

Friendly,  
knowledgeable,  
service. **Everyday.**



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## Our Vision

“Supporting dreams and building communities”

## Our Mission

“We provide innovative financial solutions enriching our member-owners, our communities and the credit union.”

## 2010/2011 Board of Directors:

### Region 1 (Bienfait / Lampman)

- Marty Lelliott (2011)

### Region 2 (Redvers / Carlyle)

- Brian Arthur (2011)

### Region 3 (Estevan, Minton-Gladmar, Beaubier)

- Duane Chipley (2012)
- Pauline Ziehl Grimsrud (2012)
- Emily Zyla (2013)

### Region 4 (Carnduff / Oxbow)

- Joyce Fraser (2013)

### Directors-At-Large

- Wayne Amos (2011)
- Dennis Bode (2013)
- Cameron Nordin (2012)

Note - year indicates end of term

## Executive Management:

### Chief Executive Officer

- Tim Schroh

### Executive Vice Presidents:

- Norm Nicol: Relationship Services
- Cory Prokop: Finance
- Tami Scott: Marketing & Human Resources
- Lorrie Waronek: Risk Management



Wayne Amos, Pres



Tim Schroh, CEO

## Branch Locations and Managers

- |                   |                         |
|-------------------|-------------------------|
| • Beaubier:       | Lori Naka, Brenda Stark |
| • Bienfait:       | Ian Wood                |
| • Carlyle:        | Devan Brisebois         |
| • Carnduff:       | Gail Goertz             |
| • Estevan:        | Lori Naka, Brenda Stark |
| • Lampman:        | Kirsten Fornwald        |
| • Manor:          | Devan Brisebois         |
| • Minton-Gladmar: | Lori Naka, Brenda Stark |
| • Oxbow:          | Gerard Keifer           |
| • Redvers:        | Lucille George          |

**TeleService Contact Centre:**  
**636-7700 or 1-800-863-1312**

## Associate Vice Presidents:

- |                  |                                |
|------------------|--------------------------------|
| • Judy Krall:    | Sales & Business Development   |
| • Ian Wood:      | Sales & Business Development   |
| • Neil Kish:     | Corporate & Financial Services |
| • Cory Fiesel:   | Credit & Risk Management       |
| • Rick Matte:    | Information Technology         |
| • Kurt Schmidt:  | Commercial & Ag Lending        |
| • Brian Pilloud: | Wealth Management              |

**On-Line:**  
**[www.spectracu.com](http://www.spectracu.com)**

# Board of Directors

## Strategic Leadership

The Spectra Board of Directors is committed to effective governance and continuous improvement. This elected group of members sets the strategic level direction for Spectra and then monitors the results of the Management and Staff to ensure that the credit union is operated and managed prudently, ethically and in the best interests of our members.

## Board Committees

The Board of Directors organizes itself into several committees to ensure that oversight of various aspects of our operations and governance can be dealt with most effectively. The committees of the board are as follows:

- Executive Committee – The President, 1st Vice President and 2nd Vice President form to act as the official representatives of the Board of Directors.

- Corporate Governance – Maintain governance structure and processes.
- Audit and Risk – Oversee risk management and financial reporting integrity.
- Conduct Review – Oversee conduct and ethical business standards.
- Public and Member Relations – Oversee the member relations and marketing programs.
- Human Resources – Review human resources policy and compensation structures.

As well, the Spectra Credit Union Board provides representation on the following two related Boards:

- Spectra Community Foundation Inc.
- Spectra Financial Inc.

## Saskatchewan Credit Union Order of Merit

Annually, we have the honor to induct one board member to the Saskatchewan Credit Union Director Book of Honor, and to receive a Saskatchewan Credit Union Order of Merit.

In 2011, we are pleased to recognize **Joe Parent**. Joe joined the Board of Directors in 1965 and assumed the presidency in 1982. He went on to provide a total of 44 years of service to Spectra Credit Union. During that time, the credit union saw dramatic growth and has been on the leading edge of many system-wide developments. In addition to his time on the Board of Directors, Joe also served as delegate to SaskCentral for ten years and on the Board of

The Cooperators for three years. Tim Schroh, CEO stated that there has not been a more dedicated credit union board member in Saskatchewan, and his legacy will not be forgotten.

In addition to his credit union commitment, Joe has served on several community organizations including the Knights of Columbus, Estevan Rotary Club, Estevan Board of Tourism, Trade, and Commerce, Estevan Heritage Property Review Committee, and Souris Valley Theatre. Joe Parent announced his retirement from the Board of Directors effective October 16, 2009. He and his wife Isabella have retired to the community of Elbow, Saskatchewan.



Joe Parent joins other notable credit union volunteers in the Credit Union Director Book of Honor. In the past, Spectra Credit Union has honored Ralph Melle (2007), Dean Fraser (2008), Jarl Mellom (2009), and Ray Luterbach (2010).

## Friendly, Knowledgeable Service. Everyday.

Serving our local communities is a hallmark of Spectra Credit Union. We operate from branches located in ten communities. In five of those communities, Spectra is the only financial institution in town. Staff at our retail branches receive ongoing training to provide top quality service and advice to our 20,000 members across south-eastern Saskatchewan.

Based on the results of our quality member service survey conducted in 2010, it would appear that over 96 per cent of our members agree that our staff provide great service. Members described the service they received from our staff as capable, friendly, prompt, accurate, and indicated that our staff made them feel appreciated and their banking hassle free!

Our commitment to service and convenience is exemplified by the availability of ATMs in six locations across southeast Saskatchewan. ATMs can be found in Carlyle, Carnduff, Redvers, Oxbow, and two locations in Estevan. In 2011, we will be expanding our ATM network further with a machine at Spectra Place as well as a new ATM at our Lampman Branch. Our ATMs operate around the clock. All you need is a Member Card debit card or a Global Payment MasterCard along with your Personal Identification Number (PIN).

In addition to our qualified branch staff, we offer service through a variety of specialist departments.

The **TeleService Contact Centre** provides professional service through our qualified TeleService Representatives and TeleService Supervisor Patty Schachtel. They are conveniently available six days per week, opening at 8:00 a.m., with extended hours to 8:00 p.m. from Monday to Thursday, 6:00 p.m. on Friday, and 4:00 p.m. on Saturdays. The TeleService Representatives can capably handle your account inquiries, personal investments, and consumer

mortgage and loan applications. In 2010 they dealt quickly with over 52,300 incoming calls and inquiries.

The Commercial Loans Centre was originally opened in 1996, designed to serve our larger Commercial members with dedicated specialists. As farming operations have increased in complexity, we saw a need to ensure that we had agricultural loan specialists in place to meet the particular needs of those larger operations. In 2009, the combined **Commercial and Agricultural Loans Centre** was opened on the main floor of the new addition in the Estevan Building. The Centre is managed by Kurt Schmidt, Associate VP of Commercial and Agricultural Lending and currently has four Commercial Account Managers and three Agricultural Account Managers on staff.

Under the direction of our Associate VP of Investment Services, Brian Pilloud, our team of **Investment Services** representatives is able to provide investment, financial and estate planning services to help our members meet their short and long range goals.

With access to innovative and secure fixed rate investments and accounts, tax free savings accounts, as well as a wide range of index linked products and mutual funds, our representatives can help you make the best decisions for your registered retirement, registered education, and general investing needs.

Our members have additional access to financial services through **Spectra Financial**, which is a wholly owned subsidiary of Spectra Credit Union. Led by Reynold Bert, CFP and Ron Areshenkoff, Group Retirement / Risk Management Advisor, the staff of Spectra Financial provide an extended range of high quality investment, financial planning, and insurance services.

In April of 2010, the TeleService Contact Centre received a new phone system to allow members to leave messages for our staff, resulting in a quicker turn around for our members.



