Impaired – no reserve	0.1%
Impaired – reserve	2.9%

### Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity at all times as described in note 10. The Credit Union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, securitizations and asset-liability maturity management techniques. Management monitors rolling forecasts of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management.

## Notes to Consolidated Financial Statements

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The following table summarizes the undiscounted cash flows of financial assets and liabilities by contractual or expected maturity.

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

	Payable on demand	Payable on a fixed date			Total
		Less than 1 year	1 to 2 years	2 to 5 years	
<b>Financial assets</b>					
Funds on hand and on deposit	\$ 165,164,119	\$ –	\$ –	\$ –	\$ 165,164,119
Investments	41,327,481	101,984,000	99,000,000	12,725,000	255,036,481
Loans to members	1,468,019,815	61,469,003	94,691,682	777,172,121	2,401,352,621
Other financial assets	–	2,433,467	–	–	2,433,467
	<u>\$ 1,674,511,415</u>	<u>\$ 165,886,470</u>	<u>\$ 193,691,682</u>	<u>\$ 789,897,121</u>	<u>\$ 2,823,986,688</u>
<b>Financial liabilities</b>					
Members' deposits	2,133,483,302	155,432,408	110,210,389	284,474,542	2,683,600,641
Accounts payable	–	12,106,629	–	–	12,106,629
Lease commitments	–	288,010	–	–	288,010
	<u>\$ 2,133,483,302</u>	<u>\$ 167,827,047</u>	<u>\$ 110,210,389</u>	<u>\$ 284,474,542</u>	<u>\$ 2,695,995,280</u>

### Foreign exchange risk

Foreign exchange risk is the risk that arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial instruments for an extended period.

As at December 31, 2009, the Credit Union had U.S. \$4,500,000 (2008 – U.S. \$3,000,000) of notional principal in foreign exchange forward agreements to sell U.S. dollars, and U.S. \$4,500,000 (2008 – U.S. \$3,000,000) of notional principal in foreign exchange forward agreements to buy U.S. dollars. These amounts are not indicative of the underlying credit risk. The credit risk is represented by the cost to replace the agreement with one of the counterparties at December 31, 2009. This cost would be incurred only in the event of failure by the counterparty to honour its contractual obligations. The counterparties for all agreements are restricted to the major chartered banks and members of the Credit Union, and it is management's assessment that an event of failure is remote and that the associated credit risk is insignificant.

## Notes to Consolidated Financial Statements

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### Price risk

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

### 14. Fair value of financial instruments

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

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Credit Union normally holds all of its fixed term investments, loans and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the net realizable value. Furthermore, as many of the Credit Union's financial instruments lack an available trading market, the fair value of loans and member deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of instruments. The inputs to the valuation model for fixed rate loans include scheduled loan amortization rates, estimated rates of repayment with the future cash flows discounted using current market rates for equivalent groups of mortgages or loans. The future cash flows on fixed rate deposits and fixed rate borrowings are discounted to their estimated present value using a discount rate based on the Credit Union's posted interest rates curve which is constructed using the forward yield curve of a closely correlated market rate. Other inputs may include the addition of an interest rate spread to incorporate an appropriate risk premium over Government of Canada rates. The significant assumptions included in the determination of fair value include estimates of credit losses, estimates of interest rates and the estimates of discount rates.

The most significant assumption relates to the discount rates utilized. It is estimated that a 10 basis point change in the discount rate would change the fair value of loans to members and investments by approximately \$2,257,000 (2008 – \$1,680,000), and the fair value of members' deposits by approximately \$1,270,000 (2008 – \$1,090,000).

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings and equipment. The fair values also exclude accounts payable as the fair values of these financial instruments are estimated to approximate book values.

## Notes to Consolidated Financial Statements

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### Fair value of financial assets and liabilities

As at December 31, 2009:

	Held for trading	Financial assets/ liabilities at cost or amortized cost	Estimated fair value	Fair value greater than book value
<b>Financial assets</b>				
Funds on hand and on deposit	\$ 165,164,119	\$ –	\$ 165,164,119	\$ –
Investments	–	255,036,481	256,284,314	1,247,833
Loans to members	–	2,388,466,501	2,408,332,334	19,865,833
<b>Total financial assets</b>	<b>\$ 165,164,119</b>	<b>\$ 2,643,502,982</b>	<b>\$ 2,829,780,767</b>	<b>\$ 21,113,666</b>
<b>Financial liabilities</b>				
Members' deposits	–	2,683,600,641	2,690,951,505	7,350,864
<b>Total financial liabilities</b>	<b>\$ –</b>	<b>\$ 2,683,600,641</b>	<b>\$ 2,690,951,505</b>	<b>\$ 7,350,864</b>

