Nelson & District
CREDIT UNION *Logically. Locally.*

Tenne Anderson

Anna Deutsch

Francois Laurent

2009 Financial Statements & Reports

Osprey Community Foundation

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Consolidated Financial Statements of

NELSON & DISTRICT CREDIT UNION

December 31, 2009

BERG NAQVI LEHMANN

NELSON & DISTRICT CREDIT UNION

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December 31, 2009

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February 12, 2010

Nelson, B.C.

Management's Responsibility for Financial Reporting

The financial statements as at and for the year ended December 31, 2009 contained in the Annual Report have been prepared by the Management and approved by the Board of Directors. The statements are in accordance with the requirements of the applicable statutes and conform in all material respects to Canadian generally accepted accounting principles. The financial information in this report is consistent with the financial statements, and the Audit Committee of the Board has reviewed the statements with the external auditors.

Berg Naqvi Lehmann, the external, independent auditors appointed by the membership, examined the financial statements of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full access to the Audit Committee of the Board. Their report follows.

Doug Stoddart, CEO

John R. Yowek, CGA
Controller

BERG NAQVI LEHMANN

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"A Commitment To Excellence"

CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

M.D. Berg, FCA, CA•CIRP * +
A. Naqvi, B.Comm., FCA *
Craig Berg, B.Comm., CA *
Stefan Lehmann, B.Math, CA, CFP *
Jon McMillan, B.Sc., CA +

AUDITORS' REPORT

To the Members
Nelson & District Credit Union
Nelson, B.C.

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

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

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

Berg Naqvi Lehmann

Chartered Accountants

February 12, 2010

Nelson, B.C.

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CA Members, Institute of Chartered Accountants of British Columbia
*Incorporated Professional + Associate

NELSON & DISTRICT CREDIT UNION
CONSOLIDATED BALANCE SHEET
As At December 31, 2009

ASSETS	2009	2008
CASH AND SHORT-TERM DEPOSITS	$ 27,454,243	$ 41,973,679
MEMBERS' LOANS (note 4)	112,898,931	108,596,068
ACCOUNTS RECEIVABLE	57,904	181,698
PREPAID EXPENSES	128,049	141,719
INCOME TAX REFUNDABLE	24,466	117,014
INVESTMENTS (note 5)	17,737,687	3,527,983
PROPERTY AND EQUIPMENT (note 6)	3,253,139	3,370,035
	$ 161,554,419	$ 157,908,196

NELSON & DISTRICT CREDIT UNION
CONSOLIDATED BALANCE SHEET (Continued)
As At December 31, 2009

LIABILITIES AND MEMBERS' EQUITY	2009	2008
MEMBERS' DEPOSITS		
Demand	$ 85,895,603	$ 80,284,070
Term	36,278,432	39,861,575
Registered savings plans	25,213,938	24,191,805
Non-equity shares	396,835	422,993
	147,784,808	144,760,443
ACCOUNTS PAYABLE	711,075	589,546
BC CORPORATE CAPITAL TAX PAYABLE	44,700	76,300
FUTURE INCOME TAX PAYABLE	286,400	266,000
	1,042,175	931,846
MEMBERS' EQUITY		
Equity Shares (note 7)	1,222,394	1,251,710
Contributed Surplus	762,796	762,796
Retained Earnings	10,742,246	10,201,401
	12,727,436	12,215,907
	$ 161,554,419	$ 157,908,196

Approved by the Directors:

NELSON & DISTRICT CREDIT UNION
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
For the Year Ended December 31, 2009

