

2009 ANNUAL REPORT

OUR MISSION

We are in business to help our members achieve their financial goals.

VALUES AND COMMITMENT

Caring about our members, our employees, our community. Continuously improving our service quality. Acting with honesty, fairness and integrity. We manage our organization to be profitable.

MEMBER HIGHLIGHTS

- Credit union assets grew to \$1.8 billion, an increase of \$66 million over 2008.
- Net income of \$11.4 million, up 9.3% from 2008.
- Introduced new Tax-Free Savings Account and 15-month re-investable term deposit options.
- Achieved member satisfaction ratings of 88%.
- 12th branch in North Burnaby was completed (opened January 2010).

EMPLOYEE HIGHLIGHTS

- Received the BC Psychologically Healthy Workplace Award for the second consecutive time.
- 237 employees participated in at least one healthy activity as part of Westminster Savings' Live Well Now program.
- 66 employees were recognized with a Long Service Award, totaling 800 years of service.

COMMUNITY HIGHLIGHTS

- Approximately \$500,000 was invested in our communities.
- The Westminster Savings Foundation celebrated its 15th anniversary. Since inception, donations have passed the \$1.7 million mark.
- Received a Lifetime Achievement Award from the New Westminster Chamber of Commerce.
- Employees were spirited and enthusiastic in their fundraising and volunteer efforts, investing countless hours working together to help others.

ABOUT WESTMINSTER SAVINGS CREDIT UNION

As one of Canada's largest credit unions with \$1.8 billion in assets, Westminster Savings Credit Union provides a full range of banking and wealth management products and services to help members achieve their financial goals. Our employees serve more than 50,000 members through 12 branches in the Lower Mainland and a Member Service Centre that provides direct assistance during and after business hours.

Our Commercial Services group provides a broad range of deposit and loan services to meet the needs of businesses. WS Leasing Ltd. and Mercado Capital Corporation, the credit union's wholly-owned leasing subsidiaries, provide services throughout Western Canada and Ontario.

Our philanthropic arm, the Westminster Savings Foundation is the second largest credit union foundation in Canada with approximately \$6.6 million in assets. The foundation has proudly contributed more than \$1.7 million to a diverse range of charities, organizations and social causes since its first donation in 1994.

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MOVING FORWARD...

Remaining true to our core values with our focus firmly on members, our employees and our communities allows our credit union to move forward in both good times and tough times. It's how we do business.

HOW WE'VE GROWN IN 2009

We strive to meet and exceed your expectations every day, at every level, in every way as we help you with your financial needs. For years, we have sent members an annual survey to find out how we're doing and areas we can improve.

You responded and let us know that the values we hold most important are just as fundamental to you. Corporate citizenship, quality of service and the professionalism of our employees are the three areas that set us apart and are what you've come to expect from us.

In 2009, we continued to build momentum as more new members joined our credit union, we offered new products and services and completed planning for another branch to serve you better.

NEW SAVINGS OPTIONS

To offer members more flexibility and security with their savings, Westminster Savings introduced two new products in 2009—the new Tax-Free Savings Account (TFSA) and one of the most competitive and secure term deposits in the marketplace—the Re-investable Term Deposit.

The 15-month Re-investable Term Deposit offers the security of a locked-in interest rate, as well as the flexibility to re-invest your funds at a higher rate if interest rates increase. It offers security and flexibility to make the most of your savings.



BUILDING BUSINESS

Many of our members rely on us for their personal financing needs, but many others also come to us for their business needs. Last year was a challenging one, but we are pleased to share that our Commercial Services division has done well and continues to grow. We provide full service banking to our business members and innovative solutions to meet the individual needs of small and medium sized businesses.

...ONE MEMBER AT A TIME

We recognize the value of the individual and the power of people. At Westminster Savings, we deliver superior service to members and provide a healthy environment for our employees. That's why our members stay with us through thick and thin. Looking forward, we'll continue to grow, one member at a time.

INNOVATION

Our members told us that online banking is very important, and we listened. Now you can view electronic versions of your monthly and quarterly statements (Estatements) and choose to stop receiving paper statements in the mail. Banking online has many benefits:

- It's free: View your Estatements free in online banking.
- Environmentally-friendly: Estatements can replace paper statements and help reduce your carbon footprint.
- More secure: Estatements can only be accessed in secure online banking, so there's no risk of having your financial information unintentionally exposed.
- Less clutter: Estatements can be accessed for seven years, so you can save them on your computer, instead of in a filing cabinet or in a pile of papers.
- More convenient: Estatements are available anytime you access online banking. You can even save your Estatement on your own computer or email it to others.

EXCITING NEW SPONSORSHIP

Westminster Savings is proud to be the official banking partner of the Canadian Ski Cross Team. With its high speeds and head-to-head action, Ski Cross became one of the most engaging and popular events of the Vancouver 2010 Olympic Winter Games.

As a debut sport, Ski Cross had limited awareness. Support and funding were critical for the team and its athletes, and Westminster Savings' partnership helped to send 7 members of the team to the Olympics, who ultimately brought home gold.

"Westminster Savings has long supported groups in our communities," said Barry Forbes, President and CEO of Westminster Savings. "At the same time, we wanted to get involved in supporting Canadian athletes in an engaging and meaningful way, and our association with the Canadian Ski Cross Team bridges both of those objectives seamlessly."





CELEBRATING A LEGACY OF CARING

Caring is one of our core values at Westminster Savings, one that we continue to develop and build on each year. We believe that by making a difference in the community today, it will pay dividends for communities for decades to come.

Since we were designated as an Imagine Caring company in 1993, Westminster Savings has donated significantly more than one per cent of pre-tax profits to charitable causes each year, exceeding the benchmarks that Imagine Canada has set up.

Our employees have joined our credit union's community involvement teams to volunteer their time as well as participate in fundraising activities to benefit local charities, including:

- Selling Playland tickets and donating proceeds to charity
- Collecting clothing and household items for the Monarch Place women's shelter
- Fundraising for the donation of plush animals to children at Royal Columbian Hospital
- Volunteering at the Crossroads Hospice Society Hike for Hospice and the Terry Fox Run

CORPORATE CITIZENSHIP

Westminster Savings is committed to operating in a socially, financially and environmentally sustainable manner. Last year, we undertook an assessment of our approach with Canadian Business for Social Responsibility (CBSR). This assessment showed that from employee practices, to member and community engagement, to environmental stewardship, to corporate governance, we continue to leverage our strengths and practice strong corporate citizenship. We also learned how to better guide our future actions to remain accountable to our members, communities and employees.

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We believe that by making a difference in the community today, it will pay dividends for communities for decades to come.”



BUILDING ON A FOUNDATION OF CARE

We celebrated a legacy of care with an important milestone in 2009, the 15th anniversary of the Westminster Savings Foundation. It is the second largest credit union foundation in Canada and has donated more than \$1.7 million to charities since 1994. Today, our foundation has assets of approximately \$6.6 million and supports a variety of worthy charities each year.

REACHING MORE COMMUNITIES

In 2009, we participated in many local events and supported more important causes than ever, including:

- Crossroads Hospice Society (photo: above, left)
- Crescent Beach Community Services' Alexandra Festival
- Surrey Food Bank
- Ridge Meadows Recycling Society
- Hats Off Day in Burnaby
- Hyde Creek Watershed Society (photo: above, right)
- BC Highland Games
- Heart and Stroke Foundation – South Asian Fashion Gala
- Royal City Builders Awards

In 2009, we distributed more than \$500,000 in our communities through foundation grants, sponsorships, education awards and donations in kind. Of this, more than \$30,000 was awarded as bursaries to students and our annual Westminster Savings Youth in Action awards. Caring feels good.



INVESTING IN PEOPLE—EMPLOYEES ARE THE HEART OF OUR BUSINESS

It has been said that success can be measured by how well we handle adversity. At Westminster Savings, we hold our heads high knowing that we stand behind our people during tough times. And we're equally proud that they stay with us. Our employees rose to the occasion in 2009... it is their harnessed passion that keeps us moving forward.

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I like being busy and working with my colleagues at the credit union. We have some wonderful people working here.”

We were the recipients of the *B.C. Psychological Association Healthy Workplace* award in 2009—the first organization to be recognized two consecutive times. During the award presentation, we were celebrated for continuing to provide our employees with job security and support during recessionary conditions.

We also enjoyed recognition in our local community. Last year we received the *Lifetime Achievement Award* at the 13th annual *New Westminster Chamber of Commerce Celebration of Business Excellence* (COBE) award. It celebrates our long history in New Westminster, our leadership role in the community and the ongoing economic contributions we make to the city and its residents.





In 2009, 237 employees participated in Live Well Now events, and \$11,788.48 was reimbursed to employees through the Live Well Now reimbursement program.

Research shows that employees who receive appreciation and recognition on a regular basis are more committed and often are more successful in the workplace. We didn't need research to tell us that. In 2009, 415 employees at Westminster Savings received praise and special recognition from their peers. Statistics tell us that this builds confidence and encourages achievement, but we measure our employees' satisfaction in the smiles that greet us every day.

And there are additional benefits to being an employee of Westminster Savings. In 2009, we introduced **mychoice** benefits, a flexible new program to provide employees with flexible health and wellness benefits. Depending on their specific needs, employees can choose enhanced coverage, opt out of certain benefits, or receive cash or funds if they opt out. Plus, employees have access to convenient online tools so they can take care of their enrolment and claims, as well as access specific plan and coverage details.

Personal responsibility is the key to a passionate employee. That's why our employees embraced our new performance management process in 2009. It allows employees to be more involved in the assessment process and gives everyone a sense of responsibility for both their reviews and their achievements. This process delivers more than an employee-driven and consistent process across the organization; it brings us together in our shared passion for success.

MESSAGE FROM THE CHAIR AND CHIEF EXECUTIVE OFFICER

MOVING FORWARD WITH MOMENTUM

If “momentum” is defined as “...strength or force gained by motion or through the development of events...” then no better word described 2009 for all of us at Westminster Savings Credit Union.

We began the year confronted with the full impact of the financial crisis and a major recession. Virtually every economic forecast talked about an extended period of “doom and gloom.” Stock markets were falling, interest rates dropped to historic lows, real estate prices and sales declined and unemployment rose to levels not seen in many years. In response we implemented a number of actions with the clear intent of being stronger and better by the end of 2009.

Our primary focus is serving members, and we knew that many were suffering from the effects of the financial crisis and recession. Therefore, we increased communications with members, often in one-on-one conversations, to better understand their concerns and to help them through the difficult times. In fact, independent surveys showed that we talked to our members nearly twice as often as other financial institutions talked to their customers. And you told us that we were doing the right things. Through our member survey, you once again gave the credit union a top-level rating of 88% in member satisfaction.

Members value the relationships that they have with our employees, and we recognize the importance you place on an experienced, qualified and stable employee group. Therefore, in early 2009 we announced that irrespective of the recession there would be no layoffs. This decision, together with our other well established employee practices, helped us win a 2009 BC Psychologically Healthy Workplace Award. This award is given every two years (and we were a proud winner in 2007), making us the only repeat winner. In 2008, the credit union was the also recipient of the American Psychology Association’s Healthy Workplace Award, the only Canadian organization to be so honoured.

Our member survey included questions about the importance of community support. And the replies have consistently shown that over 80 per cent of members believe that supporting local communities is important. As a result, we maintained our financial and in-kind support at the \$500,000 level in 2009 and contributed a further \$500,000 to the Westminster Savings Foundation (the charitable arm of the credit union). In October, the New Westminster Chamber of Commerce gave the credit union a “Lifetime Achievement Award” in recognition of our long term support to the community. Very few organizations have received this prestigious award.

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We spent more time communicating with members and addressing their concerns.”

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Working
together
we produced
better than
expected
financial
results.”

In recognition of the Vancouver 2010 Winter Olympics, Westminster Savings proudly stepped forward and got involved as one of the founding sponsors of the Canadian Ski Cross Team. This sponsorship helped to directly support local BC athletes as they strived to achieve their Olympic dreams, and the team brought home one of Canada's most memorable Olympic gold medals. We are very proud to say that we are the only credit union in Canada to have made such a bold move.

From an operations perspective, we continued to meet the needs of our members by ensuring access to credit and with new products and services. In particular, we continued our solid reputation for providing financing to the real estate development industry. While other lenders exited this market, our members had ongoing access to funds to complete their projects. Also, we offered the Tax-Free Savings Account (TFSA), which proved to be very popular. It has already become an important savings product for Canadians and is expected to grow significantly.

Our members also rely on us to provide them with access to their accounts through a broad array of electronic services. In 2009, we expanded our online banking services and mobile services. No other credit union offers as many electronic services.

Management and employees were tasked with the challenge of improving efficiency without sacrificing service quality, and our financial statements show that they were successful. Operating costs were more than one million dollars lower in 2009 than in the previous year, even though we served more members and completed all of the work to open our 12th branch in North Burnaby in early 2010.

As a result of our efforts, we produced better than expected financial results for fiscal 2009, thereby strengthening the credit union.

Turning to 2010 and beyond, we anticipate gradual strengthening in the economy, more stability in financial markets and improving job prospects. The actions taken in 2009 give our credit union momentum that will help make it possible to meet and exceed the expectations of our members in the years ahead.

Signed,
Emmet McGrath
Chair

Signed,
Barry Forbes
President & Chief Executive Officer

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MANAGEMENT
DISCUSSION
&
ANALYSIS

MANAGEMENT DISCUSSION & ANALYSIS

Westminster Savings Credit Union (“WSCU” or “the credit union”) is a leading credit union providing financial services to consumer and commercial markets in British Columbia. In addition, through its leasing subsidiaries, WSCU provides vehicle and equipment leasing in Western Canada and Ontario. Headquartered in New Westminster, WSCU operates twelve retail branches in the Metro Vancouver area.

This Management Discussion and Analysis contains information designed to provide a more detailed understanding of the credit union and its financial and operating performance. It is intended to complement our audited Consolidated Financial Statements and should be read in conjunction with those financial statements.

This discussion may contain forward-looking statements concerning WSCU’s activities and strategies. Such statements involve risks and uncertainties in respect of the economic, legislative, regulatory and competitive environments, which could cause actual results to differ from the forward-looking statements in this report.

