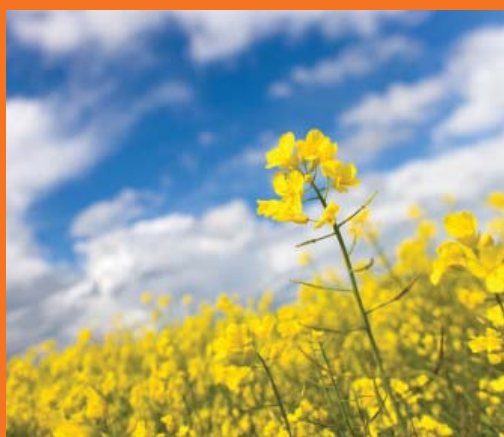


Friendly,
knowledgeable,
service. **Everyday.**



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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.”

2009/2010 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)
- Joe Parent (Retired)
- Emily Zyla (2010)

Region 4 (Carnduff / Oxbow)

- Joyce Fraser (2010)

Directors-At-Large

- Wayne Amos (2011)
- Raymond Boutin (2010)
- 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



Tim Schroh, CEO

Branch Locations and Managers:

- Beaubier, Lori Naka, Brenda Stark
- Bienfait, Ian Wood
- Carlyle, Devan Brisebois
- Carnduff, Gail Goertz
- Estevan, Brenda Stark, Lori Naka
- Lampman, Kirsten Fornwald
- Manor, Devin 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
- Jack Bramham, Commercial & Ag Services
- Brian Pilloud, Wealth Management

On-Line:
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.

Joe Parent Retires Following 44 years of dedicated service to Spectra Credit Union, Joe Parent announced his retirement from the Board of Directors effective October 16, 2009. Joe joined the Board of Directors in 1965 and

assumed the presidency in 1982. During that period of time, the credit union saw dramatic growth and has been on the leading edge of many developments that have enhanced the operations, financial stability and service focus both of our membership and for credit union members across the province. In his parting comments, Mr. Parent indicated that he felt privileged to have worked with the many management staff and directors that have served this credit union during his term. 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.

Wayne Amos, 1st Vice President, has capably assumed leadership of Spectra Credit Union Board of Directors on an interim basis. Wayne brings to the table a long history of co-operative leadership and development.

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 2010, we are pleased to recognize **Ray Luterbach** (posthumously). During his long volunteer career, Ray served on the Board of his local retail Co-op as well as the Board of Directors of Federated Co-operatives. He was a Saskatchewan Wheat Pool delegate for 16 years, and served Estevan Credit Union on our Board of Directors for 31 years from 1969 to 2000. During this time, Ray also served on the Board for Credit Union Central of Saskatchewan and for CUMIS Insurance. For his wide ranging co-operative service, Ray received the Saskatchewan Co-operative Order of Merit in 1996. In addition to his co-operative service, he was also actively involved in his farm and family activities as well as extensive community service.



Joe Parent



Wayne Amos

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 southeast Saskatchewan.

Based on the results of our quality member service survey conducted in 2009, 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!

Spectra has made some significant capital commitments over the past few years in Oxbow, Carnduff and Carlyle. This year the Redvers Branch saw a complete overhaul of its building with a \$750,000 building renovation. The project included a full interior and exterior renovation, including the addition of a new 24 hour ATM. In keeping with our goal to reduce our environmental footprint, all the windows, heating, ventilation and air conditioning, hot water heater and lighting were upgraded to high efficiency systems.

We also completed our two year project to expand the Estevan building. This addition had been in the planning stages since 2006 and saw 15,000 square feet added (5,000 square feet per floor). The renovations included a complete overhaul of the heating and ventilation systems for the existing building, as well as new plumbing and lighting fixtures for the entire building which are highly energy efficient. Overall, we have reduced our carbon footprint and reduced our monthly costs for heat, light and water.

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 a new drive-thru ATM in Estevan. Our ATMs operate around the clock.

The Commercial and Agriculture Centre is managed by Jack Bramham, Associate VP of Commercial and Agricultural Lending. The newly amalgamated service centre opened its doors in October of 2009.

Commercial and Agriculture Lending Centre

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 2009 they dealt quickly with over 57,400 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.

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.