## Building Communities.

Spectra Credit Union takes pride in **investing in the dreams** that help our members and communities succeed. For us, community support goes beyond business relationships. We also support the charities, voluntary organizations and community organizations that help make our communities strong.

Due to an operating loss in 2009, the Board of Directors did not make an allocation to **Spectra Community Foundation Inc.** for 2010. However, there were remaining funds from the previous year available for distribution. As a result the Foundation board approved funding for nineteen organizations in southeast Saskatchewan totaling \$145,000. A third allocation in the amount of \$500,000 was approved at the December, 2010 Board Meeting, to be distributed in 2011/2012. This initiative has proven to be an extremely positive way to share the success of Spectra Credit Union with non-profit and volunteer organizations that help make our communities strong.

All ten branches of Spectra Credit Union provide donations and volunteers to support events and organizations in their local communities in a variety of ways. We also continued our commitment to major capital projects important to all of our communities such as the Radville Long Term Care Facility. As well, we're proud that the new name of the arena in Estevan was announced in 2010 - **Spectra Place** will be a welcome addition to the city and surrounding communities when it is officially opened in the spring of 2011.

High school graduation awards of \$500 are presented each year to graduates who have demonstrated exemplary service to their schools and communities. A total of ten awards are presented annually to deserving students. In addition, the **Spectra Credit Union Post Secondary Scholarship** of \$1,500 is presented each fall to a student entering their second year of studies in a recognized post-secondary institution. We are continually impressed with the quality of applicants for this award. Preference is given to students in the fields of Business, Commerce, Agriculture and Computer Science, all of which are areas of employment interest in the credit union sector. The recipient of the 2010 scholarship was Katelle Halpape. Katelle is a resident of Carlyle, Saskatchewan and is attending her second year of studies in Business Administration at the University of Saskatchewan in Saskatoon, SK.



**Creighton Lodge in Estevan received funds from the Foundation for new sidewalks.**

Spectra Credit Union supports organizations in our communities through cash donations, sponsorships, volunteer activities and service charge reductions. In 2010, we donated over \$169,000 in cash and gifts-in-kind to organizations throughout our trading area, plus another \$10,000 in reduced or waived service charges on nearly 550 accounts for non-profit and community groups. Further, our staff was instrumental in fund-raising for a variety of worthy causes such as TeleMiracle, Children's Health Foundation, Red Cross and others, raising an additional \$27,760.



**Our staff have been donating to Operation Christmas Child since 2005.**

## People are Our Difference.

Providing top quality service to thousands of members in southeastern Saskatchewan is the reason we exist. The products and service we provide are developed around the needs of members. We are dedicated to providing the best financial services, encouraging you to make Spectra Credit Union your primary financial institution.

Service excellence comes from people, and our employees are one of our most important stakeholders of Spectra Credit Union. We were delighted in 2010 to be recognized for the sixth consecutive year as one of the **Top 50 Small and Medium Employers in Canada** by the Globe and Mail, Hewitt Consultants and Queen's School of Business. Spectra continues to be ranked very highly by its employees in the areas of corporate citizenship and organizational reputation, with staff expressing certainty that the organization adds significant value to the communities in which we operate. Staff were proud of what the company offers and would highly recommend Spectra as a great place to do business. Additionally, employees gave high marks for the level of ethics expected and displayed throughout the organization.

**BEST  
SMALL &  
MEDIUM**  
EMPLOYERS IN CANADA

Through our 10 branch locations, TeleService Contact Centre, administrative offices and Spectra Financial, we now employ over 160 staff in southeastern Saskatchewan. Our staff commit many hours of their own time to their communities, on boards, on fire departments, in churches, in service clubs and sports teams. You'll find our people everywhere, and we're proud of that.

Spectra saw four employee retirements in 2010. Chris Declercq retired in the spring after several years as our Member Service Supervisor for the Estevan Branch. Sherry Boyes retired in August from the Investment Services Department. Prior to that, she worked at the Carnduff Branch for many years. Doreen LeBlanc pursued her full-time retirement in December after working casually in the Commercial Centre for several years. Finally, Susan Tessier opted for retirement from the Minton-Gladmar Branch after many years of service to the members in that area. In early 2011, both Tammra Wanner of Estevan and Val Black of Oxbow have opted to pursue retirement. We thank each of these individuals for the years of dedicated service that they have provided to the membership of Spectra Credit Union. We are pleased to report that our overall turnover rate continued to decline throughout 2010.

We are particularly pleased with the level of experience held by our staff. Several valuable employees received **long term service awards** in 2010. Recognition was extended to Lucille George, Ian Wood, Charisse Lischka, Valerie Paulson and Larry Debusschere (5 years), Brian Pilon, Susan Tessier, Louise Axten, Tannis Wock, Tara Markoski and Libby Jamal (10 years), Daphne Meunier, Tammy Lischka, Diane Kenler, Diane Zander, Laurie Holstiene, Ron Thompson, Evelyn Perkins and Sharon Stepp (20 years), Louise Harrison-Lee, Kathy Bella, Debbie Salaway and Cindy Guillemain (25 years), Val Black (30 years) and Gail LaCoste (35 years).

We also welcomed a number of new employees to the Spectra Credit Union team and appreciate the fresh new ideas and vitality that they bring to the organization.

This year, Gail LaCoste was recognized by Spectra Credit Union for 35 years of service to the credit union system. Gail started her career as a part time check filing clerk. After holding numerous positions over the years, she has been a member of our Corporate Accounting team for 14 years.



# Management Discussion and Analysis

## 2010 Financial Performance

### Balance Sheet

The balance sheet of the credit union grew by 4.31% or \$24.2 million in 2010. The growth experienced during the year came in just below the organization's target of 5% growth forecast.

Member deposit growth of \$15.1 million or 2.92% accounts for the majority of the balance sheet growth in 2010. Competitive interest rates, along with attractive features and benefits in product design, continue to result in relatively stable deposit growth for the credit union. Spectra Credit Union continues to monitor the market place to ensure that its products and services remain competitive.

The credit union loans receivable balances grew by a marginal amount in 2010. Loan balances increased by .54% or \$1.9 million during the year. New loans granted in 2010 just kept pace with some very large payouts during the year. A number of businesses that the credit union dealt with sold during the year, resulting in any loans outstanding with the credit union being paid off in full. The loan to asset ratio sits at 60.5% at the end of 2010, remaining below the organizational target range of 70-75%. A number of strategies are planned for 2011 in an attempt to bring the loan to asset ratio closer to the organizational target.

The retained earnings of the credit union grew by \$4.9 million or 12.4% in 2010. The exceptional financial results of the credit union in 2010 resulted in its equity position improving to 7.58% from a level of 7.04% in 2009. The accumulated other comprehensive income of \$2.5 million, while shown on the balance sheet, is not factored into the organization's calculation of equity as a percentage of total assets as it only represents the increase in market value of the credit union investment portfolio at year end. Tier 1 capital of 7.42% has increased from the 6.57% level experienced in 2009 and remains above the regulatory minimum of 5%. Eligible capital to risk weighted assets of 13.63% at the end of 2010 is considerably better than the 11.33% achieved in 2009 and remains above the regulatory minimum of 8%. The credit union's capital policy states that a minimum 7% Tier 1 capital and 12% total risk weighted capital be maintained.

### Operating Statement

Despite the fact the market interest rates remained very low and loan growth came in below budget for the year, the interest margin of the credit union improved from the levels experienced in 2009. Net interest income improved to 2.98% in 2010 compared to 2.51% in 2009. While SaskCentral was unable to pay a share dividend in 2009, the 2010 share dividend payment of just over \$800,000 certainly contributed to the improved interest income during the year.

While the credit union experienced a very large provision for loan losses in 2009, the loan loss picture improved dramatically in 2010. A net recovery of \$1.1 million is the result of an approximate \$1.2 million recovery on the amount written provided for in 2009.