OVERVIEW

WSCU provides retail banking services and related services to its members as well as commercial lending and other services to real estate developers, small and medium enterprises and micro businesses. We provide new and used passenger vehicle leasing through WS Leasing’s network of independent dealers and brokers in B.C. and Alberta. Through our subsidiary, Mercado Capital Corporation, we provide small and midticket equipment leasing services to customers in Western Canada and Ontario.

WSCU is in business to help members achieve their financial goals. Our goal is to go one step further, by making a recognizable difference to both our current members and to potential members in the communities we serve.

Product excellence in areas such as loans, leases, deposits and mutual funds is important to us. Our larger objective is to be recognized by members as the financial institution that can fulfill all their financial service needs, at each stage of their lives.

Through the Westminster Savings Foundation, we support worthy charitable organizations that work to improve the quality of life within our general trade areas. The credit union strongly supports employees having an active role in our communities. Our staff Community Involvement Teams have a long tradition of supporting a wide variety of community activities.

WSCU and its associated companies employ 400 staff. Our employees have a strong commitment to delivering high quality service. High quality personal service and building solid customer relationships is the hallmark of WSCU’s member-focused business strategy. Employees participate in numerous education and career development programs to enhance their knowledge and skills in delivering superior service to members and customers.

In the past year, we have seen significant economic turmoil turning to early signs of recovery as the year progressed. Such volatility and uncertainty has had an impact on our members and the businesses in the communities that we serve. It has been a challenging environment for financial institutions. We are pleased that the credit union has weathered this economic storm and has helped our members do the same. We have had a profitable year and have a positive outlook for 2010. The credit union’s strength and financial performance during this period of unprecedented financial crisis augurs well for the coming recovery period.

Economic Environment

Economic Outlook and Interest Rates

Canada's GDP is forecast to grow by 2.4 per cent in 2010, but forecasts vary widely, reflecting the general uncertainty of the environment. Business investment spending will decline in 2010, but then pick up to 4 per cent in 2012 and 2013. GDP will not exceed 2008 levels until 2011.

Market rates and government bond yields may begin to move up from their lows in the latter half of 2010, but an uneven economic recovery means considerable uncertainty regarding both the extent and the timing of interest rate movements. The introduction of B.C.'s Harmonized Sales Tax (HST) on July 1, 2010 will increase the tax burden on consumers and some businesses, including the credit union. The Canadian dollar is expected to continue to rise relative to the US dollar as a result of continuing and extended weakness in the US.

The unemployment rate will remain high but with a return to job growth in 2011.

Central bankers would likely prefer to move away from the current environment of extremely low interest rates. Rates will rise as the economy recovers, with uncertainty arising with regards to the extent and timing of the increase.

The immediate future is more straightforward. Our central bank has expressed its intention to hold rates steady through the middle of the year. Any interest rate increases will likely be seen late in the year or in 2011. Accordingly, we expect to see the five-year mortgage rate to begin rising from current levels as we move through 2010.

2009 Outlook – BC and Lower Mainland

BC did not escape the impact of the recession. With an early boost from the Winter Olympics, BC should see a return to growth in 2010. However, the impact of the implementation of the Harmonized Sales Tax and other general uncertainties regarding the economy make the future beyond that less clear.

The housing market in our market areas has seen a solid rebound. The HST may slow residential investment, but in general, we expect the housing market to continue to perform well as the economy recovers. Consumer spending will likely follow a similar pattern.

Corporate profits and business investment may be slower to recover. BC's resource industries will be further weighed down by the strong dollar, which may continue to rise in the coming years. These conditions will likely persist until the broader economy has gained strength and interest rates begin to rise.

Market Environment

WSCU operates within a broad and competitive financial services market, which includes Canada's largest banks, other credit unions and specialty financial service providers. Our branch network serves the greater Vancouver area and lower Fraser Valley regions, with mortgage financing available through a network of independent mortgage brokers.

MANAGEMENT DISCUSSION & ANALYSIS *continued*

Our passenger vehicle leasing is largely provided through independent dealers and brokers in greater Vancouver, the Fraser Valley, Vancouver Island, the B.C. Interior and major Alberta centres. In this market, we compete against other financial institutions, finance companies and vehicle manufacturers' "captive" finance companies.

Our equipment leasing subsidiary, Mercado Capital Corporation, serves markets primarily in Western Canada and Ontario and competes with other financial institutions that are active in equipment leasing. Mercado's financing volumes are influenced by the general level of business investment activity.

As outlined above, WSCU has shown resilience through the recent economic turmoil, but this environment has had an impact on many market participants. We believe that the improving economy and return to growth will open opportunities in the coming years that the credit union is well positioned to benefit from, to the advantage of the members and communities it serves.

2009 Operating Performance

2009 Financial Results

Net income for 2009 was \$11.4 million, compared to \$10.4 million in 2008. Earnings in the year reflected positive operating results. The credit union had total assets of almost \$1.8 billion, the result of moderate growth. We experienced narrower financial margins during the year. However, this was offset by lower operating costs achieved despite our growth and the ongoing expansion of our branch network.

Results were favourably impacted by gains from the credit union's asset securitization programs. Conversely, financial performance was impacted by increased provisions for losses on loans and leases, and by a loss on goodwill impairment related to the recent Mercado acquisition. The resulting higher income levels led to increased income tax expense for the year.

Comprehensive income was \$13.1 million, compared to \$9.6 million in 2008. Other comprehensive income, net of taxes, reflects a fair value gain on held-for-trading investments of \$1.7 million in 2009, compared to a loss of \$787 million in 2008.

Both 2009 and 2008 include a contribution to the Westminster Savings Foundation of \$500 thousand per year.

Net interest income was \$45.8 million in 2009, compared to \$45.0 million in 2008, an increase of \$0.8 million. The increase in net interest income is attributable to our growing portfolios of loans, leases and deposits, offset by a decrease in the financial margin, or net yield, earned from these portfolios. Financial margin fell from 2.73 per cent in 2008 to 2.60 per cent in 2009. This reflects a drop in the average yield on assets, from 5.63 per cent to 4.44 per cent in the year, while average deposit costs fell from 2.90 per cent to 1.85 per cent.

Operating expenses were \$1.2 million lower in 2009 compared to 2008, representing a decrease of 2.6 per cent. Most of this decrease was attributable to a decrease in compensation costs of \$1.1 million, or 4.3 per cent for the year. Occupancy costs increased during the year, by \$190 thousand, or 2.8 per cent. Other general and administrative costs fell by \$276 thousand, or 2.0 per cent, compared to 2008.

MANAGEMENT DISCUSSION & ANALYSIS *continued*

WSCU had total assets of \$1.80 billion in 2009, an increase of \$66 million over total assets of \$1.73 billion held at the end of 2008. Growth in loans and investments was offset, in part, by reductions in leases receivable and liquid assets. Growth in loans was \$105.6 million in 2009, an increase of 8.5 per cent over 2008. Leases receivable contracted by \$17.2 million, or 8.9 per cent. Member deposits grew to \$1.51 billion as at the end of 2009, up 4.2 per cent from \$1.45 billion as at the end of 2008. Borrowings decreased by \$10 million in the year. The excess of loan and lease growth over deposit growth led to a net decrease in cash and investments of \$24.4 million in 2009.

In addition to on-balance sheet growth, the credit union also securitizes mortgages and leases as part of its ongoing operations. In 2009, a total of \$134 million of assets was securitized, compared to \$149 million in 2008. Offsetting this in 2009 were \$98.3 million in purchases of previously securitized mortgages. There were no such purchases in 2008.

The favourable results in 2009 reflect our active treasury operations, which served to offset the effects of the challenging economic environment. In addition, our diversified operations, high-quality asset portfolios and careful cost control also contributed to stable operations during this tumultuous period. Also contributing to growth was our expansion into new retail banking and leasing market areas.

2010 Outlook

We see the coming year as an opportunity to continue to grow our asset, deposit and wealth management portfolios. Leading our growth will be consumer mortgages, with solid growth expected from commercial lending as well. We are optimistic that we will also see a return to growth in our vehicle and equipment leasing businesses. We expect loan and lease delinquencies to fall in the coming year. We are also targeting continuing growth in our retail deposit portfolios.

Given our forecast for a more stable interest rate environment, we expect to see a stable financial margin and less likelihood of impacts from the unusual, non-recurring events that we enjoyed in 2009. With our expectations of similar or slightly lower operating costs in the coming year, we expect to end the year with income levels that fall just below those of 2009.

The credit union is continuing to seek opportunities for measured expansion of our branch network. A new branch in the Hastings Heights area of North Burnaby opened in early 2010.

Our challenges in 2010 will be to grow our membership, by continuing to develop innovative and competitively priced retail, wholesale and commercial deposit products to attract and retain funds. We will also launch new and improved programs to continue our internal focus on employee education, training and promotion, as well as on sales activities and ongoing improvements to operational efficiency.

We believe that our members can be justifiably proud of the stability and performance of the credit union through these most unprecedented, perilous times.

REVIEW OF OPERATIONS AND FINANCIAL POSITION

Operating Highlights

WSCU's results in 2009 reflect solid financial and operating performance, with results that exceeded the previous year's achievements.

Three key items influenced this result. One was the contribution of our managed investments portfolio, which saw gains in 2009 in excess of the losses experienced in the previous year. A second contributor was increased loan and lease securitization gains. The third key item was the fall in overall operating costs. Offsetting this was a drop in member service income, reflecting the slowing economy, and a gain on retained interest that was smaller than in the previous year.

In assessing operating performance, management emphasizes three key operating ratios:

- Return on Average Assets (ROAA), which reflects the overall relative profitability of the credit union. The credit union's return on average assets was 0.65% in 2009, up from 0.63% in 2008;
- Return on average equity is determined by dividing net income by average equity and indicates how effectively a company can generate net income from the equity or capital employed. The credit union's return on equity was 9.88% in 2009, down slightly from 9.98% in 2008;
- The efficiency ratio, or the expense-to-revenue ratio, measures the proportion of revenue which is spent on operating costs. A lower ratio reflects greater efficiency. The credit union's efficiency ratio improved to 67.7% from 75.1% as non-financial revenues rose and operating costs were reduced.

These three key performance ratios point towards the solid performance of the credit union during these very uncertain times. A more detailed analysis of 2009 operating performance is outlined in the sections below.

Net Interest Income

The largest component of the credit union's income is net interest income. This is the difference between financial income (interest earned on investments, loans, and leases receivable) and financial expense (interest paid on members' deposits, borrowed funds and interest rate swaps).

In 2009, net interest income was \$45.8 million, up 1.8 per cent from \$45.0 million in 2008. Expressed as a percentage of average assets, the net interest income was 2.60 per cent in 2009, compared to 2.73 per cent in 2008. The yield on investments, loans and leases decreased substantially in the year as interest rates fell. Yield fell from 5.63 per cent to 4.44 per cent during the year. Similarly, interest costs on deposits and borrowings fell from 2.90 per cent to 1.85 per cent. Accordingly, the increase in net interest income was largely due to growth in the asset and liability portfolios, offset by the somewhat reduced net yield.

The drop in yield occurred in most categories of loans and leases, but the impact was dominated by a steep fall in the yield on floating rate and prime-based loans. The

prime rate in Canada fell to 2.25 per cent in early 2009 and stayed at that historically low level throughout the year. Most financial institutions including the credit union adjusted the rates on some floating-rate loans to compensate for this anomalous interest rate environment.

Lease income and related fees were also lower in this environment, as were investment yields.

Deposit costs, particularly demand deposit accounts, also fell substantially during the year along with the general level of interest rates. Borrowing costs also fell substantially, from \$5.6 million in 2008 to \$1.1 million in 2009, reflecting not only lower interest rates, but reduced levels of borrowings through the year.

Services Income

Services income is made up of various fees, service charges, penalties and other miscellaneous revenues that are not part of net interest income. This category also includes other miscellaneous gains, including gains on certain investments that are measured at fair value, and gains related to the sale of assets.

Through the successful use of treasury operations, the credit union was able to capitalize on opportunities presented by the volatile economic environment, by selling assets at a gain and by holding tradable assets as they appreciated in value as interest rates declined.

Services income increased by \$5.4 million, from \$22.8 million in 2008 to \$28.2 million in 2009. Within this category, there was a substantial increase in investment gains in the amount of \$4.4 million over the previous year. Gains on the securitization of loans and leases was also \$1.7 million higher in 2009. Fee income from loans and leases was up in the year, but fee income from member service fees, including mutual fund sales commissions, was down during the year.

The credit union measures its continuing interest in sold loans and leases at fair value, as required by Canadian accounting principles. Such assets, which represent a claim to future cash flows, increase in value as interest rates decline. The gain on retained interest is recorded in services income. However, the gain in 2009 was lower than in 2008, when rates were falling more sharply.

Overall, services income expressed as a percent of average assets was 1.60 per cent, up from 1.38 per cent in 2008.

Services Expense

Services expense includes costs related to the delivery of transactional account services and leasing services and includes such costs as automated teller (ATM) and Interac Direct Payment transaction processing costs and cheque clearing costs. This category also includes securitization fees, investment management costs and other loan processing costs.

Services expense in 2009 was \$4.4 million, as compared to \$4.0 million in 2008. Services expense as a percentage of average assets was 0.25 per cent in 2009, as compared to 0.24 per cent in 2008.

Much of the increase in service expense related to asset sale activities.

Goodwill Impairment

On May 31, 2007, the credit union acquired Mercado Capital Corporation. The acquisition was made at an initial purchase price of \$7.5 million and contingent consideration of up to \$4.8 million, payable over the first three years of operation. During 2009, an additional \$1.4 million of this contingent consideration was paid. As in prior years, this payment was accounted for as goodwill on the acquisition.

Each year, any goodwill is tested for impairment, as required by generally accepted accounting principles. As a result of the weak economy and the resulting impacts on the business of Mercado, we determined that the full amount of goodwill was impaired. This resulted in a goodwill impairment charge of \$1.4 million on the consolidated income statement.