Our members have additional access to financial services through **Spectra Financial Inc.**, 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 Inc. provide an extended range of high quality investment, financial planning, and insurance services.



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.

This past year, a further \$500,000 was allocated to the Spectra Community Foundation Inc. bringing the total allocations since inception to \$1 million. Over \$822,000 of these funds were committed or disbursed in 2009 to 54 separate non-profit or municipally sponsored organizations throughout our trading area. 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.

Spectra Credit Union continues to support other organizations in our communities as well - cash donations, sponsorships, volunteer activities and service charge reductions are all part of giving back to our community. In 2009, we donated over \$180,000 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 a further \$12,000. 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.

High school graduation awards of \$500 each are presented each year to graduates who have demonstrated exemplary service to their schools and communities. A total of eleven awards are presented each year to deserving students. In addition, the Spectra Credit Union Post Secondary \$1,500 Scholarship 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.



In 2009 Spectra initiated its fourth annual Corporate Social Responsibility Report which serves to assess our performance against Spectra's value statements. Highlighted in the report is distributions of the Spectra Community Foundation to deserving projects such as the one pictured above. Below, Amanda Branigan of Redvers is presented with her Spectra Credit Union Post Secondary Scholarship.



Spectra Community Foundation Inc. -

"Sharing our success. Growing our community."

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 2009 to be recognized for the fifth 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 Inc., 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 only two retirements in 2009. Cliff Mathers retired at the end of April with 25 years of service, and Tracey Perry retired at the end of September. Both employees worked in our Administrative Offices. We are pleased to report that our overall turnover rate declined considerably in 2009.

We are always appreciative of the level of experience held by our staff. Several employees received **long term service awards** in 2009. Recognition was extended to:

Lisa Willetts, Mary Hinz, Connie Byers, Christy Rioux, Karla Van Der Shaaf, Kirsten Fornwald, and Judy Krall (5 years), Shannon Mack, Tammra Wanner, Jodie Pratt, Neil Kish, and Janine Petterson (10 years), Kimberly Schaff (15 years) and Cory Prokop, Cindy Mellom, and Patricia Schachtel (20 years).

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



Spectra Credit Union
Investment Services



Spectra Financial Inc.

Management Discussion and Analysis

2009 Financial Performance

Balance Sheet

The Spectra Credit Union balance sheet grew by \$26.2 million or 4.9 per cent in 2009.

Member deposit balances spurred the balance sheet growth during the year, growing by \$28.3 million or 5.78 per cent. Deposit growth for 2009 was pretty much right on target with the 6 per cent budgeted for the year. Deposit rates, features and benefits will continue to remain competitive within the local financial landscape. Management will continue to monitor and manage deposit growth to ensure that the liquidity requirements of the organization are met.

Outstanding member loans receivable balances grew by \$18.1 million or 5.4 per cent in 2009. Loans as a percentage of total assets now sit at 62.76 per cent, just over the 62.23 per cent budgeted for the year and up slightly from the 62.44 per cent level at the end of 2008. It is the goal of the organization to effectively manage loan growth back up to a ratio of approximately 75 per cent loans to assets.

While the capital position of the credit union declined by \$1.7 million due to the loss experienced by the organization in 2009, the equity position for the credit union remains strong. Member equity of \$39.5 million or 7.04 per cent remains well above the 5 per cent regulatory minimum and risk weighted capital of 11.33 per cent sits just below the organizational target of 12 per cent and well above the regulatory minimum of 8 per cent.

Operating Statement

The global economic downturn resulted in historically low interest rates in 2009 and made generating an appropriate interest margin a real challenge for the credit union during the year. The net interest margin for a financial institution is the net revenue that results from the difference between the interest received from members on outstanding loans, plus the interest received on investments, less the interest paid to members on deposits. The 2009 net interest margin of \$14.1 million or 2.52 per cent is approximately \$1.1 million below budget for the year and \$1.3 million below the net interest margin achieved in 2008. Effective pricing on both sides of the balance sheet while bringing the level of outstanding loans as a percentage of total assets up to a more acceptable level are the two main strategies being deployed in an attempt to maximize the net interest margin in 2010.

