

ANNUAL REPORT 2010



Aldergrove
CREDIT UNION

ANNUAL REPORT 2010

Aldergrove Credit Union is a community based credit union offering retail and commercial banking, insurance and investment solutions.

Located in the heart of the Fraser Valley, we have proudly served the communities of Langley, Aldergrove, Abbotsford and Mission for over 56 years.

We have five branches, three insurance offices, a financial planning office, 130 staff and approximately 18,000 members.

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Highlights from 2010

- Credit union assets grew to \$480 million, an increase of \$16.5 million over 2009
- Net income of \$2.1 million
- Achieved member satisfaction ratings of 89%
- New Otter Community Branch open for one full year
- Aldergrove Community Branch exterior renovations completed
- Over \$100,000 was invested into our communities
- Awarded \$27,000 in bursaries and scholarships to students in our communities
- Employees were spirited and enthusiastic in their fundraising and volunteering efforts throughout the year, working together to help those in need



Supporting Our Community

At Aldergrove Credit Union, supporting our communities and young adults is just a regular part of who we are. Throughout 2010, we provided in excess of \$100,000 in donations to local community groups and \$27,000 towards scholarships and bursaries.

YOUNG ADULTS

Young adults are the face of our future and we continue to support their quest for higher education. We awarded twenty \$1,000 bursaries to students graduating high school in the communities of Langley, Aldergrove, Abbotsford and Mission who wish to pursue a post secondary education.

Additionally, we added two \$1,000 scholarships for students attending the University of the Fraser Valley and Kwantlen Polytechnic University. We also contributed an additional \$5,000 to the Aldergrove Credit Union Trust, through the Credit Union Foundation of British Columbia for students wishing to pursue a post secondary education.

LOCAL ORGANIZATIONS

Aldergrove Credit Union continues to support local community groups such as youth sports teams, local 4H Clubs and organizations including Big Brothers/Big Sisters. In every opportunity possible, the credit union donates the use of our 20'x20' tents for the enjoyment of the group.

LONG-TIME CITIZENS

One of our larger contributions is a three year commitment totaling \$120,000 to support the Langley Lodge. The funds will be used to improve the way of life for residents at the Lodge and to help pay for and sustain added services the Lodge offers to residents including therapeutic recreation services, bus trips and pastoral care – all of which are dependent on donations. The Lodge is more than just a place to live for the residents – it's their home and with our donation, we are able to help make it as comfortable and enjoyable as possible for everyone that lives there. Our three year commitment will be completed in 2011.

Internally our staff love to give and support our communities. We collectively raised close to \$15,000 for BC Children's Hospital and over \$11,000 for the United Way of the Fraser Valley and Lower Mainland through internal fundraising initiatives. We truly care about the communities in which we work and live.

Report from the CEO and Board Chair

Aldergrove Credit Union enjoyed another successful year in 2010 with strong bottom line results through the continued support of our members, employees and our communities. Over the past 56 years, our organization has steadily grown and we ended 2010 with \$480 million in assets, an increase of \$16.5 million over the previous year.

Although we came out strong, 2010 proved both interesting and challenging economic times for our credit union and the financial industry as a whole. The year started out very optimistic, but slowed down mid-year and through to the end. Our loan portfolio actually decreased in 2010 since the monthly payback of our loans and mortgages was not replaced by new advances. We did take some comfort in the fact that we were no different than our competitors as everyone was challenged in this area.

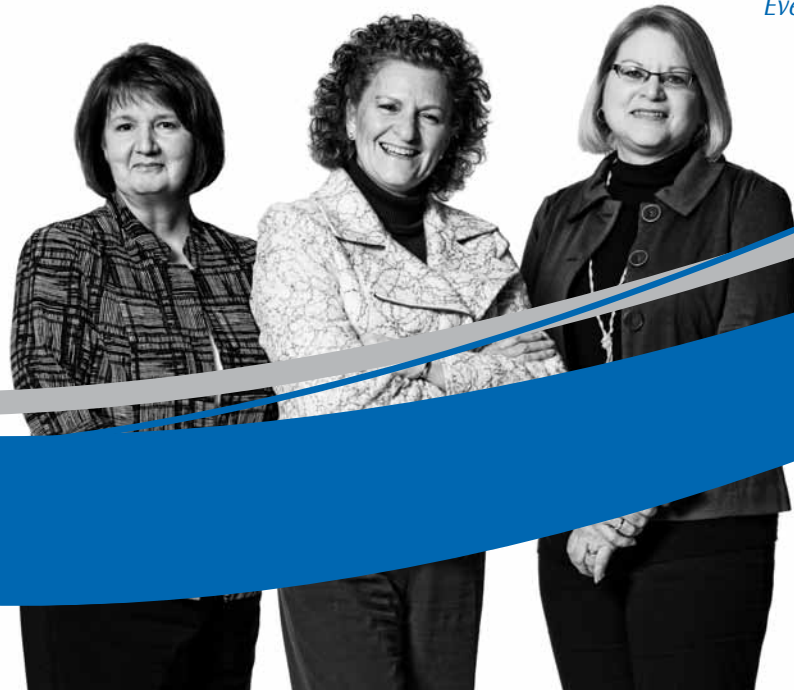
(left) Gus K. Hartl
Chief Executive Officer
(right) Angie McDougall
Board Chair



We did see a growth in deposits allowing us to continue the positive trend of building strong liquidity for our future lending requirements. The 100% deposit guarantee continues to be a positive influence on our deposit growth. Deposits were pretty consistent all year and we ended the year with an increase of \$14 million to just under \$436 million. We continue to control costs and expenses and manage our bottom line well.