Provision for Credit Losses

In 2009, the credit union's provision for losses on loans and leases was \$7.0 million, a significant increase over the \$3.1 million charged in 2008. This represents the expense recorded in anticipation of expected credit losses.

In determining an appropriate provision for anticipated credit losses, WSCU considers various factors including the nature of the underlying loan or lease security. For loans, a general provision of 0.43 per cent of loan balances is made, and for leases a general provision of 1.05 per cent of lease balances is made.

The most significant contributor to the increased provision in 2009 was a provision for losses on leases receivable of \$4.1 million (\$1.6 million in 2008). As a result of the increased provision for credit losses recorded in 2009, the credit union's allowance for losses on loans and leases receivable has increased to \$7.7 million, up from \$5.7 million as at the end of 2008.

Loans classified as impaired at the end of 2009 were \$8.6 million, versus \$9.0 million in 2008. Despite the decrease from the previous year, this represents an elevated level of impaired loans as a result of the recent economic turmoil. For these impaired loans, the credit union held security with an estimated value of \$8.0 million (\$8.9 million in 2008), representing 93.5 per cent of the impaired loan amounts outstanding (98.6 per cent in 2008).

There were no impaired leases. For leases which would otherwise be classified as impaired, the amount of the lease is removed from leases receivable, and the realizable value is recorded as Vehicles and Equipment Held for Sale, under Other Assets. These assets are revalued regularly and any anticipated losses are immediately recognized as a charge against the allowance for losses on leases.

Management performs rigorous analysis of delinquent loans and leases, considering both specific factors as well as general economic factors including the weak economic conditions we are currently experiencing. Management believes that the allowance for losses on loans and leases is prudent and adequate.

Operating Expenses

Despite overall business growth, the credit union was successful in controlling costs in 2009, with reductions in many cost categories. Total operating expenses were \$45.5 million for 2009, down 2.6 per cent from 2008.

Most of the year-over-year decrease is attributable to salary and employee benefits costs. These costs include various employee-related costs, including wages, commissions, pensions, benefits, recruitment and training costs. These costs fell from \$26.1 million in 2008 to \$25.0 million in 2009, a drop of 4.3 per cent compared to 2008. Much of this decrease is attributable to ongoing efficiency measures.

Occupancy costs include rent, leasehold improvements, furnishings, maintenance, property tax and other costs of office space used for retail branches, service departments and administration. Occupancy costs increased from \$6.8 million in 2008, to just under \$7.0 million in 2009. Cost increases reflect preparations for a new branch in 2010.

Administration costs were reduced in 2009, falling to \$6.25 million from \$6.4 million in 2008. There were no unusual cost fluctuations in this category. Data processing costs were also largely unchanged year-over-year.

Marketing costs increased from \$1.7 million in 2008 to \$2.1 million in 2009. Many of the incremental costs in this category were related to member acquisition and retention programs.

Intangible asset amortization of \$819 thousand (\$1.3 million in 2008) relates the scheduled write-down of intangible assets acquired as part of the acquisition of Mercado.

Sales expenses were lower in 2009 than 2008, while research and development expenses were slightly higher.

Income Taxes

The provision for income taxes was \$3.8 million, up from \$1.45 million in 2008, reflecting higher net income in the year. In addition, the credit union had a higher effective tax rate in 2009, as more of the credit union's income was subject to a higher marginal rate (25 per cent versus 12 per cent in 2008).

Westminster Savings Foundation Contribution

The credit union contributed \$500,000 to the Westminster Savings Foundation in 2009, the same amount as was contributed in 2008. Contributions to the foundation are made at the discretion of the WSCU Board of Directors which makes its determination based on a number of factors including the overall results of the credit union.

Assets

Total credit union assets increased to \$1.79 billion as at December 31, 2009. This is an increase of \$66 million, or 3.8 per cent. Growth was centred in the loan portfolios, which increased by \$105.6 million, or 8.5 per cent. Leading the increase were consumer mortgages, which grew by 21.4 per cent, from \$654 million in 2008 to \$794 million as

MANAGEMENT DISCUSSION & ANALYSIS *continued*

at December 31, 2009. This increase reflects the purchase of \$98.3 million of mortgages previously securitized. Personal loans saw a decline, however, from \$219 million to \$201 million, a decrease of 8.1 per cent.

Cash and investments decreased by a net amount of \$24.4 million compared to 2008, as overall loan and lease portfolio growth exceeded deposit growth in the year.

Commercial mortgages rose from \$184.8 million to \$190.2 million in the year, an increase of almost 3 per cent. Other commercial loans, including lines of credit, declined by \$21.4 million in the year, leaving overall net growth of the commercial book with a net contraction of \$16 million.

The allowance for losses on loans increased by \$1.06 million to \$5.87 million in the year, reflecting the uncertain economic environment. Credit union management believes that the loan portfolio is well secured and diversified, and that adequate allowance has been made for future losses.

The leases receivable portfolio contracted by 8.92 per cent, from \$193.5 million to \$176.2 million in 2009. The most significant dollar decline was in our largest lease portfolio, vehicle leases, which contracted by \$13.7 million or 7.5 per cent. The allowance for losses on leases increased by \$1 million in the year.

In the non-financial asset categories, we saw an overall increase of \$1.6 million. Vehicles and equipment held for sale, reflecting the realization on security for leases, increased by \$2.7 million, a reflection of the weak economy.

This increase was more than offset by the decrease in the value of the retained interest in securitized assets of \$3.7 million. These amounts represent the value of future cash flows from asset sales that accrue to the credit union over the term of the underlying assets. During the year, there was a \$98.3 million purchase of previously securitized consumer mortgages, causing the decrease to retained interest relating to the underlying mortgages.

Intangible assets from the Mercado acquisition fell by \$0.8 million as these assets were amortized. The remaining other assets account categories showed increases or decreases within the expected range of normal operating activity.

Deposits and Other Liabilities

The credit union had a successful year from a deposit raising perspective. Members' deposits grew to \$1.51 billion as at the end of 2009, up from \$1.45 billion a year earlier. This was an increase of 4.2 per cent.

Demand deposits showed a healthy increase of \$82.3 million, or 16 per cent during 2009, reflecting efforts during the year to attract new members and business accounts. Continued success of the High Interest Savings Account, including the new Tax-free High Interest Savings Account, made the greatest contribution to this growth. There was a small but noticeable decline in short-term deposits, as members took advantage of this premium savings account instead. The overall net decline in term deposits was \$28.2 million, or 4.15 per cent.

Registered accounts also grew in the year by \$10.5 million, or 4.3 per cent, to \$256.6 million at the end of 2009.

We saw accrued interest balances decline by \$3.8 million, reflecting the extremely low interest rate environment during the year.

MANAGEMENT DISCUSSION & ANALYSIS *continued*

Credit union borrowings decreased by \$10 million to \$137.8 million in 2009. Borrowing is within the expected range for ongoing short-term liquidity management purposes.

In non-financial liability accounts, accounts payable were largely unchanged for the year. The accrual for current taxes payable liability increased by \$1.1 million over 2008, and accruals increased by a further \$2.2 million relating to lease recoveries payable to investors in leases we have securitized. These items contributed to the overall increase in accounts payable and Accrued Liabilities of \$3.3 million in the year.

Members' Equity

Members' Equity grew to \$122.2 million, from \$109.1 million as at the end of 2008. Members' Equity is comprised of retained earnings and accumulated other comprehensive income. Retained earnings grew in line with net income for the year. The increase in accumulated other comprehensive income of \$1.7 million represents the valuation of the retained interest in securitized assets, along with fair value increases in the managed investment portfolio resulting from falling interest rates and improvements in equity markets.

Funds Under Administration

WSCU operations include the origination of loans and leases which are securitized and sold to third parties. WSCU continues to administer these assets on behalf of the purchasers, which provides the credit union with ongoing service revenue. At the end of 2009, such mortgages and leases receivable totaled \$279 million (\$388 million in 2008), a decrease of \$109 million, or 28 per cent, during the year.

As part of its ongoing service to members, the credit union sells the investment products of third party suppliers, for which the credit union receives ongoing commissions. At December 31, 2009, the accumulated total of such investment products sold was \$365 million (\$295 million in 2008).

For members with self-directed retirement accounts, the credit union acts as administrator for a fee. At December 31, 2009, the portfolio of self-directed assets under administration was \$41 million (\$44 million in 2008).

LINE OF BUSINESS RESULTS

WSCU operations are organized around three operating divisions: Retail Banking Services, Commercial Services, and Leasing. We manage each individual operating division as if it were a stand-alone business.

A fourth, non-operating division provides corporate, administrative and support services to the operating divisions. Some of these corporate division costs are allocated to the operating divisions to reflect the use of these services. The remaining results in the corporate division reflect activities which benefit the credit union as a whole. These activities include liquidity and investment management, funding, asset securitization and other corporate administration.

Retail Financial Services Division

Retail Financial Services division provides branch banking, consumer borrowing, wealth management and transaction processing services to over 50 thousand members through our network of eleven retail branches.

In the Retail Financial Services division, our service delivery model consists of three components or channels: the branch channel, the electronic channel (i.e., ATMs, internet banking, Interac Direct Payment, telephone banking and web presence), and the Member Service Centre (MSC), which provides service by telephone.

We are continuing to invest in our retail branches, which serve as a touch-point with those members who prefer to have a service relationship with an individual or team. Our objective is to align the membership wants and needs with the employee or team of employees best suited to fulfill those needs. We have segmented our membership base into portfolios that can be managed by the appropriate employee or group of employees. We opened a second Burnaby Branch in the Hastings Heights area in early 2010, and prior to that, we opened a new branch in Metrotown in 2008 and two new branches in 2006 (the Langley Branch and the Cloverdale Branch). All other branches, with the exception of the Maple Ridge Branch, have undergone renovations in the last few years. The Maple Ridge Branch is scheduled for relocation to a brand new site in 2011.

The electronic channel provides a growing variety of services and conveniences to members. WSCU is proactively expanding the services provided through this delivery channel. Our objective is to provide members with secure service options and expanded service hours, while improving the cost effectiveness of our overall service delivery system.

With knowledgeable staff and expanded hours of operation, the member Service Centre, augments the service provided through our other service channels. Our objective is to enhance service, and to continue to tailor in-branch service delivery to focus on business requiring personal member interaction.

Business Objectives

The business objective of the Retail Financial Services division is to deliver a full range of competitively-priced consumer deposit, loan, investment and transactional banking products, in keeping with the changing needs of our members. We focus on profitable growth and maintaining credit quality in a very competitive environment.

2009 Performance

The Retail Financial Services division had a successful year in 2009 despite the challenging economic environment. The division generated substantial asset and deposit growth. Administered portfolios, including mutual funds and other investment products, contracted early in the year and recovered as the year progressed in keeping with the movements in equity markets.

The Retail Financial Services division achieved the majority of its overall loan, deposit and administered product targets for 2009.

Residential mortgage growth was substantial in the year. Typically, we securitize a significant portion of our residential mortgage growth each year. In the weak economy of 2009, we retained a greater proportion of these assets on our balance sheet to compensate for generally slower economic activity. Despite the challenging market

MANAGEMENT DISCUSSION & ANALYSIS *continued*

conditions, we have continued to offer our members a very competitive residential mortgage product at a competitive price.

The Retail division was also responsible for a significant portion of our overall deposit portfolio growth. Contributing to deposit growth was the ongoing success of our High-Interest Savings Account and the new Tax-Free High Interest Savings Account.

On the consumer lending side, our on-balance sheet growth in consumer mortgages of over \$140 million reflects solid performance for the year.

As the problems in the U.S. housing market spread through international financial markets, we saw a cyclical slowing in our wealth management business, as many of our members returned to guaranteed term investment products.

Our broker centre, which services mortgage brokers in our trade areas, showed reduced activity in keeping with the generally weaker economy.

2010 Outlook

As the economy improves, we expect the financial services industry to gain strength as we move through 2010. However, the financial crisis of the past few years has likely had a long-term, structural impact on asset securitization markets, which impacts the credit union's funding options.

The remarkable recovery in the real estate market in late 2009 should lead to improved demand for mortgage and personal lending products in 2010. The credit union has a competitively priced suite of lending products and is well positioned to capitalize on this environment in our retail branches and in our broker centre.

Equity markets were oversold early in 2009 as a result of the financial crisis. In the interim, equity markets have staged a dramatic recovery as investor confidence returned. Assuming continuing improvement in the economy, the modest rally in mutual fund sales experienced in the latter half of 2009 will continue into 2010, presenting the opportunity to grow our administered portfolios.

We are cautiously optimistic about the improving environment for 2010. We expect member service and growth to be the key areas of focus for the Retail Financial Services division, including the following initiatives:

- Deposit growth will continue to be a high priority for Retail Financial Services, including a focus on retention of the deposit growth achieved during the economic slowdown. As always, we expect to face intense competition for deposits. We will continue with our measured branch expansion with the opening of the new Hasting Heights location in Burnaby early in 2010. We will continue to emphasize our member acquisition and member referral initiatives that were launched in 2009, particularly at our newer, high-potential branch locations;
- In 2010, we will complete the development and implementation of our next-generation training model, promoting consultative skills, processes and behaviours with an emphasis on building trust with members;
- In 2010, we will introduce improved portfolio assignment, contact, and communication protocols to ensure members are provided appropriate levels of information, contact and service designed to improve the overall relationship with the credit union;
- We will also continue to seek opportunities in both new and existing trade areas to expand our retail branch network.

Commercial Services Division

The Commercial Services division provides mortgage financing and other related business services to small and medium sized businesses in our target market areas. Our commercial strategy is predicated on servicing three distinct groups of business members: small- and medium-sized enterprises (SME), the real estate development market, and micro-businesses. Each segment is serviced by a dedicated team of professionals with specialized skills, lending procedures and products which cater to each segment.

Business Objectives

The business objective of the Commercial Services division is to provide financing and related commercial services to developers and targeted business segments in our market area. This division seeks quality loans which earn a suitable rate of return reflective of the nature of the underlying loan security. In this way, the credit union can offer the services required by our members who own and operate businesses in our communities.