The global economic downturn did result in a bit of a slowdown in our local economy as well. The credit union saw a direct impact from this slowdown as loan losses grew to \$5.1 million during the year. Certainly, the business of lending money brings with it risk. This risk is managed on a constant basis to limit its effects on the bottom line of the organization. This size of loan loss write-down is very unusual for Spectra Credit Union and is certainly not being forecast for 2010. The loan loss experienced in 2009 is the main contributing factor to the overall \$1.7 million loss the credit union is booking for the year.

Non-interest revenue has always been an important source of revenue for Spectra Credit Union and with the net interest margin challenges being experienced, it is certainly getting more attention as we move into 2010. Non-interest revenue of \$4.4 million in 2009 kept pace with the \$4.6 million achieved in 2008, but as a percentage of total assets shrunk from .85% in 2008 to .78% in 2009. Non-interest revenue is very much market driven, but as service charges and fees are reviewed in 2010, it will be done with the intent of maximizing revenues while remaining competitive within the marketplace.

Operating expenses grew by \$1.0 million in 2009, approximately \$400,000 below budget. As a percentage of total assets this equates to only a .04% increase. While the building projects in both Estevan and Redvers were completed as the year came to a close, the impact to the financial statements of the organization is very minimal as these project costs are amortized over many years. Maintaining effective control of the operating expenses of the organization remains a very high priority for the credit union management team.

The income (loss) of (\$3.0 million) in 2009 is the direct result of loan losses experienced during the year. With a net tax recovery of \$1.3 million, the net income (loss) or bottom line for the year is (\$1.7 million).

Summary

While 2009 closed with a very uncharacteristic loss for the credit union, its strong capital position has allowed it to absorb this one time hit with very little impact to future operations. Spectra Credit Union remains strong, stable and ready to meet the financial needs of its members throughout Southeast Saskatchewan well into the future. The financial forecast for 2010 shows the credit union returning to the profitable ways that it has been accustomed to, remaining one of the strongest credit unions in the province.

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. Spectra's 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 Manager 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 counterparties 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.

While the provision for credit losses in 2009 of \$5,069,434 is certainly very significant when compared to the typical historical levels of loan loss for the credit union, a combination of factors led to this unusual event that affected a very small portion of the loan portfolio. Management is very confident that, overall, the loan portfolio is in great shape and that a write-off of this magnitude is certainly not expected in 2010. Loan delinquency greater than 90 days of 1.28 per cent is well below the organization's target of 2 per cent 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 Saskatchewan 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 consultant 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.



2009 Annual Report

Spectra Credit Union

Auditors' Report and Consolidated Financial Statements
December 31, 2009



Estevan and Redvers Grand Re-Opening Ribbon Cuttings

AUDITORS' REPORT

TO THE MEMBERS OF SPECTRA CREDIT UNION

We have audited the consolidated balance sheet of Spectra Credit Union (the "Credit Union") as at December 31, 2009 and the consolidated statements of loss and comprehensive loss, members equity and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Deloitte + Touche LLP

Chartered Accountants

February 16, 2010

SPECTRA CREDIT UNION
CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS
Year ended December 31, 2009

	2009	2008
INTEREST INCOME		
Loan interest	\$ 17,438,010	\$ 21,913,802
Investments	5,286,835	5,423,348
	22,724,845	27,337,150
INTEREST EXPENSE		
Deposits	8,593,065	11,866,421
Borrowed money	16,997	39,049
	8,610,062	11,905,470
NET INTEREST INCOME	14,114,783	15,431,680
PROVISION FOR CREDIT LOSSES (Note 5)	5,069,434	311,573
NET INTEREST MARGIN	9,045,349	15,120,107
NON-INTEREST INCOME	4,399,003	4,555,902
NET INTEREST AND NON-INTEREST INCOME	13,444,352	19,676,009
OPERATING EXPENSES		
Personnel	9,417,608	9,695,734
Security	457,395	308,818
Organizational	369,838	376,256
Occupancy	711,437	687,840
General business	5,506,564	4,390,329
	16,462,842	15,458,977
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAX	(3,018,490)	4,217,032
PROVISION FOR INCOME TAX (Note 13)		
Current (recovery)	(1,570,825)	493,223
Future	271,462	272,727
	(1,299,363)	765,950
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	\$ (1,719,127)	\$ 3,451,082

SPECTRA CREDIT UNION
CONSOLIDATED STATEMENT OF MEMBERS EQUITY
Year ended December 31, 2009