Non-interest income of \$5.5 million is approximately \$1.1 million better than the \$4.4 million non-interest income achieved one year ago. Of the \$1.1 million increase, \$596,000 can be attributed to a gain on sale of investments recognized during the year. As service charges and fees are reviewed in 2011, it will be done with the intent of maximizing revenues while remaining competitive within the marketplace.

Operating expenses increased by \$1.7 million in 2010. As a percentage of total assets this equates to 3.11%, an increase from the 2.93% level one year ago. Personnel costs increased by \$1.6 million in 2010, attributed mainly to the variable incentive payout, which was not paid in 2009, regular annual wage increases, and the addition of job positions added due to changes in operation requirements. Additional depreciation expense related to the building improvements in Estevan and Redvers resulted in the occupancy expenses increasing by \$242,756 in 2010. Maintaining effective control of the operating expenses of the organization remains a very high priority for the credit union management team.

### Summary

Following a very difficult 2009, the credit union financial picture rebounded very well in 2010. The improved interest margin, loan loss recovery, gain on the sale of investments and the SaskCentral dividend payment all contributed to the outstanding financial results achieved in 2010. While working to balance the many risks related to the financial industry in which it operates, the credit union is poised to experience positive financial results again in 2011.

# Management Discussion and Analysis

## Risk Management

As a financial institution, the credit union is essentially in the business of taking on and managing risk on a number of fronts. The Board of Directors and Executive Management team are committed to balancing and managing the various risks of the organization to ensure strength and stability well into the future. An Executive Management team with over 100 years of combined financial industry experience works very closely with the credit union's Board of Directors to establish policies and procedures to effectively manage the various risks that the organization is exposed to. Regular audits, both internal and external, combined with ongoing monitoring performed by the organization's regulator, the Credit Union Deposit Guarantee Corporation (CUDGC), also provide support to the risk management function of the credit union.

Risk is managed on a regular basis, with monthly meetings of the credit union's internal Asset/Liability Committee being held and quarterly detailed risk reports being presented to the Board of Directors through its Audit and Risk Committee. The credit union recently added an Executive Vice President of Risk Management to its Executive Management team in an attempt to further advance its risk management effectiveness.

### Credit Risk

Credit Risk is the risk of financial loss arising from a borrower or counterparty's inability to meet its contractual obligations. Spectra Credit Union is affected primarily by its direct lending activities and, to a lesser extent, by holdings within its investment portfolio.

Lending and credit risk management is performed within the context of documented policies, procedures, standards and controls. Staff training, on-going internal monitoring, and annual external audits of the loan portfolio also contribute to the risk mitigation efforts concerning credit risk.

A significant portion of our commercial loan portfolio is oil related. Throughout 2010, the local oil patch was very active, resulting in strong cash flows for most of our commercial members. Employment levels in our service area remain high, supporting the demand for consumer loans. Loan delinquency greater than 90 days of 1.23% is well below the organization's target of 2% for delinquency.

### Market Risk

Market risk is the risk that the financial position or earnings of the credit union will be adversely affected by changes in market conditions, specifically interest rates and foreign exchange rates. Spectra Credit Union is mainly impacted by changes in interest rates and the timing differences that exist between the re-pricing of loans, investments and deposits.

The credit union's exposure to changes in interest rates is monitored on a monthly basis utilizing a sophisticated interest rate modeling approach that compares various potential future interest rate scenarios and their affect on the balance sheet of the organization. Results are presented to and discussed by the Asset/Liability Management Committee on a regular basis and shared with the Audit and Risk Committee of the Board on a quarterly basis.

### Liquidity Risk

The difference in the timing, volumes and direction of the inflows and outflows of balances on the asset side of the balance sheet versus that of the liability side of the balance sheet, results in liquidity risk. Liquidity risk is the risk of having insufficient cash resources or equivalents to meet financial obligations without having to raise funds at unfavorable rates or having to sell assets on a forced basis. Procedures, standards and limits pertaining to liquidity risk are established through Board approved corporate policies. The following processes and controls are employed by Spectra Credit Union management to monitor and manage liquidity risk:

- Spectra monitors the actual inflows and outflows of funds on both sides of the balance sheet on a daily basis.
- Spectra maintains liquidity contingency plans.
- Spectra holds a stock of liquid assets.
- Spectra maintains borrowing facilities with both SaskCentral and its affiliate, Concentra Financial Services.

## Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems. External events, such as natural disasters, can also result in operational risk for the credit union. Exposures to this risk arise from deficiencies in internal controls, technology failures, human error or external events.

Operational risk is managed through the use of policies and procedures, controls and monitoring (both internal and external). Control and monitoring involves the segregation of duties, employee training, performance management, a structured internal audit program, and external monitoring by both a third party audit firm and the credit union regulator. Other mitigating efforts include business interruption planning, appropriate insurance coverage, and secure technology solutions.

## Legal & Regulatory Risk

Legal and regulatory risk arises from potential non-compliance with laws, rules, regulations, or ethical standards in the jurisdiction in which the credit union operates.

Spectra Credit Union operates in a heavily regulated environment. The credit union's structure, policies, and procedures all aid in its compliance with laws and regulations. In addition, the Spectra Credit Union employs an internal compliance officer to manage and report on regulatory compliance on a regular basis.

## Deposit Guarantee

**Guaranteed Deposits. Yesterday. Today. Tomorrow.** Credit Union Deposit Guarantee Corporation is the primary regulator for Saskatchewan credit unions. The Corporation is given its responsibilities and obligations through provincial legislation. The Credit Union Act, 1998 empowers the Corporation to take whatever action is necessary to ensure deposits are safe and secure. In over 55 years, no depositor has ever incurred a loss of deposits in a Saskatchewan credit union.

The Corporation instills confidence in Saskatchewan credit unions by guaranteeing deposits and ensuring the strength and stability of the system. To achieve this, a comprehensive regulatory framework is in place to ensure depositors' funds are fully guaranteed and completely safe. We establish standards of sound business practice, which are the minimum requirements that credit unions must comply with. We also invest in preventive programs which contribute to the strength of credit union decision makers and the ability of credit unions to actively manage risk and prevent loss. By monitoring risk in credit unions, we can identify potential issues and credit unions can take corrective action.

The financial services industry has changed dramatically in recent years. To meet growing competitive pressures, increased governance and regulatory demands, and additional disclosure requirements, today's credit unions have become larger and more complex. Through effective governance and leadership by board and management, they demonstrate strength and stability within the financial services industry and in the communities they serve. Credit union capital levels are strong and the robust provincial economy has provided Saskatchewan credit unions with unprecedented growth and strong operating results. Credit unions are well positioned to take advantage of opportunities and effectively manage the challenges of more difficult economic times.

For more information about deposit protection, talk to a representative at the credit union or visit their web site at [www.cudgc.sk.ca](http://www.cudgc.sk.ca).



# 2010 Annual Report

## Spectra Credit Union

Auditors' Report and Consolidated Financial Statements  
December 31, 2010



Launch of Spectra Place



Spectra Striders  
Relay for Life Team





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## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF SPECTRA CREDIT UNION

We have audited the accompanying consolidated financial statements of Spectra Credit Union and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of income and comprehensive income, retained earnings, accumulated other comprehensive income and cash flows for the year then ended, and 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.