2009 Performance

Commercial activity was decidedly slow during 2009. Overall, commercial mortgages and loans decreased to \$362 million in 2009, down from \$378 million in 2008. While commercial mortgages grew in the year, loans and lines of credit saw a decline.

The past year has demonstrated how cyclical volatility can present significant risks for real estate developers. We will continue our strategy to diversify our commercial services business to moderate our exposure to the more cyclical development sector.

The outlook for 2010 is optimistic but remains uncertain. We expect demand for financing from all segments to improve and for financing projects to return to more normal levels.

We continue to offer a full suite of competitive deposit products, which is contributing to deposit growth. We believe this area continues to offer further growth potential and remains an area of focus for the commercial group.

2010 Outlook

In 2010, we expect activity and competition to increase in this sector, and we will be focusing on the following key initiatives:

- Tailoring our business product suite, including pricing and on-line services, to meet the needs of existing and potential business customers and to ensure we remain competitive in the current market;
- Enhancements to our internal opportunity identification, cross-referral and external marketing and business development processes.

Leasing Division

The vehicle and equipment leasing division is made up of WS Leasing and Mercado Capital Corporation, both wholly-owned subsidiaries of the credit union.

WS Leasing provides vehicle leases (consumer and fleet) and small-ticket equipment leases. WS Leasing's primary trade area is the Lower Mainland region of British

MANAGEMENT DISCUSSION & ANALYSIS *continued*

Columbia, the Okanagan Valley, Vancouver Island, and Alberta. About two-thirds of our business serves the used vehicle market. WS Leasing has distinguished itself in the marketplace by providing competitive leases for the sizeable used vehicle market, with a market share in the Lower Mainland exceeding 22 per cent.

Mercado Capital Corporation is a small to mid-ticket equipment financing company serving Western Canada and Ontario. Mercado originates leases for securitization and sale and maintains a small portfolio of leases receivable.

Business Objectives

The business objective of the Leasing division is to develop and operate a successful and growing leasing business which earns a suitable rate of return for the benefit of the credit union membership.

2009 Performance

During 2009, the leasing industry was impacted by the problems in the vehicle manufacturing sector. Canadian new vehicle sales were down significantly, and heavy truck sales dropped by close to 50 per cent. The major “captive” automotive leasing companies cut back or exited the business, and there was consolidation among other industry participants. The remaining competitors were pricing aggressively in an attempt to acquire business in a very slow market.

Accordingly, our equipment leasing business saw slower than expected growth, and the vehicle leasing business saw portfolio declines for the year. Overall, the leasing portfolios declined by 8.9 per cent, to \$176.2 million. We have seen increased delinquency in our lease portfolios as well, resulting in an increased inventory of used vehicles and equipment for sale.

The credit crisis of the past two years has also impacted the cost and availability of funding for our equipment leasing business.

2010 Outlook

Vehicle sales began to show signs of life in late 2009, and the value of used vehicles began to increase. We expect a continued pickup in the market in 2010. Manufacturers of large trucks and heavy equipment, however, show some reluctance to increase production through 2010 until they see some consistency in sales.

There are increasing signs of market improvement. In Alberta, there has been some recent investment in oil exploration, construction is up slightly and there is a positive feeling in regards to the economy. The Ontario market continues to be soft because of the manufacturing issues.

2010 marks the completion of a three-year transition period, which followed our acquisition of Mercado in 2007. During this final phase, we will be focusing on completing the systems integration and document automation and on achieving additional synergies between Mercado and WS Leasing.

We are also seeing improvements in the capital markets, with improvements in the cost and availability of credit. In 2010, we will continue our efforts to broaden our funding structure for our equipment leasing business. However, with a return of credit availability, we also expect to see a concurrent increase in competitive pressures.

MANAGEMENT DISCUSSION & ANALYSIS *continued*

In 2010, we will also be focusing on the following key initiatives in our leasing business:

- Directing increasing attention on our more profitable sources of lease business, while controlling delinquency;
- Reduction of vehicle and equipment inventory, by tailoring our disposal processes to take advantage of the improving market. We expect to reduce this inventory significantly in 2010.

Corporate Division

Within our corporate division, the Administration group establishes policies and processes and provides support services to all the business units to ensure that the credit union operates in an efficient, controlled, and integrated manner. These functions include: accounting, treasury, internal audit, risk management, marketing, retail credit services, sales, premises and facilities, people services, information systems and other centralized services.

Marketing

The marketing area provides product development, product management, market analysis, promotion and communications support to the operating divisions and subsidiaries. This department is responsible for managing the overall credit union marketing strategy and brand.

People Services

The people services department provides human resource management, recruiting, training, performance management and other employee development services for the credit union and its subsidiaries. This department has a significant influence on the quality of service provided by WSCU.

Corporate Accounting

The corporate accounting area provides financial accounting, management accounting, regulatory reporting and other business support services to WSCU's operating divisions and subsidiaries, and is the focal point for accounting controls and other internal controls.

Treasury

The treasury department provides liquidity management and specialized technical services to WSCU. This area manages the credit union's liquidity investment portfolio. This area is also responsible for asset/liability management and the overall control of interest rate risk for the credit union. The treasury area manages the credit union's funding strategy, including borrowing lines and securitization programs, optimizing the overall cost of funding and ensuring that sufficient liquidity is maintained. This area also monitors the credit union's capital.

Information Systems

The information systems area provides technical and business support for the credit union's varied technologies. This includes major enterprise systems such as our banking system, lease administration system, and financial systems. This area also manages the

many relationships with outside suppliers who provide services such as cheque clearing, transaction switching, credit card processing and wealth management services.

Outsourcing

The corporate division outsources non-core functions to best-in-class service providers to achieve efficiency gains. Outsourcing arrangements support the credit union's sales program, advertising strategy, internal audit, banking system operation, computer hardware support and software development.

RISK AND RISK MANAGEMENT

Overview

WSCU's operations involve taking a variety of risks that may affect future results. Our objective is to protect the credit union from unacceptable business losses or earnings volatility, and to ensure that the risks we take are prudent and are in proportion to the business being conducted.

WSCU manages risk through a combination of corporate governance and enterprise risk management programs. These programs ensure that prudent, formal policies are in place, with appropriate oversight of ongoing risk management activities, throughout the credit union.

Westminster Savings Credit Union was an early adopter of Enterprise Risk Management (ERM). The credit union employs ERM to identify, assess and manage risks in the face of uncertainty. The process supports the creation of enterprise value and the mitigation of risks. The risk management process is embedded in all major areas of the business.

The credit union maintains an internal audit strategy which utilizes both internal and external resources. This strategy provides the credit union with flexible access to professional internal audit specialists while maintaining the independence of the internal audit function.

The credit union also maintains a business continuity strategy, along with Disaster Recovery and Business Continuity Plans. These plans are designed to cost-effectively provide for the continuity of key credit union functions should it be impacted by a disruptive event. These plans are tested regularly.

The credit union engages a recognized national audit firm to carry out the annual audit of the credit union's financial statements.

The final protection against adverse impacts is the credit union's capital. The Financial Institutions Act (B.C.) requires the credit union to maintain a prescribed capital base of 6 per cent of risk-weighted assets and stipulates that a capital ratio below 8 per cent may result in regulatory restrictions. This prescribed level of capital is determined by assigning each credit union asset with a risk factor based on its inherent characteristics. Credit union policy requires that a capital ratio of not less than 9 per cent to be maintained. At December 31, 2009, the credit union capital ratio of 15.8 per cent (14.2 per cent in 2008) exceeded both the regulatory capital ratio of 8 per cent and its own internal ratio of 9 per cent.

Key Risks

The key risks faced by the credit union are the following:

- credit risk, which is the risk of loss resulting from a borrower's inability or unwillingness to repay a loan or from a counterparty's inability to complete or fulfill financial obligations;
- financial market risk, which is the risk of loss that results from changes in external markets, including interest rates, foreign exchange rates, equity and commodity prices, and credit spreads;
- competitive market risk, which is the risk of customer loss, increased cost or other business impacts due to changes in the competitive markets for financial services, vehicle leasing and equipment leasing;
- liquidity risk, which is the risk that the credit union may be unable to meet its financial obligations in a timely manner and at reasonable prices;
- operational risk, which is the risk of loss resulting from the failure or inadequacy of internal systems and processes, or from external impacts.

The above is by no means an exhaustive list. Other risks that may affect future results include changes in government policy, ongoing compliance with regulations or other matters affecting the credit union system, changes in consumer and commercial borrowing patterns, changes in personal savings and spending patterns, and changes to technology.

Corporate Governance

WSCU strives to earn and retain the trust of our members and other stakeholders through our commitment to sound corporate governance.

The credit union's corporate governance practices are reviewed annually, and are continuously enhanced to meet high standards. In addition, all Audit Committee members meet the requirements of the guidelines published by the Canadian Institute of Chartered Accountants.

Board and management committees review lending, investment, risk management, capital, asset-liability, funding and liquidity policies annually. These policies cover limits, exposure, strategies, monitoring, and reporting. Where required, changes to policy are filed with the Superintendent of Financial Institutions.

The board monitors financial risk principally through three committees made up solely of independent directors:

- The Audit Committee oversees the financial reporting process, reviews financial statements, liaises with internal and external auditors and regulators, and reviews internal control procedures;
- The Investment and Loan Committee monitors and reviews lending and investments (composition and performance), reviews and recommends policy changes to the Board of Directors, and approves credit within limits established by the board;
- The Governance & Conduct Review Committee establishes and maintains effective governance guidelines, reviews and approves transactions involving related parties. The board produces an annual governance report for members which provides considerable detail about the governance activities and practices of the credit union.

Enterprise Risk Management

Enterprise risk management at WSCU is designed to ensure sound, prudent operations, stable earnings, and ongoing viability of the credit union. Effective risk management also helps the credit union ensure that appropriate business strategies are developed and implemented. Our risk management processes involve the Board of Directors and all levels of management, along with an independent audit function.

The process is designed to identify risks that may affect the credit union, to analyze and understand the potential impacts these risks may have on the credit union, and to manage these risks within our agreed risk profile. Through this process, we establish reasonable assurance of achieving our objectives despite uncertainties in the environment in which we operate.

WSCU's Enterprise Risk Management Committee, comprised of executive management, reports regularly to the board on the process, and on the assessment of monitored risks. In addition to reviewing these reports, the board formally reviews the enterprise risk management program and its results annually.

The management committees have direct responsibility for risk management:

- The Credit Committee authorizes loans within the limits established by the Board of Directors;
- The Asset-Liability Committee is charged with optimizing net interest income while maintaining acceptable levels of risk, including interest rate risk in particular. It oversees the strategies for managing assets, liabilities and capital, monitors asset allocation and balance sheet risk, and assesses the overall balance sheet risk profile of the credit union.

All management committees are subject to regular oversight by the board.

The Manager, Risk Management, reports to the Senior Vice President and Chief Financial Officer. This position is responsible for the ongoing administration of the credit union's formal risk management programs.

The Internal Auditor reports functionally to the Audit Committee, and administratively to the Chief Executive Officer. The Internal Auditor has a mandate for corporate-wide audit. In addition to in-house audit resources, the credit union also contracts with outside audit specialists.

Protecting our stakeholders' privacy is an important element of risk management which the credit union has long respected. WSCU complies with the Personal Information Protection Act, which became effective in B.C. on January 1, 2004.

The credit union applies its comprehensive risk management program, established governance practices and sound business and financial practices to the key risk areas as outlined above.

The credit union maintains a detailed assessment of risks on an ongoing basis. For 2010, the key risks to achieving our targets are related to the recovering economy and its lingering impact on loan and lease delinquencies, and on funding and funding costs, as well as impacts that may result from changing Canadian accounting standards.

CAPITAL AND BALANCE SHEET MANAGEMENT

Capital Management

As an important part of our overall financial strategy, we manage our capital to ensure that sufficient and appropriate capital is available to protect against unexpected events and facilitate expansion. A strong capital position offers protection in the face of risk and preserves the safety of member deposits.

The ratio of capital to risk-weighted assets is referred to as the capital adequacy ratio. Indicative of our strong capital position, WSCU's capital adequacy ratio, including system capital, was 15.8 per cent at December 31, 2009, compared with 14.2 per cent in 2008. This exceeded regulatory and policy requirements. The credit union's increased capital position in the year reflects the retention of income for the year, along with a decrease in risk-weighted assets resulting from a shift in the asset structure from leases to residential mortgages.

WSCU builds capital from the retention of earnings. As at December 31, 2009, WSCU's total capital was \$133.6 million (\$117.2 million in 2008), of which 91 per cent was retained earnings. The credit union's capital base also includes equity shares and future income tax liabilities, plus WSCU's proportionate share of "system capital". System capital refers to the retained earnings of the centralized credit union organizations (CUDIC, Central 1 and Stabilization Central) owned by B.C. credit unions.

We forecast and manage the amount and composition of our balance sheet and expected levels of risk-adjusted assets to remain well capitalized. WSCU has policy limits in place which set out the minimum capital requirement. A target rate of return on capital is established and monitored.

Credit Quality

WSCU uses a disciplined approach to granting credit and to the ongoing monitoring of all credit exposures. Any arrears in loan or lease payments are promptly identified on an ongoing basis as an early warning sign of a potential problem. In the event of a credit deterioration of any loan or lease, we follow strict credit management disciplines to ensure that we maximize our recovery and to ensure that our accounts accurately reflect the expected realizable value of the account in question.

The allowance for credit losses is intended to be sufficient to absorb possible losses in the credit portfolio. The allowance is increased to provide for expected credit losses, with the offset charged against income. The allowance is then used to absorb realized losses, and is therefore decreased when loan and lease receivable amounts are written off. The allowance and its individual elements are evaluated quarterly, based on continuing assessments of problem accounts, recent loss experience, and changes in factors such as the composition and quality of the portfolio and general economic conditions.

Management has determined that a prudent allowance for credit losses as at December 31, 2009 is \$5.9 million for loans (\$4.8 million in 2008), and \$1.9 million for leases receivable (\$868 thousand in 2008). In determining a prudent allowance, management considers a number of factors along with a commitment to maintaining a strong balance sheet during the current economic difficulties.