	2009	2008
RETAINED EARNINGS		
Retained earnings, beginning of year	\$ 41,217,134	\$ 37,766,052
Net income (loss) for the year	(1,719,127)	3,451,082
RETAINED EARNINGS, END OF YEAR	\$ 39,498,007	\$ 41,217,134

SPECTRA CREDIT UNION
CONSOLIDATED BALANCE SHEET
As at December 31, 2009

	2009	2008
ASSETS		
Cash	\$ 9,840,355	\$ 17,692,308
Investments (Note 4)	178,906,201	171,671,068
Loans (Note 5)	352,304,962	334,164,067
Other assets (Note 6)	3,225,683	2,593,195
Goodwill	1,070,129	1,070,129
Intangible assets (Note 7)	1,539,278	1,652,222
Property and equipment (Note 8)	14,450,951	6,324,155
	\$ 561,337,559	\$ 535,167,144
LIABILITIES		
Deposits	\$ 517,297,785	\$ 489,026,369
Other liabilities (Note 10)	3,137,966	3,399,412
Membership shares (Note 11)	81,742	202,470
Investment shares (Note 11)	1,322,059	1,321,759
	521,839,552	493,950,010
MEMBERS EQUITY		
Retained earnings	39,498,007	41,217,134
	\$ 561,337,559	\$ 535,167,144

COMMITMENTS (Note 19)

APPROVED:


CEO


Director

SPECTRA CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31, 2009

	2009	2008
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income (loss)	\$ (1,719,127)	\$ 3,451,082
Adjustments for		
Amortization of property and equipment	820,757	706,559
Amortization of intangible assets	224,525	97,287
Provision for credit losses	5,069,434	311,573
Change in preferred rate loan discount	33,415	33,375
Future income taxes	271,462	272,727
(Gain) loss on sale of property and equipment	(5,656)	1,490
	4,694,810	4,874,093
Changes in non-cash working capital		
Other assets	(755,504)	1,646,122
Other liabilities	(409,892)	(5,230,288)
	3,529,414	1,289,927
CASH FLOWS FROM (USED IN)		
INVESTING ACTIVITIES		
(Increase) decrease in loans	(23,243,744)	1,165,220
Increase in investments	(7,235,133)	(74,175,977)
Additions to property and equipment	(8,947,553)	(3,261,490)
Additions to intangible assets	(111,581)	(1,586,314)
Proceeds from sale of property and equipment	5,656	2,646
	(39,532,355)	(77,855,915)
CASH FLOWS FROM (USED IN)		
FINANCING ACTIVITIES		
Increase in deposits	28,271,416	89,106,471
Increase (decrease) in membership shares	(120,728)	2,337
Increase in investment shares	300	-
	28,150,988	89,108,808
NET INCREASE (DECREASE) IN CASH RESOURCES	(7,851,953)	12,542,820
CASH RESOURCES, BEGINNING OF YEAR	17,692,308	5,149,488
CASH RESOURCES, END OF YEAR	\$ 9,840,355	\$ 17,692,308
Supplemental Information		
Interest paid	\$ 9,461,754	\$ 12,509,586
Income taxes paid (received)	(745,683)	1,687,768

SPECTRA CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2009

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.

2. CHANGE IN ACCOUNTING POLICIES

Financial Instruments – Disclosures

Effective for its fiscal year ended December 31, 2009, the Credit Union adopted the Canadian Institute of Chartered Accountants' ("CICA") new recommendations for disclosures relating to fair value measurements. Section 3862 *Financial Instruments - Disclosures* has been amended to require enhanced disclosures for fair value measurements recognized in the balance sheet. The Credit Union is required to classify and disclose fair value measurements using a three-tier fair value hierarchy based on the lowest level input that is significant to that fair value measurement. As a result of adopting this amendment, new disclosure is provided in Note 16.

Effective for its fiscal year ended December 31, 2009, the Credit Union adopted the CICA's new recommendations for disclosures relating to liquidity risk. Section 3862 *Financial Instruments - Disclosures* has been amended to require enhanced disclosures for liquidity risk in response to current market conditions. The Credit Union is required to disclose maturity analysis for derivative and non-derivative financial liabilities based on how the Credit Union manages its liquidity risk. As a result of adopting this amendment, new disclosure is provided in Note 18.