#### *Auditor's 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 the 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 the auditor's 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, the auditor considers 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 Spectra Credit Union and its subsidiaries as at December 31, 2010, and their financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Regina, Saskatchewan  
February 24, 2011

**SPECTRA CREDIT UNION  
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE  
INCOME**

**Year ended December 31, 2010**

	<u>2010</u>	<u>2009</u>
<b>INTEREST INCOME</b>		
Loan interest	\$ 17,950,874	\$ 17,438,010
Investments	5,932,136	5,286,835
	<b>23,883,010</b>	22,724,845
<b>INTEREST EXPENSE</b>		
Deposits	6,416,233	8,593,065
Borrowed money	29,363	16,997
	<b>6,445,596</b>	8,610,062
<b>NET INTEREST INCOME</b>	<b>17,437,414</b>	14,114,783
<b>PROVISION FOR CREDIT (RECOVERY) LOSSES (Note 4)</b>	<b>(1,130,743)</b>	5,069,434
<b>NET INTEREST MARGIN</b>	<b>18,568,157</b>	9,045,349
<b>NON-INTEREST INCOME</b>	<b>5,455,311</b>	4,399,003
<b>NET INTEREST AND NON-INTEREST INCOME</b>	<b>24,023,468</b>	13,444,352
<b>OPERATING EXPENSES</b>		
Personnel	11,009,483	9,417,608
Security	494,792	457,395
Organizational	421,426	369,838
Occupancy	954,193	711,437
General business	5,322,259	5,506,564
	<b>18,202,153</b>	16,462,842
<b>INCOME (LOSS) BEFORE PROVISION FOR INCOME TAX</b>	<b>5,821,315</b>	(3,018,490)
<b>PROVISION FOR INCOME TAX (Note 12)</b>		
Current (recovery)	845,284	(1,570,825)
Future	80,675	271,462
	<b>925,959</b>	(1,299,363)
<b>NET INCOME (LOSS)</b>	<b>\$ 4,895,356</b>	\$ (1,719,127)
<b>OTHER COMPREHENSIVE INCOME (NET OF TAX)</b>		
Net unrealized gain on available-for-sale financial assets (net of tax of \$465,760)	<b>2,539,142</b>	-
<b>COMPREHENSIVE INCOME</b>	<b>\$ 7,434,498</b>	\$ (1,719,127)

*See accompanying notes*

**SPECTRA CREDIT UNION**  
**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**  
Year ended December 31, 2010

	<u>2010</u>	<u>2009</u>
<b>RETAINED EARNINGS</b>		
Retained earnings, beginning of year	\$ 39,498,007	\$ 41,217,134
Net income (loss) for the year	<b>4,895,356</b>	(1,719,127)
<b>RETAINED EARNINGS, END OF YEAR</b>	<b>\$ 44,393,363</b>	<b>\$ 39,498,007</b>

*See accompanying notes*

**SPECTRA CREDIT UNION**  
**CONSOLIDATED STATEMENT OF ACCUMULATED OTHER**  
**COMPREHENSIVE INCOME**  
Year ended December 31, 2010

	<u>2010</u>	<u>2009</u>
<b>ACCUMULATED OTHER COMPREHENSIVE</b> <b>INCOME, BEGINNING OF YEAR</b>	\$ -	\$ -
<b>OTHER COMPREHENSIVE INCOME</b>	<b>2,539,142</b>	-
<b>ACCUMULATED OTHER COMPREHENSIVE</b> <b>INCOME, END OF YEAR</b>	<b>\$ 2,539,142</b>	<b>\$ -</b>

*See accompanying notes*

**SPECTRA CREDIT UNION**  
**CONSOLIDATED BALANCE SHEET**



As at December 31, 2010

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash	\$ 15,771,516	\$ 9,840,355
Investments (Note 3)	196,912,892	178,906,201
Loans (Note 4)	354,205,115	352,304,962
Other assets (Note 5)	1,930,490	3,225,683
Goodwill	1,086,586	1,070,129
Intangible assets (Note 6)	1,312,726	1,539,278
Property and equipment (Note 7)	14,302,300	14,450,951
	<b>\$ 585,521,625</b>	<b>\$ 561,337,559</b>
<b>LIABILITIES</b>		
Deposits	\$ 532,389,806	\$ 517,297,785
Other liabilities (Note 9)	5,073,007	3,137,966
Membership shares (Note 10)	68,900	81,742
Investment shares (Note 10)	1,057,407	1,322,059
	<b>538,589,120</b>	<b>521,839,552</b>
<b>EQUITY</b>		
Retained earnings	44,393,363	39,498,007
Accumulated other comprehensive income	2,539,142	-
	<b>\$ 585,521,625</b>	<b>\$ 561,337,559</b>

**COMMITMENTS** (Note 18)

See accompanying notes

**APPROVED:**

  
 \_\_\_\_\_ CEO  
  
 \_\_\_\_\_ Director

**SPECTRA CREDIT UNION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Year ended December 31, 2010**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 4,895,356	\$ (1,719,127)
Adjustments for		
Amortization of property and equipment	949,353	820,757
Amortization of intangible assets	226,552	224,525
Provision for credit (recovery) losses	(1,130,743)	5,069,434
Change in preferred rate loan discount	-	33,415
Future income taxes	80,675	271,462
Loss (gain) on sale of property and equipment	58	(5,656)
	<b>5,021,251</b>	<b>4,694,810</b>
Changes in non-cash working capital		
Other assets	1,295,193	(755,504)
Other liabilities	1,854,366	(409,892)
	<b>8,170,810</b>	<b>3,529,414</b>
<b>CASH FLOWS FROM (USED IN)</b>		
<b>INVESTING ACTIVITIES</b>		
Increase in loans	(769,410)	(23,243,744)
Increase in investments	(15,467,549)	(7,235,133)
Additions to property and equipment	(800,760)	(8,947,553)
Additions to intangible assets	-	(111,581)
Additions to goodwill	(16,457)	-
Proceeds from sale of property and equipment	-	5,656
	<b>(17,054,176)</b>	<b>(39,532,355)</b>
<b>CASH FLOWS FROM (USED IN)</b>		
<b>FINANCING ACTIVITIES</b>		
Increase in deposits	15,092,021	28,271,416
Decrease in membership shares	(12,842)	(120,728)
(Decrease) increase in investment shares	(264,652)	300
	<b>14,814,527</b>	<b>28,150,988</b>
<b>NET INCREASE (DECREASE) IN CASH RESOURCES</b>	<b>5,931,161</b>	<b>(7,851,953)</b>
<b>CASH RESOURCES, BEGINNING OF YEAR</b>	<b>9,840,355</b>	<b>17,692,308</b>
<b>CASH RESOURCES, END OF YEAR</b>	<b>\$ 15,771,516</b>	<b>\$ 9,840,355</b>
<b>Supplemental Information</b>		
Interest paid	\$ 6,732,549	\$ 9,461,754
Income taxes paid (received)	759,561	(745,683)

*See accompanying notes*

# SPECTRA CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Year ended December 31, 2010

#### 1. INCORPORATION AND GOVERNING LEGISLATION

Spectra Credit Union (the "Credit Union") was continued pursuant to *The Credit Union Act, 1998* of the Province of Saskatchewan. The Credit Union serves members and non-members through the operation of ten branches in Estevan and the surrounding area.

In accordance with *The Credit Union Act, 1998*, Credit Union Deposit Guarantee Corporation ("CUDGC"), a provincial corporation, guarantees the repayment of all deposits held in Saskatchewan credit unions, including accrued interest.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

##### *Measurement Uncertainty*

The preparation of the consolidated financial statements in accordance with Canadian GAAP 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 date of the financial statements as well as the reported amounts of income and expense during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The primary items subject to measurement uncertainty include valuation of derivatives and other financial instruments, determination of charge for loan impairment, and valuation of goodwill.