As the economic environment deteriorated, the credit union experienced an increase in delinquency. Our portfolios are continually monitored and management continues to be proactive in dealing with problem accounts or those accounts that represent a higher risk. This proactive approach has served us well as non-performing loans have been minimized and, more importantly, write-offs have been minimized in all product segments over the past years.

We will continue to take a firm and proactive approach to managing troubled accounts to ensure asset quality is maintained at the highest possible levels. Rather than waiting until accounts are past due 90 days, borrowers who are identified as being in difficulty, or potentially in difficulty, are managed and monitored using specific action plans. We expect improvement in delinquencies in the coming year, and management believes that the credit union has sufficient provisions for expected losses.

Loan and Lease Securitization

WSCU routinely enters into loan and lease securitization transactions whereby the credit union sells consumer mortgages and leases receivable to unrelated third parties. Such arrangements are an important tool in managing our balance sheet. They are used by the credit union to manage its liquidity, credit risk and interest rate risk, to fund additional growth and manage its capital. Securitization transactions have no impact on members who have borrowed the funds. In 2009, the credit union securitized \$97 million of consumer mortgages (\$91 million in 2008) and \$37 million of equipment leases (\$58 million in 2008). When loans and leases are securitized, we record a gain or loss on sale. In determining the gain or loss, we estimate the net present value of expected future cash flows by relying on estimates of the amount of interest that will be collected on the securitized assets, the yield to be paid to the investors, the portion of the securitized assets that will be repaid before their scheduled maturity, expected credit losses, the fair value of servicing, and the rate at which to discount these estimated future cash flows. In 2009, the credit union recognized a gain on sale of mortgages and leases of \$6.3 million (2008 - \$5.8 million). These gains are recorded in service income.

Once sold, such assets are no longer recorded on our consolidated balance sheet. However, the credit union retains an interest in the securitized assets, in the form of a right to future cash flows arising after full payment to investors is complete. Third party purchasers, as holders of the securitized assets, receive the cash flow from the securitized assets. In the event of credit losses on the securitized assets, the purchasers have recourse only to a cash collateral account, funded by the credit union to absorb such credit losses. The balance of the cash collateral account is returned to the credit union as the securitized assets amortize. The credit union's retained interests are subject to credit, prepayment, and interest rate risk on the securitized assets. The carrying value of retained interests amounted to \$12.1 million as at December 31, 2009 (\$15.8 million in 2008) and is recorded in other assets.

In accordance with generally accepted accounting principles, retained interests are carried at fair value on the consolidated balance sheet. The valuation of retained interests is based on a number of assumptions, including assumptions regarding the future level of interest rates. In 2009, the valuation of retained interests resulted in a \$2.3 million fair value gain recorded in 2009, versus a \$3.3 thousand fair value gain in 2008. These amounts are recorded in services income. These valuation gains or losses may continue to have a significant impact on the accounting results of the credit union in future years.

MANAGEMENT DISCUSSION & ANALYSIS *continued*

The credit union continues to administer these securitized assets. The expected future servicing fees are deferred and are recognized as income over the administration period. The carrying value of servicing liabilities amounted to \$2.4 million at December 31, 2009 (\$3.2 million in 2008). These amounts are included in deferred revenue. Servicing liabilities amortized to income during the year amounted to \$2.2 million (\$1.2 million in 2008).

During 2009, the credit union purchased \$98.3 million of previously securitized consumer mortgages (nil in 2008). When previously securitized mortgages are purchased in this fashion, the value of the credit union's retained interest in these mortgages is considered to have been realized. Accordingly, \$1.68 million (nil in 2008) of retained interest was included in net income for the year, and is included in the cost of the purchased mortgages. This value will be amortized and charged against net income over the remaining term of the purchased mortgages.

Residential mortgages that have been securitized mature in the normal fashion, and the credit union usually seeks to renew these mortgages with our members. When the mortgage is renewed, the credit union provides funding in the normal course of business and at current mortgage rates. The renewed mortgage is then included in the credit union's residential mortgage portfolio.

We expect the ongoing difficulties in the financial markets will continue to make asset securitization options less attractive in the coming year.

Contractual Obligations

WSCU routinely enters into contracts which represent long-term commitments for future services, for which the credit union will make future payments. In accordance with GAAP, these obligations are not recorded on the consolidated balance sheet. However, a schedule of future payment obligations is disclosed in the notes to the consolidated financial statements.

The credit union enters into long-term leases for premises, which are used for retail service outlets or for administrative office space.

The credit union has also entered into a long-term services arrangement for the provision of information systems operations and support services.

Accounting and Control

WSCU prepares financial statements in accordance with Canadian generally accepted accounting principles (GAAP). WSCU's financial statements are prepared on a consolidated basis and include the accounts of Westminster Savings Credit Union and its wholly-owned subsidiaries, Westminster Savings Financial Planning Ltd., WS Leasing Ltd., and Mercado Capital Corporation (beginning with its acquisition date, May 31, 2007).

Use of Estimates

The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Significant areas requiring the use of estimates relate to the loan and lease loss provision, securitization assumptions, underlying loan security values, determination of investment values, useful lives of capital assets for amortization purposes, income taxes and pension plans.

Final results, as determined by actual events, may differ from the estimates made before the fact and may affect the future results of the credit union.

Accounting Changes

On January 1, 2009, the credit union adopted the new accounting standard for goodwill and intangible assets. This new policy did not have a significant impact on the credit union's financial position or income for the year.

On January 1, 2009, the credit union adopted Emerging Issues Committee Abstract EIC-173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This Abstract provides guidance on 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.

During 2009, the credit union adopted clarified accounting standards for financial instruments. These clarifications affected certain definitions, applications and disclosures of the existing standards, and did not have a significant impact on the credit union's financial position or net income. However, expanded disclosures of valuation methods and assumptions now appear in the notes to the consolidated financial statements.

Further explanation of these current accounting changes is provided in the notes to the Consolidated Financial Statements.

Future Accounting Changes

The credit union will continue to report in accordance with the current Canadian generally accepted accounting principles in 2010. However, for fiscal 2011, the credit union will report using International Financial Accounting Standards, which will replace the existing Canadian standards as they apply to publically accountable enterprises including credit unions. In our 2011 Consolidated Financial Statements, we will include comparative information for 2010, presented consistently under these new standards, along with an explanation of the differences between the old and new Standards.

We are in the process of implementing our transition plan to adopt these new accounting standards. We are continuing to monitor and evaluate the impact of these new standards on our financial reports.

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AUDITORS' REPORT

To the Members of Westminster Savings Credit Union,

We have audited the consolidated balance sheet of Westminster Savings Credit Union as at December 31, 2009 and the consolidated statements of income and comprehensive income, retained earnings and accumulated other comprehensive income 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.



Chartered Accountants

Vancouver, British Columbia

February 24, 2010

“PricewaterhouseCoopers” refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements of Westminster Savings Credit Union have been prepared by management in accordance with the requirements of the *Financial Institutions Act* and in conformity with generally accepted accounting principles of Canada. The statements include amounts based on informed judgements and estimates of the expected effects of current events and transactions.

To meet its responsibility for preparing reliable financial information, management maintains and relies on comprehensive internal accounting, operating and system controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparing financial statements and safeguarding the assets of the organization.

The financial statements are approved by the Board of Directors. The Audit Committee, comprised of four directors of the board, has reviewed the statements with management and the external auditors in detail.

PricewaterhouseCoopers LLP has been appointed by the membership as independent auditors to examine and report on the consolidated financial statements. They have had full and free access to the internal audit staff and other management staff and the Audit Committee of the Board.

Signed,

Barry W. Forbes
President and CEO

Signed,

Barry G. Ward
Senior Vice President and CFO

February 24, 2010

CONSOLIDATED BALANCE SHEET

As at December 31, 2009 | All tables represented in thousands of dollars

	2009	2008
Assets		
Cash and cash equivalents (note 5)	\$ 125,735	\$ 191,160
Investments (note 6)	97,085	56,108
Loans (note 7)	1,353,890	1,248,274
Leases receivable (note 7)	176,232	193,487
Premises and equipment (note 10)	10,031	9,439
Other assets (note 11)	33,839	32,208
	\$ 1,796,812	\$ 1,730,676

Liabilities and Members' Equity		
Members' deposits (note 12)	\$ 1,512,825	\$ 1,451,996
Borrowings (note 13)	137,802	147,802
Accounts payable and accrued liabilities	18,009	14,644
Deferred revenue	3,804	4,643
Future income taxes (note 20)	2,135	2,499
	\$ 1,674,575	\$ 1,621,584

Members' Equity		
Retained earnings	\$ 121,103	\$ 109,700
Accumulated other comprehensive income (loss)	1,134	(608)
	\$ 122,237	\$ 109,092
	\$ 1,796,812	\$ 1,730,676

Commitments (note 19)

Contingencies (note 21)

Approved by the Board of Directors

Signed,

Emmet McGrath
Chair

Signed,

J. Ross Montgomery
Vice Chair

CONSOLIDATED STATEMENT OF RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME

As at December 31, 2009 | All tables represented in thousands of dollars

	2009	2008
Retained earnings - Beginning of year	\$ 109,700	\$ 99,268
Net income for the year	11,403	10,432
Retained earnings - End of year	\$ 121,103	\$ 109,700
Accumulated other comprehensive income - Beginning of year	\$ (608)	\$ 179
Net change in unrealized gains (losses) on available for sale financial assets - net of taxes \$131,866 (2008 - \$390,254)	1,742	(787)
Accumulated other comprehensive income (loss) - End of year	\$ 1,134	\$ (608)

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

As at December 31, 2009 | All tables represented in thousands of dollars

	2009	2008
Financial income		
Interest from loans	\$ 60,586	\$ 70,399
Interest from leases	15,596	16,555
Interest from investments	2,213	5,773
	\$ 78,395	\$ 92,727
Financial expenses		
Interest on deposits	\$ 31,477	\$ 42,070
Interest on borrowings	1,094	5,626
	\$ 32,571	\$ 47,696
Net interest income	\$ 45,824	\$ 45,031
Other income (expenses)		
Services and other income (note 17)	\$ 28,157	\$ 22,771
Services expense	(4,421)	(4,007)
Goodwill impairment loss (note 3)	(1,390)	(1,612)
Provision for losses on loans and leases (note 7)	(6,998)	(3,103)
	\$ 15,348	\$ 14,049
Net interest and other income	\$ 61,172	\$ 59,080
Operating expenses		
Salary and employee benefits	\$ 25,020	\$ 26,147
Occupancy and equipment	6,992	6,802
Other	13,470	13,746
	\$ 45,482	\$ 46,695
Income before the following	\$ 15,690	\$ 12,385
Contribution to Westminster Savings Foundation	(500)	(500)
Income before taxes	\$ 15,190	\$ 11,885
Provision for (recovery of) income taxes (note 20)		
Current	\$ 4,056	\$ 1,233
Future	(269)	220
	\$ 3,787	\$ 1,453
Net income for the year	\$ 11,403	\$ 10,432
Other comprehensive income (loss) - net of taxes	1,742	(787)
Comprehensive income	\$ 13,145	\$ 9,645

CONSOLIDATED STATEMENT OF CASH FLOWS

As at December 31, 2009 | All tables represented in thousands of dollars

	2009	2008
Cash flows from operating activities		
Net income for the year	\$ 11,403	\$ 10,432
Items not affecting cash		
Amortization on premises and equipment	1,716	1,714
Amortization of intangible assets	819	1,259
Goodwill impairment loss	1,390	1,612
Future income taxes	(269)	220
Provision for losses on loans and leases	5,862	2,898
Amortization of servicing liability	2,250	1,219
Gain on sale of securitized assets	(6,275)	(5,832)
Loss on sale of premises and equipment	-	13
	\$ 16,896	\$ 13,535
Change in non-cash operating accounts	(527)	(4,684)
	\$ 16,369	\$ 8,851
Cash flows from financing activities		
Borrowings	\$ (10,000)	\$ 20,000
Members' deposits - net	60,829	138,623
Proceeds on sale of securitized assets	134,868	148,719
Purchase of securitized consumer mortgages	(101,560)	-
	\$ 84,137	\$ 307,342
Cash flows from investing activities		
Other investments - net	\$ (40,977)	\$ 56,204
Loans - net	(99,496)	(153,772)
Leases receivable - net	(21,760)	(58,269)
Purchase of subsidiary	(1,390)	(1,449)
Net additions to premises and equipment	(2,308)	(678)
	\$ (165,931)	\$ (157,964)
(Decrease) Increase in cash and cash equivalents	\$ (65,425)	\$ 158,229
Cash and cash equivalents - Beginning of year	191,160	32,931
Cash and cash equivalents - End of year (note 5)	\$ 125,735	\$ 191,160
Supplemental cash flow information		
Interest paid	\$ 36,420	\$ 48,488
Income taxes paid	\$ 1,750	\$ 1,750

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2009 | All tables represented in thousands of dollars

Westminster Savings Credit Union is incorporated under the *British Columbia Credit Union Incorporation Act*, and its subsidiaries are subsisting under the *British Columbia Company Act*. The credit union is regulated under the *British Columbia Financial Institutions Act* and the *British Columbia Credit Union Incorporation Act* and is authorized to serve members within British Columbia. WS Leasing Ltd. and Mercado Capital Corporation, fully owned subsidiaries of Westminster Savings Credit Union, are permitted under the *Credit Union Extra-provincial Business of Subsidiaries Regulations* to the *British Columbia Credit Union Incorporation Act* to conduct financial leasing business extra-provincially. WS Leasing Ltd. operates in British Columbia and Alberta and Mercado Capital Corporation operates in Western Canada and Ontario.

1. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Principles of consolidation

The consolidated financial statements include the accounts of Westminster Savings Credit Union (the credit union) and its wholly owned subsidiaries, Westminster Savings Financial Planning Ltd., WS Leasing Ltd. and Mercado Capital Corporation from the date of acquisition on May 31, 2007 (note 3). Intercompany balances and transactions have been eliminated.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the revenues and expenses for the year. Significant areas requiring the use of estimates relate to the loan and leases receivable loss provisions, securitization assumptions, measurement of retained interests on securitizations, underlying loan security values, determination of investment values and other than temporary impairment, measurement of impairment on goodwill and intangible assets, useful lives for amortization, income taxes and measurement of obligations on pension plans. Final results, as determined by actual events, may differ from those estimates.