The adoption of these amendments did not have a material impact on the Credit Union's consolidated financial statements.

Financial Instruments – Reclassification

Effective for its fiscal year ended December 31, 2009, the Credit Union adopted the amendments to CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. This resulted in \$111,895,613 of debt investments that were not quoted in an active market being reclassified to loans and receivables as they no longer met the definition of a held-to-maturity financial asset. This adoption has had no impact on the accounting for these instruments.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective for its fiscal year ended December 31, 2009, the Credit Union adopted the CICA's Abstract No. 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* ("EIC-173"). EIC-173 requires an entity to take into account its own credit risk and the credit risk of counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments, and is required to be applied retrospectively without restatement. The adoption of this abstract did not have a material impact on the Credit Union's consolidated financial statements.

Goodwill and Intangible Assets

Effective for its fiscal year ended December 31, 2009, the Credit Union adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets* which replaces Section 3062, *Goodwill and Other Intangible Assets* and resulted in the withdrawal of Section 3450, *Research and Development Costs*. Section 3064, provides guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. As a result of adopting Section 3064, the Credit Union has reclassified software from furniture and equipment to intangible assets on the Consolidated Balance Sheet. The adoption of Section 3064 did not impact the corresponding amortization recorded in general business on the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss).

SPECTRA CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2009

3. 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 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. Certain estimates, including allowances for credit losses, fair value of financial instruments, and income taxes require management to make subjective or complex judgments. 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.

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: Spectra Financial Inc., as well as a charitable corporation Spectra Community Foundation Inc.

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, Spectra Credit Union refers to the Credit Union as well as its subsidiary and foundation.

Cash

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

Investments

Investments are classified as held-for-trading, available-for-sale, or loans and receivables. Investments classified as held-for-trading are carried at fair value with all unrealized gains and losses recognized immediately in net income. 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. Investments classified as loans and receivables are carried at amortized cost. The Credit Union recognizes securities transactions on the trade date.

Loans

Loans are 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.

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.

SPECTRA CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans (continued)

General allowances are established to reflect provisions for credit losses, which are prudential in nature but cannot be determined on an individual basis. A general allowance is determined based upon management's judgment considering business and economic conditions, portfolio composition, historical credit performance and other relevant indicators.

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 Held for Sale

Foreclosed assets held for sale are initially recorded at the lower of the investment recorded in the foreclosed loan and its estimated net realizable value. Foreclosed assets held for sale are subsequently valued at the lower of its carrying amount or fair value less costs to sell.

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 evaluates the carrying value of goodwill annually to determine if there is any impairment based on the estimate of current and expected undiscounted cash flows from the underlying net assets, taking into consideration operating trends and other relevant factors. The decline in the value of goodwill, if any, will be recorded as an impairment loss in the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss).

SPECTRA CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2009

3. 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 managements' best estimate of the useful life of the asset.

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. The Credit Union is taxed at an effective rate of 43% (2008 – 18%).

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-for-trading, available-for-sale, loans and receivables, or other financial liabilities. Held-for-trading financial assets and financial liabilities are purchased for sale in the near term and its 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.

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.

Loans and receivables financial assets are initially measured at fair value, and are subsequently carried at amortized cost, plus accrued interest.

Classification

Cash	Held-for-trading
Investments	Held-for-trading, available-for-sale, and loans and receivables
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

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.

SPECTRA CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

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. 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.

Financial Asset Impairment

The Credit Union assesses impairment of all its financial assets, except those classified as held-for-trading. Management considers downgrades in ratings, recent financial results, defaults on preferred and subordinated shares, 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 current year's earnings.

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.

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 (Loss) and Comprehensive Income

SPECTRA CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Future Accounting Changes

The Canadian Accounting Standards Board will require all publicly accountable companies to adopt International Financial Reporting Standards ("IFRS") for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, including the restatement of comparative period consolidated financial statements on the same basis. The transition from Canadian GAAP to IFRS will be applicable to the Credit Union for the year-ended December 31, 2011.

The Credit Union is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada and has begun the analysis of the expected areas of impact on the organization.