As at December 31, 2008:

	Held for trading	Financial assets/ liabilities at cost or amortized cost	Estimated fair value	Fair value greater than book value
<b>Financial assets</b>				
Funds on hand and on deposit	\$ 67,714,890	\$ –	\$ 67,714,890	\$ –
Investments	–	310,494,766	313,172,568	2,677,802
Loans to members	–	2,106,706,226	2,111,529,237	4,823,011
<b>Total financial assets</b>	<b>\$ 67,714,890</b>	<b>\$ 2,417,200,992</b>	<b>\$ 2,492,416,695</b>	<b>\$ 7,500,813</b>
<b>Financial liabilities</b>				
Members' deposits	–	2,359,445,376	2,368,641,735	9,196,359
<b>Total financial liabilities</b>	<b>\$ –</b>	<b>\$ 2,359,445,376</b>	<b>\$ 2,368,641,735</b>	<b>\$ 9,196,359</b>

## Notes to Consolidated Financial Statements

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### Fair value hierarchy

Beginning January 1, 2009, assets and liabilities recorded at fair value in the balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- *Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities*  
Assets measured at fair value and classified as Level 1 include funds on hand and on deposit.
- *Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)*  
Level 2 inputs include quoted prices for assets in markets that are considered less active. There are no assets measured at fair value classified as Level 2.
- *Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities*  
Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. There are no assets measured at fair value classified as Level 3.

### 15. Related party transactions

#### The Credit Union Deposit Guarantee Corporation

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

Transactions with the Deposit Guarantee Corporation included assessments of \$1,882,515 (2008 – \$2,687,782) and are recorded as member security expense.

#### Credit Union Central of Manitoba Limited

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

Transactions with Central included income earned on investments referred to in note 3 in the amount of \$10,039,068 (2008 – \$18,702,881) and fees assessed by Central which include annual affiliation dues in the amount of \$650,292 (2008 – \$578,216) recorded as organizational expenses.

## Notes to Consolidated Financial Statements

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### **Celero Solutions**

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

### **Everlink Payment Services Inc.**

The Credit Union receives electronic transaction switching services from Everlink. In accordance with the Credit Union's accounting policy for these services, the Credit Union recorded an expense to Central of \$57,052 (2008 – \$18,183), representing the Credit Union's proportionate share of Everlink's operating loss for the year.

### **Directors**

Transactions with directors are at terms and conditions as set out by the statutes, by-laws and policies of the Credit Union. Fees and expenses paid by the Credit Union on behalf of the directors were \$269,103 (2008 – \$257,123).

### **Loans to directors, staff and equity investment**

All loans, deposits and fees that were made to, received from, or charged to directors, officers or persons in whom any of them has a material interest during the year conform to the Credit Union's ordinary practices for members who are not directors or officers.

As at December 31, 2009, outstanding loans to directors and committee members, as well as management and staff and equity investment totalled 2.14% (2008 – 2.00%), in aggregate, of the assets of the Credit Union.

## **16. Commitments and guarantees**

### **Loans**

The Credit Union has authorized \$588,890,681 for line of credit loans, of which \$302,197,257 has not been advanced as of the year end. In addition, \$85,510,601 in loans to members have been authorized but have not been advanced as of the year end. The Credit Union had also made commitments to members for unexpired letters of credit in the amount of \$10,977,383 as at December 31, 2009.

### **Director and officer indemnification**

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

## **17. Contingencies**

The Credit Union, in the course of its operations, is subject to lawsuits. As a policy, the Credit Union will accrue for losses in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated.

## Notes to Consolidated Financial Statements

December 31, 2009

### 18. Pension plan

The Credit Union has a defined contribution pension plan for qualifying employees. The contributions are held in trust by the Co-operative Superannuation Society Limited and are not recorded in these financial statements. The Credit Union matches employee contributions which range between 5% and 6% of the employee's salary. The expense and payments for the year ended December 31, 2009 were \$693,086 (2008 – \$617,375). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

### 19. Comparative figures

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

**SCU Steinbach Branch**  
305 Main Street, Steinbach  
204 326.3495

**SCU Linden Ridge Branch**  
2100 McGillivray Blvd, Winnipeg  
204 222.2100

**SCU Lagimodiere Branch** (*opening in 2010*)  
1575 Lagimodiere Blvd, Winnipeg

**Drive Thru ATMs**

- Clearspring Mall, Steinbach
- 2100 McGillivray Blvd, Winnipeg
- 1575 Lagimodiere Blvd  
at Almey Ave, Winnipeg
- 1665 Henderson Hwy  
at Gilmore Ave, Winnipeg
- 997 St. Mary's Rd, Winnipeg

**[www.scu.mb.ca](http://www.scu.mb.ca)**