##### *Basis of Consolidation*

The consolidated financial statements include the assets, liabilities, income and expenses of subsidiaries after eliminating inter-company transactions and balances. Included in the consolidated financial statements are the following 100% owned entities:

Subsidiary	Head office	Book value of shares	Voting rights
Spectra Financial Inc.	Estevan	\$ 250	100%
Spectra Community Foundation Inc.	Estevan	n/a	n/a

Spectra Financial Inc. provides wealth management and other financial consulting services. Spectra Community Foundation Inc. operates as a private foundation to fund, facilitate, promote and carry out activities and programs which are beneficial to the community in a way the law regards as charitable and to receive gifts, bequests, funds and properties to hold, invest, manage, administer and distribute funds and property to qualified donees pursuant to the provisions of the *Income Tax Act* or for such other purposes and activities as are authorized for registered charities under the provisions of the *Income Tax Act*. In these consolidated financial statements, the Credit Union refers to Spectra Credit Union as well as Spectra Financial Inc. and Spectra Community Foundation Inc.

##### *Cash*

Cash consists of cash and cash equivalents maturing in one business day.

##### *Investments*

Investments are classified as held-to-maturity (based on management's intentions) and available-for-sale. Investments classified as held-to-maturity are carried at amortized cost. Investments classified as available-for-sale are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized, at which time the cumulative gain or loss is transferred to other income. The Credit Union regularly evaluates investments to determine if they have other than temporary impairment. If the assessment indicates that the impairment is other than temporary or the Credit Union does not have the intent or ability to hold the security until its fair value recovers, the security is written down to its current fair value and a loss is recognized in net income. The Credit Union recognizes securities transactions on the trade date.

**SPECTRA CREDIT UNION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended December 31, 2010**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Loans***

Loans are originally recorded at fair value and subsequently recorded at the lower of principal plus accrued interest and estimated realizable amounts. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans or at the discounted future value of the loan's security, net of expected selling costs. When the amount and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at the fair value of the security underlying the loans, net of expected costs of realization.

An allowance for impaired loans is maintained that reduces the carrying value of loans to their estimated realizable amount. A loan is classified as impaired when there is no longer reasonable assurance that the principal and interest will be collected in full. The allowance is increased by a provision for credit losses, which is charged to income, and reduced by write-offs, net of recoveries.

In addition, a general allowance may be established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio, for which a specific allowance cannot yet be determined. A general provision is established when evidence of impairment exists within groups of loans but is not sufficient to allow identification of individually impaired loans. Impairment is estimated based on historical credit loss experience, known portfolio risks and current economic conditions and trends.

The allowance contains two parts - specific allowances and collective or general allowances, calculated as follows:

- i) The Credit Union records specific allowances based on management's regular review of individual loans to reduce their carrying values to estimated realizable amounts. The net amount represents management's best estimate of the future value of the payments it will receive on each loan, discounted at the loan's inherent interest rate. When management cannot determine the loan's future cash flows, it bases its estimate on the estimated market value of the loan's security or value as determined from other pertinent information, and where appropriate and reasonable, on the discounted future value of the loan's security, net of expected selling costs. The Credit Union records changes to the estimated realizable value of the loan as a charge or credit for loan impairment.
- ii) The Credit Union records collective allowances when evidence of impairment within groups of loans exists but is not sufficient to allow identification of individual impaired loans. It estimates impairment using a formula based on its loss experience for similar groups of loans in similar economic circumstances. As management identifies individual impaired loans, it assigns a specific allowance to that loan and adjusts the collective allowance accordingly.

***Foreclosed Assets***

Foreclosed assets held for sale are initially recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenue or lease payments received. Foreclosed assets held for sale are subsequently valued at the lower of its carrying amount or fair value less costs to sell. Foreclosed assets are recorded in "Loans".

***Property and Equipment***

Land is reported at cost. Property and equipment are reported at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the related asset as follows:

Buildings	20 - 40 years
Furniture and equipment	1 - 20 years

***Goodwill***

Goodwill represents the excess of purchase price over the proportionate share of the fair value of the net identifiable assets of Spectra Financial Inc. which was acquired in a business combination.

The Credit Union tests the carrying value of goodwill for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the consolidated statement of income and comprehensive income in an amount equal to the excess.

**SPECTRA CREDIT UNION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended December 31, 2010**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Intangible Assets*

Specified intangible assets are recognized and reported apart from goodwill. Intangible assets recognized separately from goodwill and subject to amortization are recorded at cost and amortized using the straight-line method over two years, based upon management's best estimate of the useful life of the asset.

The Credit Union evaluates the carrying value of its intangible assets annually and more frequently if events and circumstances indicate the carrying amounts may not be recoverable. The amortization and impairment, if any, of intangible assets is recorded in general business expenses in the consolidated statement of income and comprehensive income.

*Future Income Taxes*

Future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and their tax bases. These amounts are measured using substantively enacted tax rates and re-measured annually for rate changes. Future income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes that are likely to be realized. Future income tax assets are re-assessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or re-assessment is recognized in the period of change.

*Financial Instruments*

Section 3855 established standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are initially recognized on the balance sheet at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables, or other financial liabilities.

Held-for-trading financial assets and liabilities are purchased for sale in the near term and whose fair value can be reliably measured on initial recognition. Held-for-trading financial instruments are carried at fair value with all gains and losses recognized immediately in net income.

Held-for-trading financial instruments are subsequently measured at their fair value, without any deduction for transaction costs incurred on sale or other disposal. Net gains and losses arising from changes in fair value include interest and dividend income and are recognized immediately in income.

Available-for-sale financial assets include assets which may be sold in response to or in anticipation of changes in interest rates and repayment risk, or to meet liquidity needs. Available for sale assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until the financial asset is sold or derecognized, at which time the cumulative gain or loss is transferred to other income.

Available-for-sale financial instruments are subsequently measured at their fair value, without any deduction for transaction costs incurred on sale or other disposal. Investments in equity instruments that do not have a quoted market price in an active market are measured at cost. Net gains and losses, except for impairment losses and foreign exchange translation adjustments, are recognized in other comprehensive income, until the financial asset is sold or otherwise derecognized. Upon derecognition, the cumulative gain or loss previously recognized in accumulated other comprehensive income is transferred to net income.

Loans and receivables include non-derivative financial assets (not quoted in an active market) with fixed or determinable payments. Total interest income, calculated using the effective interest rate method, is recognized in net income.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value include interest income and are recognized in net income upon derecognition or impairment.

**SPECTRA CREDIT UNION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended December 31, 2010**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Financial Instruments (continued)*

Held-to-maturity financial assets are securities that the Credit Union has the intention and ability to hold until its maturity date. The assets are initially measured at fair value with gains and losses recognized in net income when the asset is derecognized or impaired. Any impairment write downs and foreign exchange translation adjustments are recognized immediately in net income.

Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value include interest and dividend income and are recognized in net income upon derecognition or impairment.

Other financial liabilities include liabilities that have not been classified as held-for-trading. Total interest expense, calculated using the effective interest rate method, is recognized in net income.

Other financial liabilities are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the liability's expected life, or other appropriate period, to their net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value include interest and dividend income and are recognized in net income upon derecognition.

Derivative instruments are recorded on the balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in net income.

Here are the classifications of instruments for the Credit Union.

Classification

Cash	Held-for-trading
Investments	Available-for-sale, held-to-maturity
Loans	Loans and receivables
Other Assets:	
Other receivables	Loans and receivables
Deposits	Other liabilities
Accounts payable	Other liabilities
Membership shares	Other liabilities
Investment shares	Other liabilities
Derivative instruments	Held-for-trading

*Fair Value of Financial Instruments*

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices in an active market. In the absence of an active market, the Credit Union determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

The Credit Union classifies fair value measurements recognized in the balance sheet using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

# SPECTRA CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Year ended December 31, 2009

#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### *Fair Value of Financial Instruments (continued)*

Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

##### *Financial Asset Impairment*

The Credit Union assesses impairment of all its financial assets, except those classified as held-for-trading. Management considers whether the issuer is having significant financial difficulty and whether there has been a breach in contract, such as a default or delinquency in interest or principal payments, and downgrades in ratings, amongst other factors in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment, which is not considered temporary, is included in net income in the year impaired.