	2009	2008
INTEREST EARNED		
Members' loans	$ 5,665,162	$ 6,519,795
Investments	1,199,222	1,348,350
	6,864,384	7,868,145
INTEREST EXPENSE		
Members' deposits	1,900,114	2,653,319
Borrowed money	2,942	10,473
Non-equity share dividend	17,177	19,333
	1,920,233	2,683,125
OPERATING MARGIN	4,944,151	5,185,020
OTHER INCOME		
Chequing and other services	1,586,329	1,672,903
Financial planner loss	(26,831)	(89,852)
Equity investment income	80,485	78,103
	6,584,134	6,846,174
OPERATING EXPENSES		
Advertising and promotion	120,286	141,350
Amortization of property and equipment	184,135	233,380
Audit, legal and inspection fees	136,719	122,030
Building occupancy	245,524	218,029
Data processing and other financial charges	933,658	909,287
Directors and committee expenses	108,690	117,136
Dues and assessments	147,077	133,399
Insurance and bonding	23,888	24,393
Office and other staff expenses	429,393	496,872
Provision for losses on loans and other write-offs (recovery)	(40,477)	165,957
Salaries and employee benefits	2,947,897	2,869,539
Savings and loan insurance	26,115	18,518
Wellness program	20,094	12,936
B.C. Capital tax	44,700	76,300
	5,327,699	5,539,126
COMMUNITY INVESTMENT PROGRAMS	318,433	283,985
	5,646,132	5,823,111
INCOME FROM CONTINUING OPERATIONS (carried forward)	$ 938,002	$ 1,023,063

NELSON & DISTRICT CREDIT UNION

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (Continued)

For the Year Ended December 31, 2009

	2009	2008
INCOME FROM CONTINUING OPERATIONS (brought forward)	$ **938,002**	$ 1,023,063
DISTRIBUTION TO MEMBERS	(**75,951)**	(78,000)
INCOME BEFORE INCOME TAX	**862,051**	945,063
Income Tax		
- current	**300,806**	211,325
- future (recovery)	**20,400**	(136,800)
	321,206	74,525
NET INCOME	**540,845**	870,538
RETAINED EARNINGS, BEGINNING OF YEAR	**10,201,401**	9,330,863
RETAINED EARNINGS, END OF YEAR	$ **10,742,246**	$ 10,201,401

NELSON & DISTRICT CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Net income	$ 540,845	$ 870,538
Items not affecting cash flow		
- amortization of property and equipment	192,067	240,507
- increase (decrease) in provision for losses on loans	(40,497)	21,543
- equity investment income	(80,485)	(78,103)
- loss on write off of property and equipment	858	-
- future income tax expense (recovery)	20,400	(136,800)
	633,188	917,685
Changes in non-cash working capital (note 16)	319,941	(287,154)
Cash Provided By Operating Activities	953,129	630,531
FINANCING ACTIVITIES		
Increase in member deposits	3,024,365	8,445,596
Decrease in member equity shares	(29,316)	(30,754)
Cash Provided By Financing Activities	2,995,049	8,414,842
INVESTING ACTIVITIES		
Decrease (increase) in member loans net of repayments	(4,262,366)	1,379,204
Decrease (increase) in investments	(14,129,219)	464,136
Additions to property and equipment	(76,029)	(148,833)
Proceeds from disposal of property and equipment	-	3,387
Cash Provided By (Used For) Investing Activities	(18,467,614)	1,697,894
INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	(14,519,436)	10,743,267
CASH AND TERM DEPOSITS, BEGINNING OF YEAR	41,973,679	31,230,412
CASH AND TERM DEPOSITS, END OF YEAR	$ 27,454,243	$ 41,973,679

Supplementary Cash Flow Information:

Income tax paid	$ 322,593	$ 297,849
Interest paid	$ 2,136,956	$ 2,507,933

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Credit Union.

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the accounts of Nelson District Credit Union and its wholly owned subsidiary, Allard Insurance Agencies Ltd. All intercompany accounts and transactions have been eliminated.

Property and Equipment

Property and equipment are recorded at cost less amortization which is provided annually as follows:

Buildings	2% diminishing balance basis
Furniture, fixtures and improvements	10% diminishing balance and 20% - 33% straight-line basis
Leasehold improvements	20% straight-line basis
Computer and other equipment	33% straight-line basis

Provision for Losses on Loans

The Credit Union maintains a provision for losses on loans, which in management's opinion, is considered adequate to provide for loan related losses. The provision 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 collected. The specific provision is supplemented by a general provision determined by the judgment of management based on historical loan loss experience and known risks in the portfolio and is maintained to allow for credit losses that management estimates have occurred at the balance sheet date for which specific allowances cannot yet be determined.