From an operations perspective, we continued to meet the needs of our members by ensuring you have access to our products and services using many channels including the introduction of mobile banking. We listened to your feedback and reintroduced our 25 and 50 month term deposits, which have already proven very popular.

It has been a full year of operations of our new Otter Community Branch and we couldn't be more pleased with the success of our new location – particularly with our insurance division. 2010 saw the completion of the exterior renovations and updated signage for our Aldergrove Community Branch, located in downtown Aldergrove. We have received positive feedback on the updates and the new signage has certainly enhanced our visibility in the area.



Your Insurance Management Team
(left to right) Sharon Belanger - Supervisor, Matsqui Community Office
Christine Lefebure - Supervisor, Otter Community Office
Lynda Mantler - Insurance Agency Manager

To build our financial success, we also worked diligently to develop a strong strategic plan for the future. Working closely with the Board of Directors and senior staff, issues such as membership growth, attracting youth, introduction and enhancement of new services and community involvement were all addressed in this blueprint for the future of our organization.

Meeting the needs of our members and clients would not be possible without valuable and valued employees. They share a high level of dedication to service, caring and integrity. In 2010 we supported them through training, internal promotion and career development and by encouraging a positive work/life balance - something that is very important to us. This comes through loud and clear in our organization Value Statements:

Accountability
Committed, trusted, reliable and fair.

Community
People focused, member owned, socially responsive and responsible.

Understanding
Cooperating, caring, personable and delivering common sense simple solutions.

Fun
Everyday, everybody.

Training will once again be a focus for 2011, in order to better serve you, our members. We will continue to build our credit union through deepening the relationships we enjoy with our existing 18,000 members and attracting new members by earning their business and trust.



Your Financial Planning Team
(left to right) Carolyn Jacobsen - Financial Planning Assistant
Tom Foerster - Manager, Financial Planning
Chad Richmond - Financial Planner

Aldergrove Credit Union has returned patronage and dividend rebates to our members since the 1970's. True to our credit union cooperative principles, we share our success with our members and our communities – something that we are very proud of. We truly thank you, our members, for simply doing business with us. In 2010, we gave back a record \$1.6 million. True to our vision, we will continue to build lifelong relationships founded on trust and confidence, one member at a time.

Vision
Building lifelong relationships founded on trust and confidence, one member at a time.

Despite a hard economic year previous, we maintained and continued our level of financial and in-kind donations and sponsorships at the \$100,000 level in the communities we serve. We also added additional scholarships for young adults pursuing a post secondary education with our bursaries and scholarships totaling \$27,000 as well as \$5,000 towards the Aldergrove Credit Union Trust.

Your Commercial Services Team
(left to right) Brent Janzen - Commercial Account Manager
Lara Clayton - Manager, Commercial Credit
Nina Redline - Commercial Account Manager

Our members value the relationships they have with our staff and our primary focus is to serve you – our members. Based on the results of our Member Satisfaction Survey, you told us we were doing it right. You also told us that you love banking with us and wanted others to experience that same level of service.

As we all grow and prosper, we're able to give back. Our strong financial results allowed us to once again return money to members through our Dividend and Patronage Rebate Program. Our members have continued to support us and have allowed us to provide them with the best in financial services – everything from day-to-day banking, commercial services, insurance and financial planning services.



Our presence in our communities is an important factor when representing our organization. Clearly defining our brand and developing a consistent look for the organization was an integral part of our marketing and communications efforts in 2010. In October of 2010, we refreshed our logos and colours and introduced an umbrella name – Aldergrove Financial Group. We still remain Aldergrove Credit Union, but when speaking about our entire organization as a whole – credit union, insurance and financial planning – we'll refer to ourselves as Aldergrove Financial Group.

We ended the year looking towards a bright future and year ahead. Our strong past financial results have put us in good shape for business as usual. Our sound lending policies and conservative investment strategies continue to prove to be a very solid business model. We see 2011 in a very similar light to that of 2010, except in reverse order, with the first part of the year being rather slow and sluggish, with momentum building throughout and the last half of the year being our most productive.

Looking ahead we see exciting times for our credit union. We will welcome new members and clients and continue to enhance our commitment to them. We will be relocating our financial planning office to the Otter Community Branch, where members and clients can experience full service banking with credit union, insurance and financial planning, all in one location. We are pleased to make the decision to open a new Aldergrove Insurance Office in Murrayville. Watch for our new office opening in spring this year.

In 2010, we wished a sad goodbye, but happy retirement to our colleague, John Friesen, our Senior Manager, Credit. John's contribution to our organization was extremely significant and under his guidance and leadership, our loan portfolio grew by over 350% with substantial development of our commercial lending area. He will be missed. We wish him and his wife Dorothy wonderful times together, travelling and enjoying life - wood chips and all!



John Friesen

Your Executive Management Team
(left to right) Bobby Dhillon - Vice President, Marketing & Communications
Thom Meyer - Vice President, Finance & Administration
Gus K. Hartl - Chief Executive Officer
Val Mackey - Vice President, Human Resources
Tracy Yolland - Vice President, Operations



We welcomed a new Vice President, Operations, Tracy Yolland to the Executive Team. Tracy brings a wealth of experience and knowledge to this area of our business and will allow us to be more proactive and enhance our overall operation.

Our sincere thanks go out to the entire Board of Directors for their guidance and support over the past year and for their dedication and commitment to building this great organization.

We wish to thank the management teams for their dedication and hard work throughout the year helping to make our organization what it is today and for producing another year of solid financial results, while delivering good, personal service to all of our members. We wish to thank all of our staff for their enthusiasm and commitment to our success.