The Credit Union reverses impairment losses on debt instruments classified as available-for-sale when an increase in fair value can be objectively related to an event occurring after the impairment loss was previously recognized.

##### *Derivative Financial Instruments*

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In the ordinary course of business, the Credit Union enters into derivative transactions for asset/liability management and for trading. Derivatives are reported on the balance sheet at their fair value.

Derivatives embedded in other non-derivative financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivative are the same as those of a free standing derivative and; c) the combined instrument or contract is not measured at fair value with changes in fair value recognized in net income. These embedded derivatives are measured at fair value with changes therein recognized in net income.

##### *Transaction Costs*

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Transaction costs are recorded for all business units and subsidiaries in the consolidated statement of income and comprehensive income in the period incurred.

##### *Long-lived Assets*

Long-lived assets consist of property and equipment and foreclosed property. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Credit Union performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Potential impairment losses are measured when undiscounted future cash flows from their use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in earnings for the year.

## SPECTRA CREDIT UNION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### Year ended December 31, 2010

#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### *Long-lived Assets (continued)*

Quoted market prices, prices for similar items, or discounted cash flows are used to measure fair value of long-lived assets, depending on the availability of information.

##### *Revenue Recognition*

###### *Loan Interest Revenue*

Loan interest revenue is recognized on the accrual basis for all loans not classified as impaired. A loan is classified as impaired when there is reasonable doubt as to collectability or payments of interest or principal are past due 91 days or more. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Loan syndication fees are included in non-interest income as earned throughout the term of servicing.

###### *Investment Interest Revenue*

Investment interest revenue is recognized on the accrual basis. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

###### *Non-Interest Income*

Non-interest income is recognized in the fiscal period in which the related service is provided.

##### *Membership Shares*

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union Board of Directors are classified as equity.

##### *Employee Future Benefits*

The Credit Union's employee future benefits program consists of a defined contribution pension plan. Credit Union contributions to the defined contribution plan are expensed as incurred.

##### *Foreign Currency Translation*

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at the exchange rate prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in non-interest income.

##### *Future Accounting Changes*

###### *Adoption of International Financial Reporting Standards*

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for all publicly accountable enterprises. For the Credit Union, financial statements, including comparative information, for annual and interim periods beginning on or after January 1, 2011 will be prepared in accordance with IFRS.

**SPECTRA CREDIT UNION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended December 31, 2010**

**3. INVESTMENTS**

	<u>2010</u>	<u>2009</u>
Concentra Financial	\$ 36,290,209	\$ 5,272,761
Federal and Provincial Government	12,165,460	15,707,200
Commercial Paper	3,142,350	10,142,446
Chartered Bank Bonds	86,809,577	89,204,381
Other	3,616,669	4,025,533
SaskCentral - Liquidity Pool	53,311,615	53,261,615
Accrued interest	1,577,012	1,292,265
	<u>\$ 196,912,892</u>	<u>\$ 178,906,201</u>

Pursuant to Regulation 18(1) (a), Credit Union Central of Saskatchewan ("SaskCentral") requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits in SaskCentral. The regulator of Saskatchewan Credit Unions, CUDGC requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2010, the Credit Union met the requirement.

The following table illustrates the classification of the Credit Union's investments by category.

	<b>2010</b>			
	Held-to- maturity	Available- for-sale	Loans and receivables	<b>Total</b>
<b>Investments</b>				
SaskCentral - shares	\$ -	\$ 5,272,026	\$ -	\$ 5,272,026
SaskCentral - statutory liquidity deposits	53,311,615	-	-	53,311,615
SaskCentral - other investments	-	33,868,183	-	33,868,183
Chartered bank guaranteed Provincial and municipal government	-	86,809,579	-	86,809,579
Commercial bonds	-	12,165,460	-	12,165,460
Other investments	-	3,142,350	-	3,142,350
Accrued interest	425,554	766,669	-	766,669
	<u>\$ 53,737,169</u>	<u>\$ 143,175,723</u>	<u>\$ -</u>	<u>\$ 196,912,892</u>

	<b>2009</b>			
	Held-to- maturity	Available- for-sale	Loans and receivables	<b>Total</b>
<b>Investments</b>				
SaskCentral - shares	\$ -	\$ 5,272,026	\$ -	\$ 5,272,026
SaskCentral - statutory liquidity deposits	53,261,615	-	-	53,261,615
SaskCentral - other investments	-	2,850,735	-	2,850,735
Chartered bank guaranteed Provincial and municipal government	-	-	89,204,382	89,204,382
Commercial bonds	-	-	16,245,325	16,245,325
Other investments	-	-	10,142,446	10,142,446
Accrued interest	71,187	637,407	-	637,407
	<u>\$ 53,332,802</u>	<u>\$ 8,791,565</u>	<u>\$ 116,781,834</u>	<u>\$ 178,906,201</u>

**SPECTRA CREDIT UNION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended December 31, 2010**

**3. INVESTMENTS (continued)**

Early in the current year, the Credit Union was aware it needed to dispose of certain of its investments for liquidity reasons. At this time, it became clear the Credit Union no longer had the intent and ability to hold any of its investments, other than the non-redeemable investments, to maturity. As a result, the Credit Union reclassified all of its investments other than the non-redeemable investments, to available-for-sale at this time.

**4. LOANS**

	Principal		Allowances		2010	Net 2009
	Current	Impaired	Specific	General		
Government guaranteed	\$ 71,452,357	\$ -	\$ -	\$ -	\$ 71,452,357	\$ 65,549,052
Conventional mortgages						
- residential & farm	76,430,540	1,382,586	456,301	-	77,356,825	78,725,882
- commercial	70,165,424	5,896,086	4,040,135	253,525	71,767,850	55,842,433
Personal loans	89,651,249	-	-	-	89,651,249	92,357,559
Leases	2,275,814	-	-	-	2,275,814	1,766,510
Non-personal loans	40,056,424	135,660	141,124	-	40,050,960	56,263,319
Foreclosed property	100,043	-	-	-	100,043	90,004
Accrued interest	1,393,356	156,661	-	-	1,550,017	1,710,203
	\$351,525,207	\$7,570,993	\$4,637,560	\$253,525	\$354,205,115	\$352,304,962

	2010	2009
Allowance for Impaired Loans:		
Balance, beginning of year	\$ 5,966,297	\$ 746,987
Charge for loan impairment (recovery) - specific	(1,130,743)	5,069,435
Interest on impairment	152,719	149,875
Amounts written-off (net of recoveries)	(97,188)	-
Balance, end of year	\$ 4,891,085	\$ 5,966,297

**5. OTHER ASSETS**

	2010	2009
Prepaid expenses	\$ 234,586	\$ 202,928
Derivative asset	1,631,204	1,140,658
Corporation income taxes receivable	-	1,796,869
Other receivables	64,700	85,228
	\$ 1,930,490	\$ 3,225,683

**SPECTRA CREDIT UNION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended December 31, 2010**

**6. INTANGIBLE ASSETS**

	Cost		Accumulated Amortization		Net Book Value	
	2010	2009	2010	2009	2010	2009
Software	\$ 2,806,217	\$ 1,493,491	\$ 1,312,726	\$ 1,539,278		

The amortization expense for intangible assets for 2010 was \$226,552 (2009 - \$224,525). There were no write-downs of intangible assets due to impairments for the year ended December 31, 2010 (2009 - \$nil).