Comparative figures

Certain comparative figures have been restated to conform to the current year's presentation.

2. SIGNIFICANT ACCOUNTING POLICIES

Change in accounting policies

Goodwill and Intangible Assets

On January 1, 2009, the credit union adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, *Goodwill and Intangible Assets* (Section 3064) which is effective for fiscal years beginning on or after October 1, 2008. Section 3064 replaced CICA Handbook Section 3062, *Goodwill and Other Intangible Assets* and CICA Handbook Section 3450, *Research and Development Costs*. Section 3064 establishes requirements for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Other guidance within the CICA Handbook has been updated to ensure consistency with Section 3064. The adoption of the new standard and other related changes to the CICA Handbook did not have a significant impact on the credit union's financial position or net income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

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* (EIC-173) which was issued by the Accounting Standards Board (AsCB) 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.

Financial instruments

On April 29, 2009 and again on July 29, 2009, the AsCB 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 re-classification 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 did not have a significant impact on the credit union's financial position or net income.

Financial instruments disclosure

The credit union has adopted amendments to the CICA Handbook Section 3862, *Financial Instruments Disclosures* (Section 3862) which 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 financial instruments disclosure changes has been incorporated into note 4.

Financial assets and liabilities

As a financial institution, a substantial portion of the assets and liabilities of the credit union are financial instruments. The credit union's financial assets and liabilities are recorded according to their classification as follows:

- a) Available for sale (AFS) - AFS assets are carried at fair value on the consolidated balance sheet. Changes in the fair values of AFS assets are recorded in Other Comprehensive Income (OCI) until the financial asset is disposed of or becomes other than temporarily impaired at which time it will be recognized in the consolidated statement of income;
- b) Held for trading (HFT) - Cash and financial assets denominated in US dollars and purchased for short-term investment objectives are classified as HFT. These assets are carried at fair value on the consolidated balance sheet, with realized and unrealized gains and losses recorded in the consolidated statement of income;

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

- c) Loans and receivables - Loans and receivables are financial assets representing delivery of cash or other assets to borrowers in return for a promise to repay, with interest, on demand or on a specified date or dates. These assets are carried on the consolidated balance sheet at amortized cost using the effective interest method. Realized gains and losses and impairments are recorded in the consolidated statement of income;
- d) Held to maturity (HTM) - Financial instruments with fixed or determinable payments and fixed maturity, and where the credit union has the positive intention and ability to hold to maturity, are classified as HTM. These are carried at amortized cost using the effective interest method on the consolidated balance sheet, with gains and losses recorded in the consolidated statement of income;
- e) Other financial liabilities - Other financial liabilities are carried at amortized cost.

Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments with a term of less than 91 days that are readily convertible to cash. The fair values of these assets approximate their carrying value.

Investments

Investments consist of term deposits, bonds, marketable equity securities and other investments. These assets are recorded at fair value on the consolidated balance sheet. Other investments including Central 1 shares, which are not readily marketable, are carried at cost. Interest, dividends and realized gains and losses are recorded in the consolidated statement of income as financial income.

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, including interest rate swaps. The credit union enters into derivative contracts to manage interest rate risk as part of the credit union's asset and liability management program. Derivatives are carried on the balance sheet at fair value with changes in fair value reported in income. Derivatives are reported as assets where they have a positive fair value and liabilities where they have a negative fair value.

Loans and leases receivable

Loans to members are stated at unpaid principal and accrued interest, net of deferred transaction costs and fees on an amortized cost basis using the effective interest method. Loans are recorded net of a specific and general provision for estimated losses. Vehicle and equipment leases receivable are recorded at the net present value of future minimum lease rentals, including the estimated residual value of the vehicles and equipment, net of allowances for credit losses. Vehicles and equipment which have been repossessed and are held for sale are recorded at their estimated net realizable value.

Interest income on loans and leases is accounted for on an accrual basis using the effective interest method. Loan application and lease fees and mortgage broker fees are capitalized on initial recognition and amortized over the expected life of the instrument using the effective interest method. Interest income ceases to be accrued when a loan or lease receivable is 90 days or more in arrears.

Loans and leases receivable 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 write-off is applied against the allowance for losses on impaired loans to reduce the carrying amount of individual loans to the estimated realizable amount.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

The provision for credit losses consists of specific and general provisions. The specific provision is determined based on specific loans and leases receivable which in the opinion of management may not be fully collectible. Specific provisions are supplemented by general provisions based on management's judgement of historical credit loss experience, known risks in the portfolio and current economic conditions and trends.

Securitized assets

The credit union administers consumer mortgages and leases receivable that have been securitized to independent special purpose vehicles and over which the credit union has surrendered all control. These assets are not the property of the credit union and are not reflected in the consolidated financial statements. Gains and losses on securitization transactions are recognized in services income immediately upon sale of the assets. The amount of the gain or loss is based on the carrying value of the loans or leases receivable being sold.

The credit union also calculates revenue from service fees earned from administration of the sold loans and leases receivable. This fee is amortized into service income as the service is provided.

The credit union retains interests in the securitized assets such as servicing obligations and cash reserve accounts. The credit union has designated its retained interests in securitized assets as an AFS asset. Retained interests are recorded at fair value as at the balance sheet date. Changes in the fair value are recorded through other comprehensive income. Interest income on retained interests is determined under the effective interest method and is recorded through the statement of income. As market prices are not available for retained interests, the fair value is based on the present value of expected future cash flows. This requires estimates of credit losses, prepayment rates, forward yield curves, discount rates and other factors that influence the value of retained interests.

Premises and equipment

Premises and equipment are recorded at cost less accumulated amortization.

Buildings and equipment are amortized over their estimated useful lives using the following methods and annual rates:

Buildings	5% declining balance
Computer equipment	20% to 33% straight-line
Furniture and equipment	20% declining balance
Leasehold improvements	straight-line over the lease term

Goodwill and other intangible assets

Goodwill is the residual amount by which the purchase price exceeded the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized, but is tested at least annually for impairment.

Other intangible assets with finite lives are amortized over their estimated useful lives of one to 14 years and are also assessed for impairment annually. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Income taxes

Income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

using tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. The effect on future 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.

Pension plans

The cost of pension benefits earned by employees covered under defined benefit plans is determined using the projected unit credit actuarial cost method pro-rated on service and is charged to expense as services are rendered. The measurement date used for accounting purposes is November 30. For the purpose of calculating expected return, plan assets are valued at fair value.

Adjustments arising from plan amendments and transitional obligations are amortized on a straight-line basis over the estimated average remaining service lives of the employees. The credit union amortizes actuarial gains and losses when the unamortized net actuarial gain or loss exceeds ten percent of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year. The credit union does not provide post-retirement benefits other than pensions.

Foreign currency translation

Monetary items denominated in foreign currencies are translated at rates prevailing on the balance sheet date; income and expenses are translated at the average rates prevailing during the year. Foreign exchange gains or losses arising from the translation or the settlement of a monetary item denominated in a foreign currency are recorded in services income.

Future changes in accounting policies

International Financial Reporting Standards

As reported in the 2008 financial statements, the CICA has announced the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) for publicly accountable enterprises, effective for fiscal years beginning on or after January 1, 2011, with restatement for comparative purposes of amounts reported by the credit union for the year ending December 31, 2010. The credit union has established a project plan and is currently assessing the impact on its financial statements of the transition to IFRS.

3. MERCADO CAPITAL CORPORATION

On May 31, 2007, the credit union acquired the business and certain operating assets of Mercado Capital Corporation for an initial purchase price of \$7,500,000 and potential contingent consideration to a maximum of \$4,800,000 to be determined over the period from June 1, 2007 to May 31, 2010.

In 2009, \$1,389,748 of this contingent consideration was paid and accounted for as goodwill. This increased the total net consideration for the purchase to \$10,338,752, and reduced the remaining potential contingent consideration to \$1,961,248, as at December 31, 2009.

The goodwill impairment test carried out in 2009 indicated that goodwill had been impaired as a result of the changes in the capital markets. Accordingly, a goodwill impairment loss of \$1,389,748 was recognized in 2009. This reduced the carrying amount of goodwill (recorded in other assets) to \$nil on the consolidated balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

As a financial institution, a significant portion of the credit union's balance sheet is comprised of financial instruments. As such, the majority of Credit Union net income is derived from these financial instruments. Financial assets include cash and cash equivalents, investments, loans and leases receivable, accounts receivable and retained interests. Financial liabilities include members' deposits, accounts payable and accrued liabilities, and borrowings.

Most of the credit union's financial instruments, such as loans, leases receivable and deposits, are not actively traded, and lack an available trading market to provide a quoted market price as an indication of fair values. Such financial instruments have been valued assuming they will not be sold, using present value or other suitable techniques.

The following table sets out the fair values of financial instruments using the valuation methods and assumptions described below. The table does not include assets and liabilities that are not considered financial instruments.

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	\$ 125,735	125,735	\$ 191,160	191,160
Accounts receivable	1,541	1,541	1,607	1,607
Investments	97,085	97,085	56,108	56,108
Loans	1,353,890	1,394,640	1,248,274	1,267,421
Leases receivable	176,232	190,238	193,487	204,755
Retained interest	12,076	12,076	15,816	15,816
Total financial assets	\$ 1,766,559	1,821,315	\$ 1,706,452	1,736,867
Financial liabilities				
Members' deposits	\$ 1,512,825	1,515,790	\$ 1,451,996	1,455,479
Borrowings	137,802	137,690	147,802	146,464
Accounts payable and accrued liabilities	18,009	18,009	14,644	14,644
	\$ 1,668,636	1,671,489	\$ 1,614,442	1,616,587

Methods and assumptions

The following table summarizes the valuation methods used to measure the fair value of financial instruments which are accounted for at fair value on the credit union's balance sheet as at December 31, 2009. The three levels of the fair value hierarchy are:

Level 1

Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2

Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly

Level 3

Inputs that are not based on observable market data

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

	2009			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	\$ 4,757	120,978	-	125,735
Investments	29,533	62,623	4,534	96,690
Retained interest	-	-	12,076	12,076
Derivatives	-	395	-	395

	2008			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	\$ 3,297	187,863	-	191,160
Investments	23,564	28,166	4,378	56,108
Retained interest	-	-	15,816	15,816
Derivatives	-	-	-	-

The following table reconciles the credit union's Level 3 fair value measurements from December 31, 2008 to December 31, 2009:

	Fair value measurements using Level 3 inputs	
	Retained interest	Investments
Level 3, beginning of year	\$ 15,816	\$ 4,378
New activity	5,760	156
Settled	(11,249)	-
Reclassification to consumer mortgages	(1,680)	-
Other	3,429	-
Level 3, end of year	\$ 12,076	\$ 4,534

The fair value of accounts receivable and accounts payable are equal to their carrying value since the instruments are expected to settle in the short term for amounts equal to their carrying value.

The fair values of loans, leases receivable and members' deposits with variable rates of interest approximate their carrying values since these instruments reprice to market frequently.

The fair values of loans, leases receivable, members' deposits and borrowings with fixed rates and fixed maturity dates are estimated by discounting the cash flows using discount rates based on current market interest rates for similar types of financial instruments. 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 Government of Canada yield curve. Other inputs may include the addition of an interest rate spread to incorporate an appropriate risk premium over Government of Canada rates.

Other inputs to the valuation model for fixed rate loans and leases receivable include scheduled loan amortization and estimated prepayment rate.

The fair value of loans and leases receivable is stated net of any general or specific loan loss provision.

The valuation of retained interests is described in note 8.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

5. CASH AND CASH EQUIVALENTS

	2009	2008
Available for sale		
Liquidity deposits less than 91 days maturity - Canadian dollar	\$ 120,088	\$ 148,799
Held for trading		
Cash	4,757	3,297
Liquidity deposits less than 91 days maturity - US dollar	890	39,064
	\$ 125,735	\$ 191,160

6. INVESTMENTS

	2009	2008
Available for sale		
Liquidity deposits over 90 days maturity - Canadian dollar	\$ 62,623	\$ 12,941
Fixed income bonds - Canadian dollar	7,981	11,003
Equity investments - Canadian dollar	8,698	4,836
Held for trading		
Liquidity deposits over 90 days maturity - US dollar	\$ -	\$ 15,225
Fixed income bonds - US dollar	2,914	3,351
Equity investments - US dollar	9,940	4,374
Swap - Canadian dollar	395	-
Other		
Central 1 shares	\$ 4,324	\$ 4,177
Other investments	210	201
	\$ 97,085	\$ 56,108

In 2009 the fair value of investments increased by \$5,124,954. Included in 'Investment gains (losses)', (note 17) is \$2,795,564 which reflects realized and unrealized gains on investments. The remainder of the increase in fair value, \$2,329,390, is reflected in "Other comprehensive income (loss)."

For the year ending December 31, 2009, the credit union recognized an other than temporary impairment in the value of its available-for-sale equity portfolio of \$229,774 (2008 -\$276,575) which has been reclassified from "Accumulated other comprehensive income" to Investment gains (losses) (note 17).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

7. LOANS AND LEASES RECEIVABLE

	2009		2008	
Consumer mortgages	\$	794,168	\$	653,913
Personal loans		201,117		218,931
	\$	995,285	\$	872,844
Commercial mortgages		190,272		184,818
Commercial loans and lines of credit		171,805		193,271
	\$	362,077	\$	378,089
Accrued interest receivable		2,024		2,085
Deferred fees revenue		(1,110)		(1,100)
Deferred fees cost		1,485		1,166
Allowance for losses on loans		(5,871)		(4,810)
	\$	(3,472)	\$	(2,659)
	\$	1,353,890	\$	1,248,274
Vehicle leases receivable	\$	167,740	\$	181,447
Equipment leases receivable		11,957		14,374
Deferred fees revenue		(1,584)		(1,466)
Allowance for losses on leases		(1,881)		(868)
	\$	176,232	\$	193,487

Allowance for losses on loans and leases receivable

	2009				2008		
	Beginning of year	Provision for losses	Write-offs	Total	Total	Total	
Consumer mortgages	\$	599	79	-	678	\$	599
Personal loans		1,629	883	615	1,897		1,629
Commercial		2,582	758	44	3,296		2,582
Leases receivable		868	4,142	3,129	1,881		868
	\$	5,678	5,862	3,788	7,752	\$	5,678
Specific allowances				555			122
General allowance				7,197			5,556
End of year				\$	7,752	\$	5,678

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

The provision for losses on loans and leases receivable of \$6,998,000 includes provision for losses of \$5,862,000 and direct write-offs of \$1,136,000.