Revenue Recognition

The Credit Union recognizes interest income using the effective interest rate method for all investments and for all loans not classified as impaired. A loan is classified as impaired when there is reasonable doubt as to the ultimate collection of some portion of principal and interest. Revenue from chequing and other services is recognized in the period the service is rendered. Commission income is recognized in the period earned if the amount is reasonably determinable; otherwise upon receipt.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

Monetary items denominated in foreign currencies are translated at rates prevailing on the balance sheet date; income and expenses are translated at the average rates prevailing during the year. Realized and unrealized foreign exchange gains or losses arising from the translation or the settlement of a monetary item denominated in a foreign currency are recorded in other income. The Credit Union does not participate in active trading positions on foreign currencies.

Members' Distributions Payable

The estimated amount of distributions payable is charged to income for the year.

Income Taxes

The Credit Union uses the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The net change in recorded future income tax assets and liabilities is recognized in income in the period in which the change occurs including any change in applicable future tax rates.

Financial Instruments - Recognition and Measurement

The Credit Union's financial instruments consist of cash and term deposits, members' loans, accounts receivable, investments, members' deposits and accounts payable. The estimated fair values of these financial instruments are as described in note 11.

Financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, loans and receivables, held to maturity, available for sale, or financial liabilities. The Credit Union has financial instruments classified in the following categories:

Held for Trading

Financial instruments are classified under this category if they are acquired principally for the purpose of selling or repurchasing in the near term. Held for trading financial instruments are initially recognized at fair value. Gains and losses arising from the change in fair value of these financial instruments are recorded in the statement of income. The Credit Union classifies its cash in this category.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable repayment dates, usually with interest, that are not debt securities. Loans and receivables are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost using the effective interest rate. The Credit Union has classified Members' Loans in this category. Note 4 discloses the provision for loan losses related to these financial instruments.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Held to Maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Credit Union's management has the intention and ability to hold to maturity. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, using the effective interest method. All the Credit Union's term deposits have been classified as held to maturity. The fair values of these term deposits approximate their recorded cost.

Available for Sale

Available for sale assets are non-derivative financial assets that are designated as available for sale or are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently held at fair value, with gains and losses arising from changes in fair value being recognized in other comprehensive income in the Statement of Comprehensive Income. The Credit Union has classified its investments as available for sale with the exception of its investment in Kootenay Insurance Services Ltd. Interests in entities subject to significant influence are excluded from these Handbook sections.

Financial Liabilities

Financial liabilities are non-derivative financial liabilities and are measured at amortized cost using the effective interest method. The Credit Union's Members' Deposits are classified into this category.

Use of Estimates

The Preparation of 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. Significant areas requiring the use of estimates include accounting for the loan loss provision, valuation of investments, accrued liabilities and estimating the useful lives of assets for amortization.

These estimates and assumptions are reviewed periodically, and as adjustments become necessary, they are reported in the periods in which they become known.

2. NEW ACCOUNTING PRONOUNCEMENTS

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Credit Union's financial statements has yet to be determined.

3. STATUTORY INFORMATION

a) As at December 31, 2009, outstanding loans to directors, officers, and employees of the Credit Union totaled $5,656,090 (2008 - $5,526,628).

b) Directors' Remuneration

Total remuneration paid to directors in their capacity as directors, was $54,780 (2008 - $56,490).

4. MEMBERS' LOANS

	2009	2008
Mortgages	**$ 99,184,126**	$ 95,608,791
Otherwise secured	**14,105,288**	13,823,300
Accrued interest thereon	**274,882**	286,474
	113,564,296	109,718,565
Less: Allowance for doubtful loans	**665,365**	774,168
	$ 112,898,931	$ 108,944,397
Allowance for doubtful loans		
Balance, beginning of year	**$ 774,168**	$ 752,625
Less: Uncollectible loans, written off	**68,306**	158,457
	705,862	594,168
Increase (decrease) in provision for loan losses	**(40,497)**	180,000
Balance, end of year	**$ 665,365**	$ 774,168

The allowance for doubtful loans is made up of a general provision of $612,000 (2008 - $577,560) and a specific provision of $53,365 (2008 - $196,608).