Your Branch Management Team
(left to right) Denise Menzies - Branch Manager, Otter Community Branch
Carla Desmond - Branch Manager, Mt. Lehman Centre Branch
Norm Flentge - Branch Manager, Matsqui Community Branch
Danielle Nielsen - Branch Manager, Murrayville Community Branch
Bob Eilers - Branch Manager, Aldergrove Community Branch



As always, none of this would really matter without you, our loyal members. Thank you for your continued support and your trust in us with your financial products and services. It is to you we owe our success today and for the future. True to our Mission Statement, we are dedicated to providing personal and professional financial services to our members and our communities.

Mission Statement

Dedicated to providing personal and professional financial services to our members and our communities.



GUS K. HARTL
Chief Executive Officer
Aldergrove Credit Union

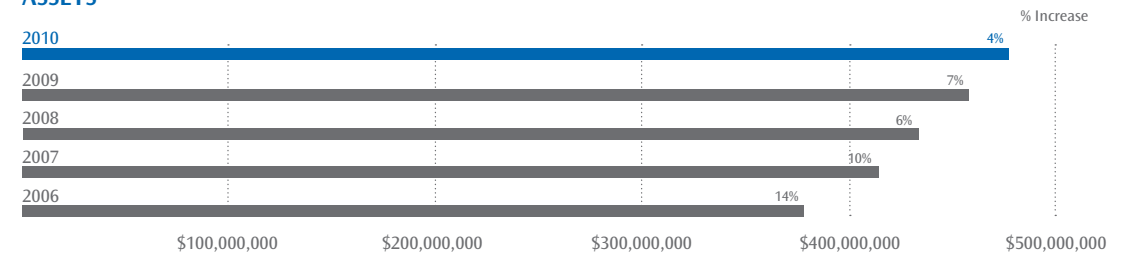


ANGIE MCDOUGALL
Board Chair
Aldergrove Credit Union

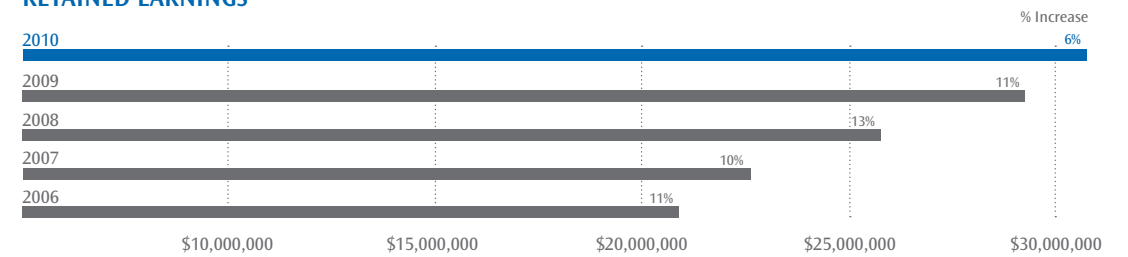


5 Years at a Glance

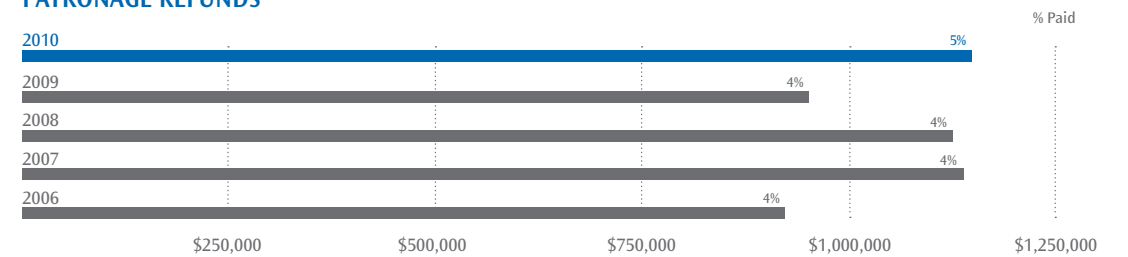
ASSETS



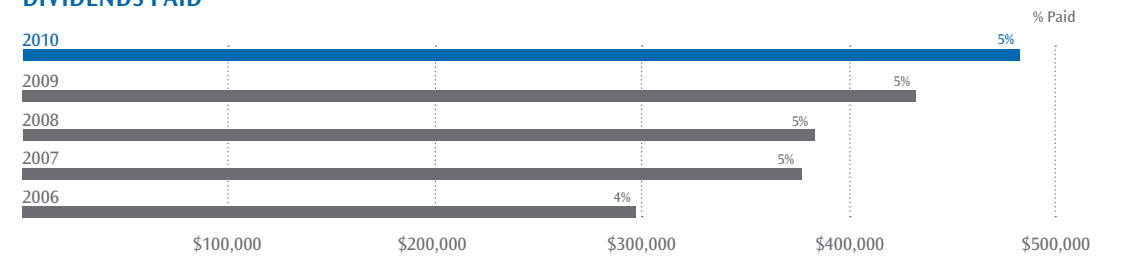
RETAINED EARNINGS



PATRONAGE REFUNDS



DIVIDENDS PAID



Your Board of Directors



The Board's fundamental role is to promote the success of our organization and represent the interest of our members.

(left to right) Joe Breier, Dale Larson, Brian Thomasson, Angie McDougall (Chair), Terry Metcalfe (Vice-Chair), Diane Delves, Gerry Adams, Ken Forcier, Eric Popma



2010/2011 Board Committee Listing

AUDIT COMMITTEE

Ensures that audit and audit-related functions are being fulfilled adequately to ensure the integrity of policies and reporting.

MEMBERS

Ken Forcier (Chair), Diane Delves, Brian Thomasson, Terry Metcalfe and Eric Popma

WAGE & PERSONNEL COMMITTEE

Ensures the establishment of human resource guidelines for the Executive Team and ensures the credit union provides a positive and fair environment for its employees.