**7. PROPERTY AND EQUIPMENT**

	Cost		Accumulated Amortization		Net Book Value	
	2010	2009	2010	2009	2010	2009
Land	\$ 868,856	\$ -	\$ 868,856	\$ 868,856		
Buildings	15,045,950	3,388,128	11,657,822	11,686,323		
Furniture and equipment	8,441,319	6,665,697	1,775,622	1,895,772		
	\$ 24,356,125	\$ 10,053,825	\$ 14,302,300	\$ 14,450,951		

The amortization expense for property and equipment for 2010 was \$949,353 (2009 - \$820,757).

**8. LOANS PAYABLE**

The Credit Union has available an authorized line of credit with SaskCentral in the amount of \$10.2 million (\$10 million Canadian and \$200,000 US) with interest at a floating rate of SaskCentral's prime rate less 0.50% (2.5% at December 31) for the Canadian line and prime plus 0.50% (3.75% at December 31) for the US line. For usage over \$10.2 million, interest is charged at a floating rate of SaskCentral's prime rate plus 4%. At the end of the year, the Credit Union's actual usage of this line of credit was \$nil at December 31, 2010 (2009 - \$1,147,508).

**9. OTHER LIABILITIES**

	2010	2009
Accounts payable	\$ 2,653,463	\$ 1,848,862
Corporation income taxes payable	559,219	-
Future income tax liability	229,121	148,446
Derivative liability	1,631,204	1,140,658
	\$ 5,073,007	\$ 3,137,966

**10. MEMBERSHIP SHARES AND INVESTMENT SHARES**

Membership shares are as provided for by the Credit Union Act and administered according to the bylaws and policy of the Credit Union, which sets out the rights, privileges, restrictions and conditions. The authorized share capital is unlimited in amount and consists of shares with a par value of \$5 each. These accounts are not guaranteed by CUDGC.

Investment shares are as provided for by the Credit Union Act and administered according to the bylaws and policy of the Credit Union, which sets out the rights, privileges, restrictions and conditions. These accounts are not guaranteed by CUDGC.

**SPECTRA CREDIT UNION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended December 31, 2010**

**10. MEMBERSHIP SHARES AND INVESTMENT SHARES (continued)**

Capital elements of the Credit Union consists of retained earnings, membership shares, investment shares, subordinated indebtedness, and general allowances to a maximum of 1.25% of risk-weighted assets.

Characteristics of membership shares and investment shares include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

**11. PENSION PLAN**

The Credit Union contributes annually to a defined contribution pension plan for employees. The contributions are held in trust by the Co-operative Superannuation Society and are not recorded in the consolidated balance sheet. The annual pension expense of \$535,513 (2009 - \$490,044) is included in personnel expense. As a defined contribution pension plan, the Credit Union has no future liability or obligation for future contributions to fund benefits to plan members.

**12. INCOME TAX**

The reconciliation of the provision for income taxes is as follows:

	<u>2010</u>	<u>2009</u>
Income (loss) before income taxes	\$ 5,821,315	\$ (3,018,490)
Combined federal and provincial income tax rate	30%	31%
Income taxes at statutory rate	1,746,395	(935,732)
Provision for income taxes adjusted for the effect of:		
Non-deductible expenses	12,412	4,997
Non-taxable dividend income	-	(9,740)
Credit Union rate reduction	(768,483)	-
Losses carried back at different rates	-	(281,054)
Credit Union rate reduction related to future taxes	(77,694)	(57,640)
Other	13,329	(20,194)
	<u>\$ 925,959</u>	<u>\$ (1,299,363)</u>
Effective rate of tax	<u>16%</u>	<u>43%</u>

The future income tax asset (liability) is made up of the following:

	<u>2010</u>	<u>2009</u>
Future income tax assets (liabilities)		
Loans	\$ 199,510	\$ 238,330
Donation carry-forwards	-	40,050
Property and equipment	(486,589)	(490,850)
Investments	42,687	29,297
Translation adjustment	24,515	45,448
Other	(9,244)	(10,721)
	<u>\$ (229,121)</u>	<u>\$ (148,446)</u>

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**13. CAPITAL MANAGEMENT**

The Board has approved the capital management policy and reviews the capital forecast on an annual basis. This policy outlines the Credit Union's overall objectives and guidelines to ensure that the Credit Union has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of the Credit Union and to support the current and future operating plans.

The Credit Union's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The impact of the level of capital on the Credit Union's return is also important and the Credit Union recognizes the need to maintain a balance between the higher returns that might be possible with greater leverage and the advantages and security afforded by a sound capital position.

Capital is managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and take into account forecasted capital needs and markets. The goal is to maintain adequate regulatory capital to be considered well capitalized, protect consumer deposits and provide capacity for internally generated growth and strategic opportunities.

CUDGC prescribes capital adequacy measures and minimum capital requirements. These capital adequacy rules issued by CUDGC have been based on the Basel II framework, consistent with the financial industry in general.

In 2008, CUDGC implemented a new risk-weighted asset calculation for credit and operations risk. Under this approach, Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards are outlined below.

- Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings, membership shares, and deductions for goodwill transactions, if applicable.
- Tier 2 capital at the Credit Union includes a general allowance for credit losses to a maximum of 1.25% of risk-weighted assets and qualifying investment shares.

The Credit Union has adopted a capital plan that conforms to the new capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares CUDGC regulatory standards to the Credit Union's board policy for 2010:

	<u>Regulatory</u>	<u>Board</u>
Total eligible capital to risk-weighted assets	8.00%	12.00%
Tier 1 capital to total assets	5.00%	7.00%
Tier 2 capital to tier 1 capital	Less than 100.00%	50.00%

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

<b>Capital Summary</b>	<u>2010</u>	<u>2009</u>
Eligible capital		
Total tier 1 capital	\$ 43,375,677	\$ 36,863,787
Total tier 2 capital	1,310,932	1,642,179
	<u>\$ 44,686,609</u>	<u>\$ 38,505,966</u>
Risk-weighted assets	\$ 327,929,813	\$ 339,938,880
Total eligible capital to risk-weighted asset:	13.63%	11.33%
Tier 1 capital to total assets	7.42%	6.57%
Tier 2 capital to tier 1 capital	3.02%	4.45%

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**14. RELATED PARTY TRANSACTIONS**

*Loans Receivable*

As of December 31, 2010, certain directors, senior management and their spouses and dependants were indebted to the Credit Union for an amount totaling \$1,428,338 (2009 - \$1,011,974). These loans were granted under the same lending policies applicable to other members, and are included in loans on the balance sheet.

*Deposit Accounts*

Directors and management may hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in deposits on the balance sheet.

**15. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

**Methods and Assumptions**

The following methods and assumptions were used to estimate fair values of financial instruments:

The stated value for cash, other assets, other liabilities, and membership and investment shares approximate their fair value.

Estimated fair values of investments are based on quoted market prices or quoted market prices of similar investments when available.

For variable interest rate loans that reprice frequently, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans to expected maturity amounts.

Fair value of deposits without a specified maturity term is the stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.

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

The fair value of the financial instruments and their related carrying values has been summarized and included in the table below.

	2010 (000's)		2009 (000's)	
	Stated Value	Fair Value	Stated Value	Fair Value
<b>Assets</b>				
Cash	\$ 15,772	\$ 15,772	\$ 9,840	\$ 9,840
Investments	196,913	196,913	178,906	183,191
Loans	354,205	354,809	352,305	352,906
Other	1,696	1,696	1,226	1,226
	<b>\$ 568,586</b>	<b>\$ 569,190</b>	<b>\$ 542,277</b>	<b>\$ 547,163</b>
<b>Liabilities</b>				
Deposits	\$ 532,390	\$ 536,237	\$ 517,298	\$ 521,036
Other	4,285	4,285	2,990	2,990
Membership and investment shares	1,126	1,126	1,404	1,404
	<b>\$ 537,801</b>	<b>\$ 541,648</b>	<b>\$ 521,692</b>	<b>\$ 525,430</b>

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**15. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

The relevant levels of the financial instruments measured at fair value have been summarized in the chart below.