5. INVESTMENTS

	2009	2008
Shares, Central 1 Credit Union	$ 400,502	$ 397,693
Accrued dividend - shares, Central 1 Credit Union	45,402	8,260
Shares, Stabilization Central Credit Union of BC	240	240
Debenture, Credential Securities	15,000	15,000
Shares, CUISA Managing General Agency Corporation	10,000	10,000
Shares, CUPP Services Ltd.	71,209	65,560
Concentra Financial term deposits	10,472,781	-
Dundee Securities - fixed income	3,006,908	-
GrowthStart Investment	606,668	602,738
Shares, Southern Interior Innovation Fund	600,000	-
Equity investment in Kootenay Insurance Services Ltd.	2,508,977	2,428,492
	$ 17,737,687	$ 3,527,983

6. PROPERTY AND EQUIPMENT

	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 500,626	$ -	$ 500,626	$ -
Buildings	3,215,836	751,793	3,197,211	701,903
Furniture, fixtures and improvements	1,035,472	843,875	1,377,871	1,135,319
Computer and other equipment	289,236	192,363	307,193	175,644
	5,041,170	1,788,031	5,382,901	2,012,866
Cost less accumulated amortization	$ 3,253,139		$ 3,370,035	

7. EQUITY SHARES

	2009	2008
Equity		
- Class A	$ 307,843	$ 379,706
- Class B	904,437	861,890
- Class C	10,114	10,114
	$ 1,222,394	$ 1,251,710

Class A, B, and C equity shares have a par value and redemption value of $1 each. Dividends may be paid annually on each class of shares at the discretion of the Board of Directors.

Each ordinary member and each junior member of the Credit Union is required to subscribe for 25 and 5 Class A shares respectively. Each member of the Credit Union may subscribe to a maximum of 100 Class A shares, 5,000 Class B shares and 5,000 Class C shares. The rules of the Credit Union state that the annual redemption of the Class A, Class B, and Class C equity shares may be limited to 10% of the total issued and outstanding shares. Class A, B, and C equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation.

8. CAPITAL REQUIREMENTS

The Financial Institutions Act required the Credit Union to maintain, at all times a capital base of 8% which is adequate in relation to the business carried on. The level of capital required is based on a prescribed percentage of the total value of risk weighted assets, each asset of the Credit Union being assigned a risk factor based on the probability that a loss may be incurred on the ultimate realization of that asset. At December 31, 2009 the estimated total risk weighted equivalent value of the Credit Union was $69,530,000 (2008 - $64,350,000).

The Credit Union is in compliance with the Act and regulations regarding regulatory capital as indicated by the table below:

(Thousands of dollars)	**2009**	2008
Primary Capital	**$ 13,013**	$ 12,093
Secondary Capital	**849**	792
Deductions from Capital	**(15)**	(16)
Total Regulatory Capital	**$ 13,847**	$ 12,869
% of total assets	**8.6 %**	8.2%
% of risk weighted assets (capital adequacy)	**19.9%**	19.9%

9. LINE OF CREDIT

The Credit Union has an operating line of credit in favour of Central 1. The Credit Union may borrow a maximum of $2,000,000 utilizing the operating line of credit. As at December 31, 2009, the Credit Union's operating line of credit with Central 1 amounted to $nil (2008 - $nil).

10. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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 exposure to these risks are managed.

a) Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's members' loans.

Risk Measurement:
Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. Credit scoring is the primary risk rating system for assessing obligor and transaction risk for retail exposures.

Objectives, Policies and Processes:
The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors is involved in the management of credit risks. The Board ensures that management has a framework, policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. They comprise the following:

1) Loan general policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration.
2) Loan lending limits, including schedule of assigned limits.
3) Loan collateral security classifications which set loan classifications, advance ratios and amortization periods.
4) Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loans renegotiation.
5) Loan delinquency controls regarding procedures followed for loans in arrears.
6) Internal controls policy regarding audit procedures for lending activities.