MEMBERS

Terry Metcalfe (Chair), Brian Thomasson, Gerry Adams, Angie McDougall and Joe Breier

CONDUCT REVIEW COMMITTEE

Monitors compliance with policy relating to ethics and confidentiality and deals with any conflicts of interest.

MEMBERS

Eric Popma (Chair), Dale Larson, Gerry Adams, Ken Forcier, and Terry Metcalfe

CREDIT COMMITTEE

Approves loans which the Investment and Loan Committee and the Conduct Review Committee have authorized by delegating their authority. Current authority is to approve member loans of more than \$2 million. All Directors are members and any three constitute a quorum.

MEMBERS

Angie McDougall, Terry Metcalfe, Joe Breier, Diane Delves, Ken Forcier, Gerry Adams, Dale Larson, Eric Popma and Brian Thomasson

NOMINATIONS COMMITTEE

Receives nominations, identifying and nominating qualified candidates for all positions on the Credit Union's Board of Directors. Is responsible for evaluating candidates to ensure the proposition of high caliber individuals who are familiar with Director responsibilities and who subscribe to the Board's code of ethics.

MEMBERS

Brian Thomasson (Chair), Ken Forcier and Diane Delves

INVESTMENT & LENDING COMMITTEE

Responsible for ensuring compliance with the Financial Institutions Act (FIA) as well as reviewing policies under their authority and recommending changes to the Board.

MEMBERS

Dale Larson (Chair), Joe Breier, Diane Delves, Ken Forcier, and Gus K. Hartl

THE NUMBERS

Consolidated Financial Statements of Aldergrove Credit Union
Year ended December 31, 2010

Independent Auditors' Report

To the Members of Aldergrove Credit Union

We have audited the accompanying consolidated financial statements of Aldergrove Credit Union which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of operations, changes in members' equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aldergrove Credit Union as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



KPMG LLP
Chartered Accountants
Abbotsford, British Columbia
February 15, 2011

Consolidated Balance Sheet

December 31, 2010, with comparative figures for 2009

	2010	2009
ASSETS		
Cash resources (Note 3)	\$ 76,394,518	\$ 54,960,247
Loans (Note 4)	391,529,763	394,858,973
Investments and other assets (Note 5)	1,828,911	2,932,957
Property, buildings and equipment (Note 6)	9,415,153	9,876,489
	<u>\$ 479,168,345</u>	<u>\$ 462,628,666</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,758,316	\$ 2,423,576
Member deposits (Note 7)	435,991,075	421,967,656
Membership equity shares (Note 8)	2,534,367	2,403,548
	<u>440,283,758</u>	<u>426,794,780</u>
MEMBERS' EQUITY		
Investment equity shares (Note 8)	7,978,369	6,718,666
Retained earnings	30,902,908	29,071,879
Accumulated other comprehensive income:		
Unrealized gains on available for sale assets	3,310	43,341
	<u>38,884,587</u>	<u>35,833,886</u>
Commitments (Note 15)		
	<u>\$ 479,168,345</u>	<u>\$ 462,628,666</u>

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:



Director



Director

Consolidated Statement of Operations

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Financial income:		
Loans	\$ 17,805,695	\$ 17,645,806
Cash resources and investments	1,488,101	1,345,437
	<u>19,293,796</u>	<u>18,991,243</u>
Financial expense - deposits and borrowed funds		
	<u>8,166,511</u>	<u>8,785,591</u>
Financial margin	<u>11,127,285</u>	<u>10,205,652</u>
Provision for credit losses (Note 4)	(10,000)	(120,000)
Other income (Note 12)	4,098,115	5,630,762
Net financial and other income	<u>15,215,400</u>	<u>15,716,414</u>
Operating expenses (Note 13)		
	<u>11,256,459</u>	<u>11,064,984</u>
Income from operations	<u>3,858,941</u>	<u>4,651,430</u>
Patronage rebates	(1,132,500)	(952,000)
Dividends on membership equity shares	(118,456)	(115,323)
	<u>(1,250,956)</u>	<u>(1,067,323)</u>
Income before income taxes	<u>2,607,985</u>	<u>3,584,107</u>
Income taxes (Note 16):		
Current	441,521	298,506
Future	49,161	271,487
	<u>490,682</u>	<u>569,993</u>
Net income	<u>2,117,303</u>	<u>3,014,114</u>
Other comprehensive income (loss), net of tax (Note 16):		
Unrealized gains on available for sale assets	8,960	11,475
Transfer of net realized (gains) losses to net income	(48,991)	(68,240)
Total other comprehensive income (loss)	<u>(40,031)</u>	<u>(56,765)</u>
Comprehensive income	<u>\$ 2,077,272</u>	<u>\$ 2,957,349</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Members' Equity

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Retained earnings:		
Balance, beginning of year	\$ 29,071,879	\$ 26,291,853
Net income	2,117,303	3,014,114
Dividends on investment equity shares, net of tax (Note 16)	(286,274)	(234,088)
Balance, end of year	\$ 30,902,908	\$ 29,071,879

	2010	2009
Accumulated other comprehensive income (loss), net of tax:		
Balance, beginning of year	\$ 43,341	\$ 100,106
Other comprehensive income (loss) (Note 16)	(40,031)	(56,765)
Balance, end of year	\$ 3,310	\$ 43,341