The Credit Union is developing a changeover plan to adopt IFRS on January 1, 2011. The key elements of the plan include assessing the impact of adopting IFRS on:

- Accounting policies;
- IT and data systems;
- Internal controls over financial reporting;
- Disclosure controls and procedures; and
- Business activities as well as matters that may be influenced by GAAP measures such as capital requirements and compensation arrangements.

The changeover plan is still in the early stages and, as such, the impact of adopting IFRS on the Credit Union's financial reporting is currently being assessed.

SPECTRA CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2009

4. INVESTMENTS

	<u>2009</u>	<u>2008</u>
Concentra Financial	\$ 5,272,761	\$ 68,081,324
Federal and Provincial Government	15,707,200	24,000
Commercial Paper	10,142,446	9,072,173
Chartered Bank Bonds	89,204,381	44,905,835
Other	4,025,533	1,952,620
SaskCentral - Liquidity Pool	53,261,615	46,861,615
Accrued interest	1,292,265	773,501
	<u>\$ 178,906,201</u>	<u>\$ 171,671,068</u>

The regulator of Saskatchewan Credit Unions, Credit Union Deposit Guarantee Corporation ("CUDGC") requires that the Credit Union maintain 10% of their total liabilities in specified liquidity deposits in SaskCentral, set out in regulation 18-1. As of December 31, 2009, the Credit Union met the requirement.

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

	2009			
	Held-for- trading	Available- for-sale	Loans and receivables	Total
Investments				
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	4,886,221	-	84,318,161	89,204,382
government	-	-	16,245,325	16,245,325
Commercial bonds	-	-	10,142,446	10,142,446
Other investments	-	637,407	-	637,407
Accrued interest	71,187	31,397	1,189,681	1,292,265
	<u>\$ 4,957,408</u>	<u>\$ 62,053,180</u>	<u>\$ 111,895,613</u>	<u>\$ 178,906,201</u>

SPECTRA CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2009

4. INVESTMENTS (continued)

	2008			
	Held-for-trading	Available-for-sale	Held-to-maturity	Total
Investments				
SaskCentral - shares	\$ -	\$ 3,487,923	\$ -	\$ 3,487,923
SaskCentral - statutory liquidity deposits	-	46,861,615	-	46,861,615
SaskCentral - other investments	-	65,443,402	-	65,443,402
Chartered bank guaranteed Provincial and municipal government	-	-	44,905,835	44,905,835
Commercial bonds	-	-	524,000	524,000
Other investments	-	-	9,072,173	9,072,173
Accrued interest	-	602,619	-	602,619
	-	48,983	724,518	773,501
	\$ -	\$ 116,444,542	\$ 55,226,526	\$ 171,671,068

The Credit Union has designated several other investments as available-for-sale and recorded them at cost. Fair value information is not disclosed because a quoted market price is unavailable in an active market and fair value cannot be measured reliably. Cost has been determined the most appropriate value to assign to these investments. These investments are reviewed periodically for impairment and any decline in the value that is other than temporary is recorded in income. The investments that do not have a quoted market price total \$8,161,716 (2008 - \$4,389,028).

5. LOANS

	Principal		Allowances		Net	
	Current	Impaired	Specific	General	2009	2008
Government guaranteed	\$ 65,549,052	\$ -	\$ -	\$ -	\$ 65,549,052	\$ 53,674,737
Conventional mortgages - residential & farm	78,094,827	839,150	155,988	52,107	78,725,882	75,142,904
- commercial	55,115,783	6,013,885	5,287,235	-	55,842,433	52,519,459
Personal loans	92,388,260	121,233	94,622	57,312	92,357,559	96,830,094
Leases	1,766,510	-	-	-	1,766,510	887,165
Non-personal loans	55,710,348	872,004	174,927	144,106	56,263,319	52,609,652
Foreclosed property	90,004	-	-	-	90,004	-
Accrued interest	1,651,276	58,927	-	-	1,710,203	2,500,056
	\$ 350,366,060	\$ 7,905,199	\$ 5,712,772	\$ 253,525	\$ 352,304,962	\$ 334,164,067

SPECTRA CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2009

5. LOANS (continued)

	<u>2009</u>	<u>2008</u>
Allowance for Impaired Loans:		
Balance, beginning of year	\$ 746,987	\$ 639,786
Charge for loan impairment - specific	5,069,435	311,573
Interest on impairment	149,875	-
Amounts written-off (net of recoveries)	-	(204,372)
Balance, end of year	\$ 5,966,297	\$ 746,987