Recoveries from loan write-offs of \$52,246 (2008 -\$51,000) are included in services income. Recoveries in respect of write-offs of vehicles held for sale of \$254,977 (2008 -\$262,000) are included in services income.

Past due loans and leases receivable

Loans and leases are considered past due when a counterparty has not made a payment within 30 days of the contractual due date, and they are either (i) less than 90 days past due, or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

	Current	Past due		Impaired	Total
		30-89 days	90+ days		
Consumer mortgages	\$ 782,785	6,570	-	4,813	794,168
Personal loans	200,494	368	22	233	201,117
Commercial	356,877	1,687	-	3,513	362,077
Leases receivable	177,181	2,516	-	-	179,697
	\$ 1,517,337	11,141	22	8,559	1,537,059

The fair value of the collateral held by the credit union as security for past due loans and leases receivable was \$8,003,730 (2008 -\$8,917,961). The credit union has estimated the fair value of collateral held on loans on an assessment of the security appraisal undertaken at the original funding assessment and management's knowledge of the market value of the security. Collateral held on leases receivable is revalued monthly based on published market estimates. In management's opinion, this collateral is convertible into cash at the stated values.

Impaired loans and leases receivable

		2009			2008	
		Gross	Specific allowance	Net		Net
Consumer mortgages	\$	4,813	-	4,813	\$	5,211
Personal loans		233	55	178		136
Commercial		3,513	500	3,013		3,571
Total	\$	8,559	555	8,004	\$	8,918

Security on impaired loan and leases receivable

	2009	2008
Impaired loans	\$ 8,559	\$ 9,040
Estimated value of underlying security	(8,004)	(8,918)
	\$ 555	\$ 122

Vehicles and equipment held for sale

At December 31, 2009, the credit union held vehicles and equipment of \$5.1 million (2008 - \$2.4 million). These assets are valued at their net realizable value until sold and reported as other assets (note 11).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

8. SECURITIZED ASSETS

The credit union periodically enters into arrangements to fund growth and manage its capital, interest rate risk, liquidity risk and credit risk by selling consumer mortgages and leases receivable (securitized assets) to unrelated third parties. The credit union continues to administer these securitized assets.

The credit union's retained interests in the securitized assets consist of its right to future cash flows arising after payment to investors. Third parties, as holders of the securitized assets, have recourse only to a cash collateral account and the cash flow from the securitized assets. The cash collateral account is funded by the credit union to absorb losses on the securitized assets. The amount of the cash collateral account is included in the balance of retained interests in securitized assets. The balance of the cash collateral account is returned to the credit union as the securitized assets amortize.

The investors and third parties have no recourse to the credit union's other assets in the event debtors fail to pay. The credit union's retained interests are subject to credit, prepayment and interest rate risk on the securitized assets.

In 2009, the credit union securitized \$97 million of consumer mortgages (2008 - \$91 million) and \$37 million of equipment leases (2008 - \$58 million) and recognized a gain on sale of mortgages and leases receivable recorded in service income of \$6,274,744 (2008 - \$5,832,000).

In 2009, the credit union purchased \$98.3 million of previously securitized consumer mortgages. As a result of the purchase the securitization facility was terminated. Consequently, the increase in the valuation of retained interest up to the date of the purchase of \$1.68 million is included in the amortized cost of the consumer mortgage portfolio. The increase in the consumer mortgage portfolio of \$1.68 million will be charged to income as the mortgages amortize.

Deferred servicing fees amortized to income during the year amounted to \$2,249,636 (2008 - \$1,219,000). The carrying value of deferred servicing fees amounted to \$2,418,129 at December 31, 2009 (2008 - \$3,218,000) and is included in deferred revenue.

Retained interests amounted to \$12,075,876 December 31, 2009 (2008 - \$15,816,000) and is recorded in other assets (note 11). Valuation of retained interests resulted in an increase to services income of \$2,255,821 (2008 (\$3,274,144)) and an increase to OCI of \$547,839 (2008 - \$803,109).

The following assumptions were used to determine the credit union's retained interest at December 31, 2009:

	Range	
	Low	High
Consumer mortgages		
Servicing fee	0.25 %	0.25 %
Unscheduled prepayments	5.70	49.51
Cost of funds on variable rate tranches	1.05	2.87
Discount rate for FMV	0.27	1.97
Credit Losses	0.12 %	0.12 %
Equipment leases receivable		
Servicing fee	1.10 %	1.10 %
Interest on cash reserve	0.03	0.50
Discount rate for FMV	4.60	5.65
Credit Losses	1.20 %	1.20 %

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

The following table summarizes data in respect of mortgages and leases receivable securitized by the credit union as at December 31, 2009.

Type of receivable	Total principal amount of receivable	Principal amount of receivable over 60 days past due	Average principal amount of receivable during 2009
Consumer mortgages	\$ 206,690	-	\$ 270,420
Vehicle and equipment leases	72,751	2,629	70,185
	\$ 279,441	2,629	\$ 340,605

Risks inherent in securitized assets

The credit union is exposed to interest rate risk on retained interests on securitized assets. Interest rate risk arises when fixed rate assets are securitized and the underlying cost-of funds for the transaction is based on a variable interest rate. The credit union manages its exposure to interest rate risk as an integral part of its asset-liability management.

The credit union is exposed to credit risk on securitized assets. The fair value of retained interests reflects assumptions regarding credit losses.

The credit union is exposed to pre-payment risk on securitized assets. Unscheduled pre-payments impact the cash flows the credit union will realize. The credit union ensures appropriate 'unscheduled prepayment' assumptions are used to value retained interests.

9. CREDIT RISK MANAGEMENT

Credit risk is the risk of loss resulting from a borrower's or lessee's inability to repay or from a counterparty's inability to complete or fulfill financial obligations to the credit union. Credit risk arises principally from lending, leasing and investing activities. There is also credit risk in unfunded loan and lease commitments, letters of credit, and some securitized assets.

Management of credit risk is an integral part of the credit union's activities. Credit risk is managed in accordance with lending and investment policies approved by the Board of Directors. These policies identify authorized loans, leases receivable and investment types, limit asset concentrations, stipulate credit evaluation standards and delegate approval authorities. Management policies have also been implemented. 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.

Management carefully monitors and manages the credit union's exposure to credit risk by a combination of methods. The overall management of credit risk is centralized in the Investment and Loan Committee which reports to the Board of Directors. The Investment and Loan Committee is responsible for approving and monitoring the credit union's tolerance for credit exposures which it does through review and approval of the credit union's lending policies and through setting limits on credit exposures to individual members and across sectors.

At December 31, 2009, the maximum credit risk exposure of the credit union approximates the carrying value of all assets including undrawn commitments which amounted to \$425 million as at year-end. The classes of financial instruments to which the credit union is most exposed are loans to members, leases receivable and investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

Credit risk exposure	Outstanding	Undrawn commitments	Off balance sheet	Total exposure
Cash and cash equivalents	\$ 120,978	-	-	120,978
Investments	97,085	-	-	97,085
Consumer mortgages	794,168	141,893	211,887	1,147,948
Personal loans	201,117	181,795	-	382,912
Commercial mortgages	190,272	72,438	21,650	284,360
Commercial loans and lines of credit	171,805	28,505	-	200,310
Leases receivable	179,697	-	79,630	259,327
Total exposure	\$ 1,755,122	424,631	313,167	2,492,920

Included in the above table are letters of credit. In the normal course of business, the credit union issues letters of credit on behalf of its members with deposits or real property pledged as security. These undrawn amounts of \$21,650,133 at December 31, 2009 (2008 - \$26,716,000) are not included in the consolidated balance sheet.

Asset quality

As a financial institution, the credit union takes security as collateral for loans and leases receivable. The credit union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages representing a charge over residential properties, charges over business assets (such as premises, inventory and accounts receivable), vehicles and other equipment. Management monitors the amount of exposure to limit any concentrations of risk and to ensure that the overall loan and leases receivable portfolios are diversified in keeping with Credit Union policy.

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 outstanding credit risk exposure is secured by assets with the following security profile:

	2009	2009
Central1 investments	\$ 183,996	10.48 %
Investments, government secured and R1 or equivalent	10,895	0.62
Equities and other investments	23,172	1.32
Insured mortgages secured	341,063	19.43
Other mortgages secured	948,636	54.07
Vehicles and manufactured homes	17,752	1.01
Deposits	6,008	0.34
Equipment, inventory and receivables	3,950	0.23
Other	7,229	0.41
Vehicles and equipment - commercial	67,834	3.86
Vehicles - consumer	111,863	6.37
Unsecured	32,724	1.86
	\$ 1,755,122	100.00 %

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

The credit quality of the loans and leases which are neither past due nor impaired is assessed in accordance with the credit union's Risk Rating Guidelines.

Management monitors the amount of exposure in each risk class to limit the exposure to high-risk assets and ensure that an appropriate risk-return profile is maintained in keeping with Credit Union policy.

Credit risk within the Treasury department arises from the investments in cash resources held by the credit union to meet regulatory and internal liquidity requirements and for general business purposes. This aspect of credit risk is principally managed by the Treasury department which reports to the Asset Liability Committee. These investments are limited to approved, reputable counterparties that are monitored on an ongoing basis. There are also limits on concentrations of individual asset types to ensure that the portfolio is diversified. The credit union monitors the stability of counterparties.

The impact of valuation of financial instruments has been assessed in accordance with Emerging Issues Committee (EIC) 173. The valuation of financial instruments has been adjusted to reflect credit risk.

10. PREMISES AND EQUIPMENT

	2009			2008
	Cost	Accumulated amortization	Net	Net
Land	\$ 380	-	380	\$ 380
Buildings	5,517	3,149	2,368	2,463
Computer equipment	8,805	8,611	194	288
Furniture and equipment	11,373	7,944	3,429	3,073
Lease hold improvements	10,859	7,199	3,660	3,235
	\$ 36,934	26,903	10,031	\$ 9,439

11. OTHER ASSETS

	2009	2008
Retained interests in securitized assets (note 8)	\$ 12,076	\$ 15,816
Cheques in transit	7,645	5,492
Intangible assets - net of accumulated amortization of \$3,172 (note 3)	3,834	4,653
Vehicles and equipment held for sale	5,076	2,371
Accounts receivable	1,541	1,607
Accrued pension benefit asset (note 18)	3,199	1,768
Prepaid expenses	468	501
	\$ 33,839	\$ 32,208

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

12. MEMBERS' DEPOSITS

Members' deposits includes Class A member shares. These member shares are purchased upon application for membership. The credit union may issue an unlimited number of Class A shares, which have a denomination of \$5. These shares are included as part of the primary capital of the credit union, as explained in note 13.

	2009	2008
Demand	\$ 594,181	\$ 511,808
Term	651,475	679,716
Registered savings plans	256,643	246,097
Equity shares	250	249
Accrued interest payable	10,276	14,126
	\$ 1,512,825	\$ 1,451,996

The credit union maintains deposits on behalf of the Westminster Savings Foundation of \$6,561,046 (2008 - \$6,061,904).

13. BORROWINGS

	2009	2008
Central 1	\$ 37,752	\$ 38,093
Canadian financial institutions	100,050	109,709
	\$ 137,802	\$ 147,802

The credit union has three approved lines of credit totalling \$313 million (2008 - \$313 million). The first, with Central 1 is secured by a general charge over the assets of the credit union. For the other lines of credit, security in the amount of \$180,434,696 is provided by a first charge against specific Canada Mortgage & Housing Corporation (CMHC) insured consumer mortgages. The lines of credit bear interest at prevailing market rates.

14. CAPITAL

The Financial Institutions Act requires the credit union to maintain at all times a capital base that is adequate in relation to its business. The level of capital required is based on the risk-weighted value of its underlying assets. The Financial Institutions Act regulations prescribe that the minimum required capital ratio is 6%, and it also stipulates that a capital ratio that is below 8% may result in regulatory restrictions. As at December 31, 2009, the credit union has exceeded these requirements.

Capital is managed in accordance with a policy approved by the Board of Directors. It is the credit union's policy to maintain a prudent relationship between the capital base and the underlying risks of the business, in order to support business growth and expansion of services available to members. Management regards a strong capital base as an integral part of the credit union's business strategy. The credit union's objectives for capital management include maintaining substantially all credit union capital in the form of retained earnings.

Credit Union policy requires that a capital ratio of 9% be maintained. As at December 31, 2009, the credit union's capital exceeded this level.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

The credit union maintains a capital plan to ensure that long-term capital requirements are met. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

At December 31, 2009, the credit union had total capital of \$133.6 million (2008 - \$117.2 million), of which 91% was in the form of retained earnings (94% in 2008). Total capital includes the credit union's proportionate share of system capital. At December 31, 2009, the credit union had risk-weighted assets of \$845.4 million (2008 - \$825.9 million), which resulted in a regulatory capital ratio of 15.8% (2008 - 14.2%).

15. RISK MANAGEMENT

Interest rate risk

Interest rate risk arises from the impact that changes in interest rates may have on income and economic value due to the mismatch between positions that are subject to interest rate adjustments in a specified period. Interest rate risk results primarily from differences in the maturity or repricing dates of assets and liabilities. The credit union monitors interest rate risk inherent in the portfolio. It employs techniques, including maturity and repricing schedules and portfolio modelling, to balance net interest income with reduced risk to earnings from adverse movements in interest rate.

Cash flow interest rate risk is the risk that the future cash flows of the credit union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Net interest income margins, reported in the statement of income, 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 repricing. Interest rate risk is managed by the credit union's Treasury department and monitored by the Asset Liability Committee.