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Net income	\$ 2,117,303	\$ 3,014,114
Items not involving cash:		
Amortization	806,067	592,550
Amortization of gain on sale of property and buildings	—	(1,397,618)
Provision for credit losses	10,000	120,000
Future income taxes	49,161	271,487
Change in non-cash operating accounts	(673,337)	(303,112)
	2,309,194	2,297,421
Financing:		
Net increase in member deposits	13,697,114	26,669,713
Net increase in membership and investment equity shares	1,311,602	924,384
Income tax reduction related to dividends	78,920	82,589
	15,087,636	27,676,686
Investments:		
Increase in Central 1 Credit Union term deposits	(7,075,181)	(5,412,850)
Decrease (increase) in loans	3,319,210	(17,395,592)
Decrease (increase) in investments and other assets	1,062,962	(1,282,907)
Purchase of property, buildings and equipment	(344,731)	(4,853,295)
	(3,037,740)	(28,944,644)
Increase in cash and cash equivalents	14,359,090	1,029,463
Cash and cash equivalents, beginning of year	19,960,152	18,930,689
Cash and cash equivalents, end of year (Note 3)	\$ 34,319,242	\$ 19,960,152
Supplemental cash flow information		
Interest paid	\$ 7,482,192	\$ 9,807,750
Taxes paid (recovered)	\$ (475,548)	\$ 1,718,533

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended December 31, 2010

General

Aldergrove Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia. The Credit Union's primary business activity is providing financial services to its members in the Fraser Valley and the surrounding area.

1. SIGNIFICANT ACCOUNTING POLICIES:

(A) BASIS OF PRESENTATION

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

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

(B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Aldergrove Credit Union and its wholly-owned subsidiary, Aldergrove Insurance Services Ltd. All material intercompany accounts and transactions have been eliminated.

(C) CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances that are callable or have less than 90 days to maturity from the date of acquisition, including cash and demand deposits with the Central 1 Credit Union, amounts due from other financial institutions and cheques and other items in transit.

The bid deposits held with Central 1 Credit Union are accounted for as available for sale assets.

(D) LOANS

Loans are initially measured at fair value plus incremental direct transaction costs less loan fees and subsequently remeasured at their amortized cost (net of an allowance for credit losses) using the effective interest rate method.

(i) Loan interest

Interest income from loans is recorded on the accrual method, except where a loan is classified as impaired. Loans are generally considered impaired when, in the opinion of management, there is reasonable doubt as to the collectibility of principal and interest, or when principal or interest is 90 days past due. Accrued but uncollected interest is provided for when loans are determined to be impaired. When a loan is classified as impaired, interest income is recognized on a cash basis only after any specific provision or partial write-offs have been recovered and provided there is no further doubt as to the collectibility of principal. Loans considered uncollectible are written off.

(ii) Provision for credit losses

The Credit Union maintains a provision for credit losses, which, in management's opinion, is considered adequate to provide for credit-related losses.

The provision for loan losses consists of specific and general provisions. The specific provision is determined on the basis of specific loans, which, in management's opinion, may not be fully collectible. The specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount.

Specific provisions are supplemented by general provisions determined by judgment of management based on historical credit loss experience, known risks in the portfolio and current economic conditions and trends. The general provision is maintained to absorb credit losses that management estimates have occurred at the balance sheet date for which specific provisions cannot yet be determined.

(E) INVESTMENTS

Investments are comprised of available for sale and held to maturity securities. Liquidity investments held to meet capital requirements are classified as held to maturity. All other investments are available for sale.

Investments classified as available for sale are reported at their estimated fair value. Non-marketable equity shares and other investments which are not traded on an active market are recorded at cost, except where there is a loss in value that is determined by management to be other than temporary. In such case, the investment is written down to recognize the impairment loss.

Investments classified as held to maturity are reported at amortized cost.

(F) PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment are initially recorded at cost. Amortization is provided for on the straight-line basis over the estimated useful life as follows:

Buildings	20 years
Leasehold improvements	Lease term
Furniture and equipment	2-10 years
Banking system	5 years

(G) SHARES

Shares are classified as liabilities or as members' equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union Board of Directors, the shares are classified as equity.

(H) INCOME TAXES

The Credit Union uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Future income tax assets or liabilities are included in investments and other assets or accounts payable and accruals, as applicable.

(I) DISTRIBUTIONS TO MEMBERS

Patronage rebates and dividends on shares classified as liabilities are charged against earnings. Dividends on shares classified as equity, less the related income tax reductions, are charged against retained earnings.

(J) EMPLOYEE BENEFIT PLAN

The multi-employer employee benefit plan is accounted for as a defined contribution plan and contributions are expensed as required.

(K) FINANCIAL INSTRUMENTS

Financial instruments comprise cash resources, investments, loans to members, members' deposits and equity shares, call loans, and accounts payable and accrued liabilities.

Held for trading

Held for trading financial assets are securities purchased for resale, generally within a short period of time. They are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations continue to be reported in earnings as investment income. Other income and expenses related to these instruments are also included in financial income or financial expenses respectively.

Held to maturity

Held to maturity ("HTM") financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that the Credit Union has the positive intention and ability to hold to maturity. These financial assets are initially recognized at fair value including direct and incremental transaction costs. They are subsequently accounted for at amortized cost using the effective interest rate method.

Available for sale

Available for sale ("AFS") financial assets are non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM investments, held for trading or designated at fair value. Securities included in this category are deposits with Central 1 Credit Union and equity securities, including investments over which the Credit Union has no significant influence. Except for equities that do not have quoted market values in an active market, AFS securities are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income (loss) until sale or other-than-temporary impairment when the cumulative gain or loss is transferred to the Consolidated Statement of Operations. Equities that do not have quoted market values in an active market are carried at cost. Realized gains and losses on sale, determined on an average cost basis, and write-downs to reflect other-than-temporary impairments in value are included in other income. Dividends and interest income from these securities are included in interest income.

Loans and receivables

The Credit Union has designated loans to members as loans and receivables, which are accounted for at amortized cost using the effective interest rate method of amortization. Transaction costs are capitalized and then amortized over the life of the instrument using the effective interest rate method.