The Credit Union's maximum exposure to credit risk in relation to each class of recognized financial asset is the carrying amount of those assets as indicated on the balance sheet. The maximum credit risk exposure does not take into account the value of any collateral or other security held. The Credit Union's maximum exposure to credit risk related to member loans as at December 31, 2009 was as follows:

Loans that are not past due > 30 days	**$ 112,786,744**
Loans that are past due:	
30 to 89 days	**648,838**
90 to 179 days	**12,250**
180 to 365 days	**39,868**
Over 365 days	**76,596**
	$ 113,564,296

10. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

At a minimum all loans that are over 90 days past due are considered impaired. There are 12 loans with a combined principal of $128,687 considered to be impaired. Our credit risk policies, processes and methodologies have not changed materially in the past year.

b) Market Risk

Market risk is the risk of loss that may arise from changed in market factors such as interest rate, foreign exchange rates, equity or commodity prices, and credit spreads. The Credit Union is exposed to market risk in our asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectations of future price and yield movements.

Asset/Liability Management
Traditional banking activities, such as deposit taking and lending, exposes the Credit Union to market risk, of which interest rate risk is the largest component. The Credit Union's goal is to manage the risk, of which interest rate risk of the balance sheet within established limits. The Credit Union continually monitors the effectiveness of its interest rate risk mitigation activity.

Risk Management
The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to members as well as funds transfer pricing rates.

Objectives, Policies, and Processes
Management is responsible for managing our interest rate risk, monitoring approved limits and compliance with policies and operating standards. The Credit Union has established policies and related reporting to manage its exposure to fluctuating interest rates (referred to as interest rate risk). Without these policies, the Credit Union's earnings would be impacted, either positively or negatively, as interest rate change.

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits.

The objective of "interest rate sensitivity" management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

10. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The table below summarizes the interest rate sensitive assets and liabilities as at December 31, 2009 by the earlier of their contractual interest repricing or maturity dates and provides the weighted average interest rates of interest sensitive balances.

	Average Rates	Within 1 Year	1 to 4 Years	Over 4 Years	Not Interest Sensitive	Total
ASSETS						
Fixed rate	4.62%	$ 41,057,704	$ 44,068,715	$ 19,886,691	$ -	$ 105,013,110
Variable rate	3.57%	47,176,288	-	-	-	47,176,288
Non-interest rate sensitive		-	-	-	9,365,021	9,365,021
		88,233,992	44,068,715	19,886,691	9,365,021	161,554,419
LIABILITIES AND MEMBERS' EQUITY						
Fixed rate	2.49%	37,507,441	19,340,451	190,364	-	57,038,256
Variable rate	0.224%	80,797,520	-	-	-	80,797,520
Non-interest rate sensitive		-	-	-	23,718,643	23,718,643
		118,304,961	19,340,451	190,364	23,718,643	161,554,419
NET MISMATCH		$ (30,070,969)	$ 24,728,264	$ 19,696,327	$(14,353,622)	$ -

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within one year. Amounts that are not interest sensitive are grouped together, regardless of maturity.

Although a significant amount of loans and deposits can be settled before maturity, no adjustment has been made to anticipate repayments.

A significant amount of loans and deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

As at December 31, 2009, the weighted average rate for fixed rate interest-bearing assets is 4.62% (2008 - 5.24%) and for fixed rater interest-bearing liabilities is 2.49 % (2008 - 3.43%).

10. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Based on the Credit Union's interest rate positions at December 31, 2009 the following table shows the potential impact of 100 basis points (bps) increase or decrease in interest rates on the Credit Union's net interest income for the next 12 months.

100 bps increase	$	**529,000**
100 bps decrease	$(	**182,000)**

The interest rate risk policy has been approved by the Board of Directors and for the year ended December 31, 2009 the Credit Union was in compliance with the policy.

The Credit Union's overall market risk policies and procedures have not changed materially in the past year.

c) Liquidity Risk

Liquidity risk is the risk that the Credit Union may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost effective manner to meet our commitments as they come due.