		<b>2010</b> (000's)				
		Stated Value	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>						
Cash	\$	15,772	\$ 15,772	\$ 15,772	\$ -	-
Investments		143,176	143,176	-	143,176	-
Other		1,631	1,631	-	1,631	-
	<b>\$</b>	<b>160,579</b>	<b>\$ 160,579</b>	<b>\$ 15,772</b>	<b>\$ 144,807</b>	<b>\$ -</b>
<b>Liabilities</b>						
Other	\$	1,631	\$ 1,631	-	\$ 1,631	-

		<b>2009</b> (000's)				
		Stated Value	Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>						
Cash	\$	9,840	\$ 9,840	\$ 9,840	\$ -	-
Investments		8,792	8,792	-	8,792	-
Other		1,141	1,141	-	1,141	-
	<b>\$</b>	<b>19,773</b>	<b>\$ 19,773</b>	<b>\$ 9,840</b>	<b>\$ 9,933</b>	<b>\$ -</b>
<b>Liabilities</b>						
Other	\$	1,141	\$ 1,141	-	\$ 1,141	-

**16. SEGMENTED INFORMATION**

The Credit Union operates principally in personal and commercial banking in Saskatchewan.

Operating segments or branches are similar in terms of the nature of products and services, methods to distribute products and services, type of customers and the nature of the regulatory environment.

**17. FINANCIAL INSTRUMENT RISK MANAGEMENT**

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

**Credit Risk**

The business of the Credit Union necessitates the management of credit risk. Credit risk arises from a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise from principal and interest amounts on investments and loans.

The Board of Directors of the Credit Union oversees the risk management process. In addition, CUDGC establishes standards with which the Credit Union must comply. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

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**17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)**

**Credit Risk (continued)**

During the year the Credit Union uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist the Credit Union in implementing a prudent and effective granting process to assess the borrower's ability to repay.

The Credit Union also mitigates credit risk by obtaining quality collateral. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. The Credit Union's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union are, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies. During the year, the Credit Union exceeded the regulatory limit for aggregate lending.

Credit risk also may arise from principal and interest amounts on investments.

The Credit Union manages credit risk through adherence to internal policies and procedures for the acquisition of investments. Safety of principal is accomplished by ensuring that all investments purchased are reasonable and prudent. Investment decisions are made with due diligence to avoid undue risk of loss while obtaining a reasonable return.

The Credit Union's investment portfolio risk ratings excluding accrued interest are as follows:

Investment Portfolio Rating	2010	2009
	Carrying Amount	Carrying Amount
AA to AAA	\$ 103,244,267	\$ 105,675,400
A	-	10,685,670
Unrated	93,668,625	62,545,131
Total Investments	\$ 196,912,892	\$ 178,906,201

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

Guarantees and standby letters of credit represent irrevocable assurance that the Credit Union will make payments in the event that a customer cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer and the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

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**17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)**

**Credit Risk (continued)**

To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counterbalancing positions. The Credit Union did not use interest rate swaps in the current year.

The following financial instruments expose the Credit Union to credit risk:

- a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
- b) documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions; and
- c) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

In the normal course of business, the Credit Union has entered into various commitments to extend credit that are not reported on the balance sheet. The amounts reported below represent the maximum credit exposure to the Credit Union. Many of these contracts expire without being drawn upon, thereby reducing the Credit Union's credit risk from the maximum commitment.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at December 31, 2010, the Credit Union had the following outstanding financial instruments subject to credit risk:

	<u>2010</u>		<u>2009</u>
Undrawn lines of credit	\$ 56,048,219	\$	48,026,420
Commercial letters of credit	3,003,370		2,583,436
Commitments to extend credit	20,672,354		15,150,964
	<u>\$ 79,723,943</u>	<u>\$</u>	<u>65,760,820</u>

**Liquidity Risk**

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk arises from the inability to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they come due. In particular, the risk arises from failure to meet the Credit Union's day-to-day obligations, including claims on the Credit Union and operational demands.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors is ultimately responsible for the liquidity risk management policy. In addition, CUDGC establishes standards to which the Credit Union must comply. Management reports monthly to the Board on the Credit Union's compliance with the policy and regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

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**17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)**

**Market Risk**

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union is exposed to this market risk in its investing and asset/liability management activities.

Senior management is responsible for managing market risk in accordance with the Credit Union's internal policy. On a quarterly basis, senior management reports to the Board its compliance with the policy and regulatory requirements; dollar volume and yields of all investments by investment category; and the particulars of all investment transactions entered into by the Credit Union. All exceptions noted are to be reported to the Board. In addition, CUDGC establishes standards to which the Credit Union must comply.

The Board is responsible for monitoring significant variances and to ensure that corrective measures are implemented.

Interest rate risk is the potential adverse impact on the earnings due to changes in interest rates. The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off-balance sheet instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time periods.

Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield.

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual repricing/maturity dates.

	2010 (000's)						
	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
<b>ASSETS</b>							
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,772	\$ 15,772
Investments	40,395	8,048	6,034	128,916	9,012	4,508	196,913
Effective interest rate	0.67%	4.53%	3.53%	3.34%	5.65%		
Loans	173,827	10,938	27,579	132,870	8,991	-	354,205
Effective interest rate	3.50%	4.91%	5.86%	5.53%	6.90%		
Other Assets	-	-	-	-	-	18,631	18,631
<b>LIABILITIES</b>							
Deposits	308,481	8,740	8,162	112,339	1,607	93,061	532,390
Effective interest rate	1.08%	1.99%	2.46%	1.41%	0.98%		
Other Liabilities	-	-	-	-	-	5,073	5,073
Membership Shares	-	-	-	-	-	69	69
Investment Shares	-	-	-	1,057	-	-	1,057
Members Equity	-	-	-	-	-	46,932	46,932
On-balance sheet gap	\$ (94,259)	\$ 10,246	\$ 25,451	\$ 148,390	\$ 16,396	\$ (106,224)	\$ -

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**17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)**

**Market Risk (continued)**

	2009 (000's)						Total
	Floating rate	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non- interest sensitive	
<b>ASSETS</b>							
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,840	\$ 9,840
Investments	53,941	16,352	6,656	79,385	21,390	1,182	178,906
Effective interest rate	1.29%	2.92%	4.54%	4.05%	4.61%		
Loans	184,953	11,379	27,210	126,295	2,468	-	352,305
Effective interest rate	3.86%	6.10%	6.03%	6.10%	7.30%		
Other Assets	-	-	-	-	-	20,287	20,287
<b>LIABILITIES</b>							
Deposits	328,298	23,247	26,156	61,359	1,630	76,608	517,298
Effective interest rate	1.17%	3.46%	3.94%	1.71%	0.97%		
Other Liabilities	-	-	-	-	-	3,138	3,138
Membership Shares	-	-	-	-	-	82	82
Investment Shares	-	-	264	1,058	-	-	1,322
Members Equity						39,498	39,498
On-balance sheet gap	\$ (89,404)	\$ 4,484	\$ 7,446	\$ 143,263	\$ 22,228	\$ (88,017)	\$ -

The above schedules do not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

**Foreign Currency Risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In seeking to manage the risks from foreign exchange rate fluctuations on the U.S. dollar, the Credit Union attempts to keep a comparable amount of liquid assets in investments in cash, to accommodate for their U.S. denominated deposits, which help protect the Credit Union against any adverse movements in the exchange rate.

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**18. COMMITMENTS**

The Credit Union entered into a ten year commitment for the provision of retail banking services provided by Credit Union Electronic Account Management Services Association ("CEAMS"). The annual operating fee is calculated as a percentage of the aggregate fees paid by all Credit Unions using the new banking system. The annual operating fees for 2010 were \$906,664 (2009 - \$541,296).