Liabilities - other liabilities

The Credit Union has designated all liabilities not classified as held for trading as Other Liabilities. Financial liabilities designated as Other Liabilities are recorded at amortized cost. Interest incurred on these liabilities is included in interest expense.

2. FUTURE ACCOUNTING POLICY CHANGES

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Credit unions are specifically scoped into the definition of a publicly accountable enterprise. As such, the Credit Union will be required to prepare December 31, 2011 financial statements, including comparative information, in compliance with IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The Credit Union is currently in the process of finalizing the differences between its current accounting policies and IFRS, as well as the alternatives available on adoption. The process includes the impact of the conversion on accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures, financial reporting, and business activities.

3. CASH RESOURCES

	2010	2009
Cash and current accounts	\$ 12,704,162	\$ 14,203,921
Term deposits - callable or maturing in 90 day or less	21,615,080	5,756,231
Cash and cash equivalents	34,319,242	19,960,152
Term deposits - maturing after 90 days	42,075,276	35,000,095
	\$ 76,394,518	\$ 54,960,247

Provincial legislation requires the Credit Union to maintain, for liquidity purposes, deposits with Central 1 Credit Union of at least 8% of deposits and borrowings. At December 31, 2010 Credit Union liquidity deposits exceeded the prescribed requirement by \$26,201,726 (2009 - \$21,392,896).

The Credit Union has a line of credit with Central 1 Credit Union in the amount of \$20,000,000. Draws on the facility at December 31, 2010 were \$nil (2009 - \$nil).

4. LOANS

	2010	2009
Personal loans:		
Residential mortgages	\$ 214,609,382	\$ 215,308,984
Other	41,823,300	43,919,283
Commercial loans:		
Mortgages	131,196,611	132,886,261
Other	4,434,203	3,347,318
Accrued interest	621,951	667,320
	392,685,447	396,129,166
Allowance for credit losses	1,155,684	1,270,193
	\$ 391,529,763	\$ 394,858,973

Provision for credit losses:

	2010			2009	
	Balance, beginning of year	Provisions (reversals) made in year	Write-offs net of recoveries	Balance, end of year	Balance, end of year
Personal loans:					
Residential mortgages	\$ 440,005	\$ (50,000)	\$ -	\$ 390,005	\$ 440,005
Other	91,731	110,000	124,509	77,222	91,731
Commercial loans:					
Mortgages	729,667	(50,000)	-	679,667	729,667
Other	8,790	-	-	8,790	8,790
	\$ 1,270,193	\$ 10,000	\$ 124,509	\$ 1,155,684	\$ 1,270,193
Percentage of total loans and accrued interest				0.29%	0.32%

The carrying amount of impaired loans at December 31, 2010 is \$2,791,150 (2009 - \$1,598,772).

5. INVESTMENTS AND OTHER ASSETS

	2010	2009
Central 1 Credit Union - shares	\$ 1,090,352	\$ 1,078,866
Future income taxes (Note 16)	435,996	476,198
Other assets	302,563	1,377,893
	<u>\$ 1,828,911</u>	<u>\$ 2,932,957</u>

6. PROPERTY, BUILDINGS AND EQUIPMENT

	2010		2009	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 2,874,072	\$ -	\$ 2,874,072	\$ 2,874,072
Buildings	8,841,515	3,530,646	5,310,869	5,769,683
Leasehold improvements	254,783	252,693	2,090	5,678
Furniture and equipment	3,281,798	2,232,103	1,049,695	1,013,973
Banking system	284,972	106,545	178,427	213,083
	<u>\$ 15,537,140</u>	<u>\$ 6,121,987</u>	<u>\$ 9,415,153</u>	<u>\$ 9,876,489</u>

7. MEMBER DEPOSITS

	2010	2009
Demand	\$ 142,721,022	\$ 146,107,698
Term	222,577,819	211,847,142
Registered savings plans	67,632,144	61,637,045
Accrued interest	3,060,090	2,375,771
	<u>\$ 435,991,075</u>	<u>\$ 421,967,656</u>

Demand deposits include \$323,607 (2009 - \$329,226) in non-equity savings shares.

Under agreements with the trustee of the registered savings plans, members' contributions to the plans are deposited with the Credit Union at rates of interest determined by the Credit Union.

8. EQUITY SHARES

Capital of the Credit Union is divided into an unlimited number of \$1 par value equity shares designated as follows:

Class A mandatory equity ("membership equity") shares:

- Voting shares, 25 shares required as a condition of membership (with exception of junior accounts) and a maximum of 1,000 shares issued per member; redeemable on withdrawal of membership.

Class B voluntary equity ("investment equity") shares:

- Investment shares, available for subscription by members, redeemable only at the option of the Board of Directors of the Credit Union.

The Credit Union is authorized to issue an unlimited number of non-transferable, voting Class A membership equity shares.

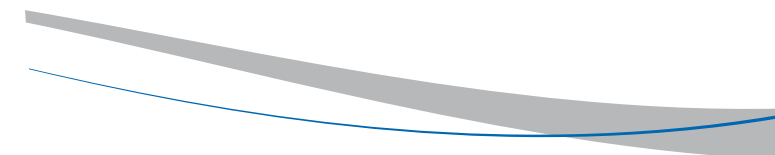
Investment equity shares, are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

	2010	2009
Equity shares issued:		
2,534,367 Class A membership equity shares (2009 - 2,403,548)	<u>\$ 2,534,367</u>	<u>\$ 2,403,548</u>
7,978,369 Class B investment equity shares (2009 - 6,718,666)	<u>\$ 7,978,369</u>	<u>\$ 6,718,666</u>

9. CAPITAL REQUIREMENTS:

Provincial legislation requires the Credit Union to maintain a capital base equal to at least 8% of the total risk-weighted value of its assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset. At December 31, 2010, the Credit Union attained a capital base approximating 19.7% (2009 - 17.5%). The Credit Union is in compliance with legislation.