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 monthly and reported to the Asset Liability Committee. 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 increase net interest income by \$2,577,739 over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest income by \$5,071,605 over the next 12 months.

Interest rate sensitivity of financial assets and liabilities

The following table summarizes carrying amounts of balance sheet assets, liabilities and equity in order to arrive at the credit union's interest rate sensitivity based on the earlier of contractual repricing or maturity dates:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

	Effective Rate	Within 3 months	3-12 months	1-3 years	3 years+	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	1.83 %	\$ 125,735	-	-	-	-	125,735
Investments	-	518	56,100	8,000	26,377	6,090	97,085
Loans	4.47	648,860	220,443	357,508	140,939	(13,860)	1,353,890
Leases receivable	7.28	176,766	546	1,165	1,102	(3,347)	176,232
Retained interests	-	1,693	2,493	6,869	233	788	12,076
Other	-	-	-	-	-	31,794	31,794
	4.24 %	\$ 953,572	279,582	373,542	168,651	21,465	1,796,812
Liabilities							
Members' deposits	1.80	732,964	499,319	227,113	47,414	6,015	1,512,825
Other	0.72	137,751	-	-	-	23,999	161,750
Retained earnings and AOCI	-	-	-	-	-	122,237	122,237
	1.58 %	\$ 870,715	499,319	227,113	47,414	152,251	1,796,812
Interest rate sensitivity gap	2.66 %	\$ 82,857	(219,737)	146,429	121,237	(130,786)	-

Equity price risk

The credit union's investment portfolio is exposed to changes in equity prices. Fluctuations in the value of equity securities impact the recognition of both realized and unrealized gains and losses on securities held. The credit union has policies in place to limit and monitor its exposure to individual issuers and classes of securities.

The table below summarizes the potential impact of a 10% change in the value of our equity holdings on net income and other comprehensive income as at December 31, 2009. The analysis is based on the assumption that all equity and equity-related investments increase/decrease while all other variables are held constant.

	Effect on net income	Effect on other comprehensive income
10% increase	\$ 993,630	857,731
10% decrease	\$ (993,630)	(857,731)

The credit union is subject to currency risk which arises on financial instruments that are denominated in a foreign currency. Foreign exchange risk is managed in accordance with a policy approved by the Board of Directors. The credit union's policy is to manage currency risk to preclude any material impact on annual earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

16. LIQUIDITY AND RISK MANAGEMENT

Liquidity risk is the risk that the credit union may be unable to meet its financial obligations in a timely manner and at reasonable prices. To mitigate this risk, the credit union is required to maintain sufficient levels of liquid assets. Required liquidity levels are expressed as a percentage of members' deposits and other debt liabilities. The minimum required liquidity levels were 8% in 2009 (8% in 2008). At December 31, 2009, the credit union's liquidity exceeded this required level.

Liquidity is managed in accordance with a policy approved by the Board of Directors. It is the credit union's policy to maintain prudent levels of liquidity in relation to its deposits and debt obligations in order to retain member confidence in the credit union and to enable the credit union to meet all financial obligations. This is achieved through management of loan portfolio growth in relation to deposit growth, through asset securitizations, and through asset-liability maturity management techniques. Management maintains rolling forecasts of the credit union's liquidity requirements on an ongoing basis as part of its liquidity management program, ensuring that predicted cash requirements do not exceed available funding.

17. SERVICES AND OTHER INCOME

	2009	2008
Loan and leases receivable securitization gains	\$ 9,733	\$ 7,985
Loan and leases receivable fees	4,595	3,794
Member service fees and commissions	8,334	9,305
Investment gains (losses)	2,795	(1,587)
Swap gains	444	-
Retained interest gains (note 8)	2,256	3,274
	\$ 28,157	\$ 22,771

18. PENSION PLAN

Retirement pensions are provided to the credit union's employees through defined benefit plans funded through employer contributions. The pension expense and plan contributions are determined by independent consulting actuaries. The defined benefit plans are required to have an actuarial valuation performed once every three years. The latest actuarial valuation was performed as at December 31, 2008 and the obligation and assets as at December 31, 2009 have been estimated by the actuary by extrapolating the results from the actuarial valuation of December 31, 2008 using the assumptions noted. The next valuation will be completed in 2012, with an effective date of December 31, 2011.

The following tables pertain to the credit union's defined benefit pension plans and provide reconciliations of the changes in benefit obligations, fair value of plan assets and funded status for the year ended December 31, 2009:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

	2009	2008
Benefit obligation		
Benefit obligation - Beginning of year	\$ 16,685	\$ 19,475
Current service cost	1,065	1,422
Interest cost	1,270	1,185
Benefit payments	(432)	(472)
Actuarial loss (gain)	5,601	(4,925)
Benefit obligation - End of year	\$ 24,189	\$ 16,685
Fair value of plan assets		
Fair value of plan assets - Beginning of year	\$ 19,729	\$ 21,548
Actual return on plan assets	2,618	(2,673)
Contributions - net of timing differences \$211 (2008 - \$36)	2,402	1,326
Benefit payments	(432)	(472)
Fair value of plan assets - End of year	\$ 24,317	\$ 19,729
Excess of plan assets over obligations	\$ 128	\$ 3,044
Funded status		
Funded status - plan surplus	\$ 128	\$ 3,044
Unamortized net actuarial gain	4,418	160
Unamortized transitional asset	(1,347)	(1,436)
Accrued benefit asset	\$ 3,199	\$ 1,768

The accrued benefit asset is included in other assets (note 11).

Pension fund assets are held in a balanced fund and the target asset allocation as required by the Pension Plan Investment Policy is as follows:

	2009	2008
Canadian equity	27.5 %	27.5 %
Global equity	27.5	27.5
Canadian bonds	40.0	40.0
Cash/money market	5.0	5.0
	100.0 %	100.0 %

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

	2009	2008
Current service cost	\$ 1,065	\$ 1,422
Interest cost	1,270	1,184
Expected return on plan assets	(1,283)	(1,448)
Amortization of transitional asset	(90)	(90)
Amortization of net actuarial loss	9	-
	\$ 971	\$ 1,068

The assumptions used in the measurement of the accrued benefit obligation are as follows:

	2009	2008
Return on assets	6.25 %	6.75 %
Discount rate for liability	5.65	7.25
Salary scale	1.50-3.00	4.00
Average industrial wage	1.50-3.00	3.50
Inflation	1.00-2.00 %	2.50 %

19. COMMITMENTS

The credit union is committed to payments for premises and information systems over the following time frame:

2010	\$ 6,195
2011	5,739
2012	5,320
2013	5,079
2014	2,711
Subsequent years	\$ 6,954

Undrawn loan and credit commitments are disclosed in note 9.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As at December 31, 2009 | All tables represented in thousands of dollars

20. INCOME TAXES

The total provision for income taxes in the consolidated statement of income is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

	2009		2008	
		% of pre-tax income		% of pre-tax income
Combined federal and provincial statutory income tax rates	\$ 4,569	30.1	\$ 3,708	31.2
Credit Union rate reduction	(998)	(6.6)	(2,270)	(19.1)
Non-deductible or taxable items	200	1.3	166	1.4
Change in tax rate applied to future tax balances	41	0.3	(226)	(1.9)
Other	(25)	(0.2)	75	0.6
Provision for income taxes	\$ 3,787	24.9	\$ 1,453	12.2

The net future income liabilities comprise the following:

	2009	2008
Premises and equipment	\$ 63	\$ 64
Leasing	(3,270)	(3,028)
Goodwill and intangible assets	995	668
Securitizations related	(670)	(771)
General loan loss provision	775	571
Deferred revenues	151	150
Deferred expenses	(202)	(159)
Investments	23	6
Future income tax liability	\$ (2,135)	\$ (2,499)

As at December 31, 2009 | All tables represented in thousands of dollars

21. CONTINGENCIES

In the normal course of business, various claims and legal proceedings arise against the credit union.

In 2005, the credit union successfully defended a significant legal action. The reasons for judgment dismissed all claims against the credit union. The plaintiffs lodged an appeal against the judgement in the BC Court of Appeal in February 2006. That appeal was dismissed in August 2007. In January 2008 an application for leave to appeal the BC Court of Appeal's decision to the Supreme Court of Canada was dismissed. In October 2008 related claims under the legal action were dismissed. Appeals of these claims are pending. Management is of the opinion that any further appeals will be unsuccessful.

No provision has been made in the consolidated financial statements respecting these claims and legal proceedings.

BOARD OF DIRECTORS AND
EXECUTIVE MANAGEMENT TEAM

WESTMINSTER SAVINGS CREDIT UNION

Board of Directors

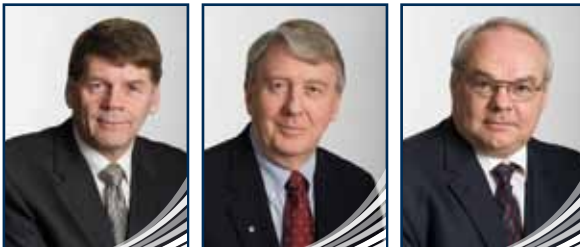


◀ *Left to right*
Emmet McGrath, *Chair*
J. Ross Montgomery, *Vice Chair*
Kathleen Kennedy-Strath
Michael Edwards



Darlene Hyde
Doug King
Patty Sahota
Bill Brown

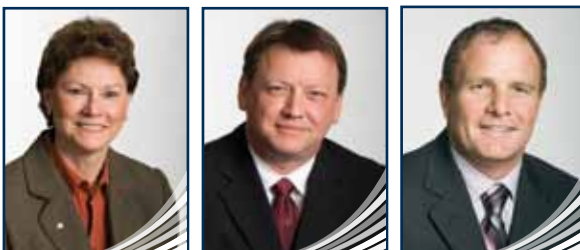
Executive Management Team



◀ *Left to right*
Barry Forbes
President and Chief Executive Officer
Barry Ward
Senior Vice President and Chief Financial Officer
Mark Carter
Senior Vice President, Operations and Chief Credit Officer



Darlene Dean
Vice President, People Services
Maury Kask
Vice President, Marketing
Allen Lacroix
Vice President, Information Systems



Donalda (Donnie) MacDonald
Vice President, Finance and Controller
Kevin O'Rourke
Vice President, Retail Banking
John Gowans
Vice President & General Manager Leasing

MERCADO CAPITAL CORPORATION

Board of Directors

Emmet McGrath, Chair
Bill Brown, Vice Chair
Darlene Hyde
J. Ross Montgomery

WS LEASING LTD.

Board of Directors

Barry Forbes, President
Barry Ward
Mark Carter
Donalda (Donnie) MacDonald
Margaret (Maggie) MacKenzie, Secretary

WESTMINSTER SAVINGS FINANCIAL PLANNING LTD.

Board of Directors

Barry Forbes, President
Barry Ward
Mark Carter
Donalda (Donnie) MacDonald
Margaret (Maggie) MacKenzie, Secretary

FIVE-YEAR FINANCIAL REVIEW

*Figures in tables are in thousands of dollars

Consolidated Statements of Assets*	2009	2008	2007	2006	2005
Cash & investments	\$ 222,820	247,268	145,243	139,015	131,717
Loans to members	1,353,890	1,248,274	1,184,802	1,196,996	1,035,060
Lease receivables	176,232	193,487	190,703	163,052	132,474
Other assets	43,870	41,647	41,785	21,790	17,085
Members' deposits	1,512,825	1,451,996	1,313,373	1,246,428	1,128,238
Other liabilities	161,750	169,588	149,713	183,840	107,971
Retained earnings	121,103	109,700	99,268	90,585	80,127
Accumulated other comprehensive income	1,134	(608)	179	-	-
Total assets / liabilities and members' equity	\$ 1,796,812	1,730,676	1,562,533	1,520,853	1,316,336
Consolidated Statements of Earnings*					
Financial income	\$ 78,395	92,727	91,322	78,865	63,054
Financial expense	32,571	47,696	48,077	39,209	28,463
Other revenues/expense (net)	15,348	14,049	12,452	12,637	11,190
Operating expenses	45,482	46,695	44,813	38,643	34,886
Operating earnings**	15,690	12,385	10,884	13,650	10,895
Net earnings	11,403	10,432	8,955	10,458	8,780
Other comprehensive income	1,742	(787)	166	-	-
Comprehensive income	\$ 13,145	9,645	9,121	10,458	8,780
Selected Statistical Data (% of average assets)					
Net interest income	2.60 %	2.73 %	2.81 %	2.80 %	2.75 %
Operating margin	3.47 %	3.59 %	3.61 %	3.69 %	3.64 %
Operating expenses	2.58 %	2.84 %	2.91 %	2.72 %	2.77 %
Net earnings	0.65 %	0.63 %	0.58 %	0.74 %	0.70 %
Retained earnings	6.87 %	6.66 %	6.44 %	6.39 %	6.37 %
Selected Ratios					
Debt to Equity Ratio	13.63 %	14.58 %	14.52 %	15.49 %	15.22 %
Capital Adequacy Ratio	15.74 %	14.20 %	13.38 %	13.69 %	15.44 %
Allowance for Losses on Loans and Leases*					
Opening Balance	\$ 5,678	4,755	4,276	3,689	3,053
Less: Loans and Leases Written Off	(3,788)	(1,975)	(1,073)	(918)	(959)
Plus: Charge to Operations	5,862	2,898	1,552	1,505	1,595
Closing Balance	\$ 7,752	5,678	4,755	4,276	3,689
Recoveries from prior years' loans and leases written off	\$ 307	313	199	1,280	561

**Operating earnings represents the amount of earnings before income tax and before the contribution to the Westminster Savings Foundation, and in 2005 only, the Credit Union Deposit Insurance Corporation special assessment and Stabilization Central Credit Union special dividend.

Westminster Savings Credit Union

Corporate Head Office

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As an Imagine Caring Company, Westminster Savings dedicates a minimum of 1% of our pre-tax profits to charitable causes. The Imagine program is an initiative established by the Canadian Centre of Philanthropy and focuses on increasing corporate support to voluntary associations and networks.