Risk Measurement
The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm-specific and market conditions and the related behaviour of our members and counterparties.

Objectives, Policies, and Processes
The Credit Union's liquidity and funding management framework is designed to ensure that adequate sources of reliable and cost-effective cash or its equivalents are continually available to satisfy the Credit Union's current and prospective financial commitments under normal and contemplated stress conditions.

The Credit Union monitors and manages its liquidity position and consider regulatory, operational and any other applicable restrictions. The Board of Directors is responsible for oversight of the Credit Union's liquidity framework.

The Financial Institutions Act requires that the Credit Union maintain adequate liquidity, defined as a minimum of 8% of borrowings and member deposits, in certain classes of short-term liquid assets as defined in the regulations. The Credit Union complies with requirements regarding adequate liquidity at December 31, 2009.

As at December 31, 2009 the position of the Credit Union is as follows:

(Thousands of dollars)

Deposits and debt liabilities	$	**149,763**
Total liquidity requirement	$	**11,981**
Excess of liquidity requirement	$	**15,473**

There have been no material changes to the Credit Union's liquidity and funding management framework or levels of liquidity and funding risk in the past year.

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of the Credit Union's financial instruments are set out below. No fair values have been determined for premises and equipment, significant influenced investees or any other asset that is not a financial instrument. The fair values of cash, variable rate loans, other financial assets and other financial liabilities are assumed to equal their book values, as the items are short-term in nature. The fair values of loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar credit risks.

	2009		2008	
	Book Value	**Estimated Fair Value**	Book Value	Estimated Fair Value
FINANCIAL ASSETS				
Cash	**$ 2,911,265**	**$ 2,911,265**	$ 5,637,215	$ 5,637,215
Term deposits and purchased loans	**$ 36,864,427**	**$ 37,540,000**	$ 39,205,121	$ 40,551,000
Members' loans	**$ 111,050,262**	**$ 111,160,000**	$ 105,727,411	$ 105,608,000
Other financial assets	**$ 4,803,833**	**$ 4,803,833**	$ 1,422,908	$ 1,422,908
FINANCIAL LIABILITIES				
Deposits and equity shares	**$ 149,007,202**	**$ 150,395,000**	$ 146,012,153	$ 136,200,000
Other financial liabilities	**$ 711,075**	**$ 711,075**	$ 589,546	$ 589,546

The differences between the book values of the Credit Union's loans, deposits, and other financial instruments are due primarily to changes in interest rates. As the Credit Union normally holds these instruments to maturity, book values have not been adjusted to reflect the differences. Not all financial instruments are readily marketable. As a result, estimates of fair value are subjective and should not be considered precise.

12. PENSION PLAN

The Credit Union participates in a multi-employer defined benefit plan administered by Credit Union Central of B.C. Included in salaries and employee benefits are amounts of $155,298 (2008 - $160,126) which relate to pension contributions.

The latest available actuarial evaluation was December 31, 2006 when the plan actuary reported that the plan had an excess of plan assets over the actuarial liabilities for accrued pension benefits. The next actuarial valuation will be prepared as of December 31, 2009 and will be available upon completion.

13. RELATED PARTY TRANSACTIONS

During the year, the Credit Union received rental and administrative revenue from Kootenay Insurance Services Ltd., a significantly influenced investee, of $29,448 (2008 - $23,448). These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

14. COMMITMENTS

In the normal course of business, the Credit Union issues letters of credit on behalf of its members. These undrawn amounts are not included in the consolidated balance sheet, and as at December 31, 2009, amounted to $748,275 (2008 - $664,400).

15. CHANGES IN NON-CASH WORKING CAPITAL

	2009	2008
Accounts receivable	**$ 123,794**	$(7,811)
Prepaid expenses	**13,670**	14,750
Income tax refundable	**92,548**	(270,144)
Accounts payable	**121,529**	(100,249)
BC Corporate Capital tax payable	**(31,600)**	76,300
	$ 319,941	$(287,154)