The Credit Union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover risks inherent in the business.



10. INTEREST RATE SENSITIVITY

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap, between the assets, liabilities and off-balance sheet instruments scheduled to reprice on particular dates. The Credit Union had no off-balance sheet instruments at December 31, 2010.

Maturity dates substantially coincide with interest adjustment dates. Amounts that are noninterest sensitive are grouped together, regardless of maturity.

The following table presents the carrying amounts of interest sensitive assets and liabilities in periods in which they next reprice or mature.

	Variable rate	Within 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-interest sensitive	Total
<i>Assets:</i>							
Cash resources	\$ -	\$ 21,615,080	\$ 17,294,736	\$ 13,926,930	\$ 10,277,120	\$ 12,280,652	\$ 76,394,518
<i>Yield</i>	-	1.26%	1.98%			-	-
Loans	145,938,113	7,262,328	24,224,610	92,232,867	122,783,279	(911,434)	391,529,763
<i>Yield</i>	4.14%	5.40%	4.86%	4.99%	4.46%	-	-
Other	1,090,352	-	-	-	-	-	-
	147,028,465	28,877,408	41,519,346	106,159,797	133,060,399	22,522,930	479,168,345
<i>Liabilities and Members' Equity:</i>							
Deposits and member shares	105,769,588	36,962,496	94,873,461	87,114,527	59,450,289	51,820,714	435,991,075
<i>Yield</i>	0.42%	2.91%	2.55%	2.87%	2.52%	-	-
Other	-	-	-	-	-	43,177,270	43,177,270
	105,769,588	36,962,496	94,873,461	87,114,527	59,450,289	94,997,984	479,168,345
Interest sensitivity position -2010	\$ 41,258,877	\$ (8,085,088)	\$ (53,354,115)	\$ 19,045,270	\$ 73,610,110	\$ (72,475,054)	\$ -
Interest sensitivity position -2009	\$ 37,582,531	\$ (9,667,229)	\$ (49,713,336)	\$ (30,299,678)	\$ 119,324,931	\$ (67,227,219)	\$ -

It is estimated that an immediate and sustained parallel increase in interest rates of 1% across all maturities would increase net interest income by approximately \$29,000 and a decrease in interest rates of 1% across all maturities would decrease net interest income by approximately \$2,019,000 over the next twelve months using the following assumptions:

- i) accrued interest receivable and payable as at December 31, 2010 are excluded from the calculation;
- ii) no hedging of interest rate exposures are made;
- iii) instruments reprice evenly within their respective time bands;
- iv) existing credit commitments will not be drawn upon; and
- v) no prepayments of fixed rate term loans or early redemption of redeemable fixed rate term deposits will be made.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following represents the approximate fair values of financial instruments of the Credit Union as at the balance sheet date:

	2010 Book value	2010 Fair Value	2010 Difference	2009 Book value	2009 Fair value	2010 Difference
<i>Assets:</i>						
Cash resources	\$ 76,394,000	\$ 76,824,000	\$ 430,000	\$ 54,960,000	\$ 55,869,000	\$ 909,000
Loans to members	\$ 391,530,000	\$ 392,063,000	\$ 533,000	\$ 394,859,000	\$ 394,581,000	\$ (278,000)
Investments	\$ 1,829,000	\$ 1,829,000	\$ -	\$ 2,932,000	\$ 2,932,000	\$ -
<i>Liabilities:</i>						
Member deposits	\$ 435,991,000	\$ 436,611,000	\$ 620,000	\$ 421,968,000	\$ 424,443,000	\$ 2,475,000
Member equity shares	\$ 2,534,000	\$ 2,534,000	\$ -	\$ 2,404,000	\$ 2,404,000	\$ -
Accounts payable	\$ 1,758,000	\$ 1,758,000	\$ -	\$ 2,424,000	\$ 2,424,000	\$ -

The fair value of items that are highly liquid or short-term in nature approximate their carrying value. This includes certain cash resources (excluding term deposits - Note 3), investments, membership equity shares and accounts payable and accrued liabilities. The fair value of loans and members' deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of instruments. The fair value of loans and members' deposits with variable rates of interest approximate their carrying value.

12. OTHER INCOME

	2010	2009
Account service fees	\$ 1,150,036	\$ 1,166,116
Insurance commissions and fees	1,543,362	1,370,336
Mortgage prepayment and other fees	912,203	870,141
Foreign exchange	196,917	351,522
Other	295,597	475,029
Gain on sale of property and buildings	–	1,397,618
	\$ 4,098,115	\$ 5,630,762

13. OPERATING EXPENSES

	2010	2009
Salaries and employee benefits	\$ 6,402,077	\$ 6,366,863
Other	1,083,538	1,141,573
Data processing	1,032,028	1,010,461
Building occupancy	825,338	758,030
Amortization	806,067	592,550
Office	399,550	371,940
Cheque processing	293,277	303,316
Professional and consulting	228,347	220,484
Advertising and promotion	201,460	195,465
Dues and assessments	84,777	104,302
	\$ 11,356,459	\$ 11,064,984

14. PENSION EXPENSE

The Credit Union sponsors a pension plan covering employees of the Credit Union and its subsidiary.

The multi-employer plan is administered by Central 1 Credit Union and accounted for as a defined contribution plan. Pension expense of \$300,411 (2009 - \$269,789) in respect to the multi-employer plan has been charged to income and is classified as salaries and employee benefits in the consolidated statement of operations.

15. COMMITMENTS**(A) COMPUTER SERVICES**

The Credit Union is committed to acquire on-line data processing services until December 2013. Data processing charges are based on the level of equipment and services utilized and on the number of credit union members.

(B) LEASES

The Credit Union leases premises under a lease agreement which expires in June 25, 2011.

Minimum lease payments for the next year is as follows:

2011	\$ 99,250
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(C) LETTERS OF CREDIT

At December 31, 2010 the Credit Union has outstanding letters of credit on behalf of the members in the amount of \$3,595,531 (2009 - \$2,625,362). These letters of credit are fully secured by member deposits.

16. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying federal and provincial statutory tax rates of 28.5% (2009 - 30.0%) to income before income taxes. The reasons for the difference and related tax effects are as follows:

	2010	2009
Tax at applicable tax rate	\$ 273,276	\$ 1,075,232
Preferred rate amount deduction for credit unions	(142,161)	(293,174)
Non-deductible expenses	2,691	4,321
Impact of change in tax rates	(113,124)	(216,386)
	\$ 490,682	\$ 569,993

Income taxes are netted against the following line items in the consolidated financial statements as follows:

	2010	2009
Consolidated Statement of Operations and Comprehensive Income:		
Unrealized (gains) losses on available for sale assets	\$ (1,971)	\$ (2,941)
Transfer of net realized (gains) losses to net income	\$ 9,786	\$ 15,408
Consolidated Statement of Changes in Members' Equity:		
Dividends in investment equity shares	\$ 78,920	\$ 82,589
Other comprehensive (income) loss	\$ (827)	\$ (12,467)

The tax effects of temporary differences that give rise to significant portions of the future income tax assets at December 31, 2010 and 2009 are presented below:

	2010		2009
Future income tax assets:			
Provision for credit losses	\$ 208,023	\$	247,421
Deferred income	68,806		70,411
Buildings and equipment differences between net book value and undepreciated capital cost	121,063		139,943
Other assets	47,048		28,209
	444,940		485,984
Tax effect of fair value differences on Central 1 Credit Union deposits, included in other comprehensive income	(8,944)		(9,786)
Net future tax asset	\$ 435,996	\$	476,198

17. OTHER INFORMATION

The directors of the Credit Union received \$18,150 in remuneration during 2010 (2009 - \$11,875).

At December 31, 2010, loans to directors, officers and employees with credit granting authority of the Credit Union amounted to \$15,646,980 (2009 - \$12,787,078). All such loans were granted in accordance with the credit policies established for all members.

18. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established the Audit Committee and charged them with the responsibility for, among other things, the development and monitoring of risk management policies. The Committee reports regularly to the Board on its activities.

(A) LIQUIDITY RISK

Liquidity risk arises in the course of managing our assets and liabilities. It is the risk that the entity is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund our balance sheet under both normal and stressed market environments.

The Credit Union's liquidity risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed. The Board receives regular reports on risk exposures and performance against approved limits.

(B) CREDIT RISK

Credit risk is the potential for financial loss to the Credit Union if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. Credit risk is one of the most significant and pervasive risks in the business of a credit union. Every loan, extension of credit or transaction that involves settlements between the Credit Union and other parties or financial institutions exposes the Credit Union to some degree of credit risk.

The Credit Union's primary objective in managing credit risk is to provide prudent lending and investment standards which will maximize returns while ensuring the safety of capital. In order to meet these objectives, the Credit Union has developed a comprehensive framework of credit policies which provides details on:

- approval authority and lending limits by credit product and guidelines on suitable security;
- utilizing the Credit Unions credit risk weighting system, and application of minimum credit ratings acceptable to the Credit Union;
- pricing for the credit risk taken; and
- mitigating credit risk through preventive and detective controls.

(C) INTEREST RATE RISK

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when we enter into banking transactions with our members, namely deposit taking and lending. When asset and liability principal and interest cash flows have different payment and maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is, depending on its specific terms, re-priced when interest rates change, when there is cash flow from final maturity, normal amortization, or when members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions (see Note 10). It is also affected by new business volumes, renewals of loans or deposits, and how actively members exercise options, such as prepaying a loan before its maturity date.

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. Overall responsibility for asset/liability management rests with the Board. Management reports to the Board on at least a quarterly basis to review the results of interest rate simulation model analysis.

(D) MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, equity rates, foreign exchange rates and credit spreads, will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(E) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The entity is exposed to foreign currency risk as a result of its members' activities in foreign currency denominated deposits and cash transactions. All foreign currency risk comes from U.S. dollar transactions. The entity's foreign currency risk is subject to extensive risk management controls and is managed in accordance with the framework of policies and limits approved by the Board.

(F) OTHER PRICE RISK

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The Credit Union is exposed to other price risk in its own investment portfolio. The Credit Union adheres to the principles of quality and risk diversification in its investment practices. As at December 31, 2010, the entity has limited investments subject to other price risk and accordingly this exposure is insignificant.

Thanks for another great year



Locations

CREDIT UNION

ALDERGROVE COMMUNITY BRANCH

2941 272nd Street
Aldergrove, BC
P: 604 856 7724

MATSQUI COMMUNITY BRANCH

5824 Riverside Street
Matsqui Village, Abbotsford, BC
P: 604 826 1201

MT. LEHMAN CENTRE BRANCH

100 – 3224 Mt. Lehman Road
Abbotsford, BC
P: 604 857 0654

MURRAYVILLE COMMUNITY BRANCH

22242 48th Avenue
Murrayville, Langley, BC
P: 604 534 9477

OTTER COMMUNITY BRANCH

3661 248th Street
Aldergrove, BC
P: 604 856 2558

FINANCIAL PLANNING

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INSURANCE

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OTTER COMMUNITY OFFICE

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