6. OTHER ASSETS

	<u>2009</u>	<u>2008</u>
Prepaid expenses	\$ 202,928	\$ 247,553
Derivative asset	1,140,658	1,039,047
Corporation income taxes receivable	1,796,869	1,025,558
Future income tax asset	-	69,185
Other receivables	85,228	211,852
	\$ 3,225,683	\$ 2,593,195

7. INTANGIBLE ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2009</u>	<u>2008</u>
Software	\$ 2,809,646	\$ 1,270,368	\$ 1,539,278	\$ 1,652,222

The amortization expense for intangible assets for 2009 was \$224,525 (2008 - \$97,287). There were no write-downs of intangible assets due to impairments for the year ended December 31, 2009 (2008 - \$nil).

8. PROPERTY AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2009</u>	<u>2008</u>
Land	\$ 868,856	\$ -	\$ 868,856	\$ 927,350
Buildings	14,679,538	2,993,215	11,686,323	4,065,516
Furniture and equipment	8,118,379	6,222,607	1,895,772	1,331,289
	\$ 23,666,773	\$ 9,215,822	\$ 14,450,951	\$ 6,324,155

9. LOAN 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% (1.75% 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 \$1,147,508 (2008 - \$5,874,053).

SPECTRA CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2009

10. OTHER LIABILITIES

	<u>2009</u>	<u>2008</u>
Accounts payable	\$ 1,848,862	\$ 2,360,365
Future income tax liability	148,446	-
Derivative liability	1,140,658	1,039,047
	<u>\$ 3,137,966</u>	<u>\$ 3,399,412</u>

11. 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.

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

12. 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 \$490,044 (2008 - \$447,673) 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.

13. INCOME TAX

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

	<u>2009</u>	<u>2008</u>
Income before income taxes	\$ (3,018,490)	\$ 4,217,032
Combined federal and provincial income tax rate	31%	32%
Income taxes at statutory rate	(935,732)	1,349,450
Provision for income taxes adjusted for the effect of:		
Non-deductible expenses	4,997	-
Non-taxable dividend income	(9,740)	(74,384)
Credit Union rate reduction	-	(455,608)
Losses carried back at different rates	(281,054)	-
Future income tax expense resulting from tax rate changes	(57,640)	-
Other	(20,194)	(53,508)
	<u>\$ (1,299,363)</u>	<u>\$ 765,950</u>
Effective rate of tax	43%	18%

SPECTRA CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2009

13. INCOME TAX (continued)

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

	<u>2009</u>	<u>2008</u>
Future income tax assets (liabilities)		
Loans	\$ 238,330	\$ 84,572
Donation carry-forwards	40,050	-
Property and equipment	(490,850)	(72,819)
Investments	29,297	-
Translation adjustment	45,448	65,455
Other	(10,721)	(8,023)
	<u>\$ (148,446)</u>	<u>\$ 69,185</u>

14. 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 new 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 operational risk. Changes from Basel I include a reclassification into lower-risk categories for residential mortgages, aggregation of lending exposure, removal of unrealized securitization revenue and a new capital requirement related to operational 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 require Credit Unions to maintain a minimum total eligible capital to risk-weighted assets of 8.00%, a minimum tier 1 capital to total assets of 5.00% and tier 2 capital to tier 1 capital of less than 100.00%.

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, member equity/patronage accounts and deductions for securitization transactions.

Tier 2 capital at the Credit Union includes a general allowance for credit losses to a maximum of 0.75% of risk-weighted assets, membership shares required for membership, 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 2009:

SPECTRA CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2009

14. CAPITAL MANAGEMENT (continued)

	<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%	8.00%
Tier 2 capital to tier 1 capital	Less than 100.00%	100.00%

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

Capital Summary	<u>2009</u>	<u>2008</u>
Eligible capital		
Total tier 1 capital	\$ 36,863,787	\$ 38,842,180
Total tier 2 capital	1,642,179	1,644,409
	<u>\$ 38,505,966</u>	<u>\$ 40,486,589</u>
Risk-weighted assets	\$ 339,938,880	\$ 331,685,604
Total eligible capital to risk-weighted assets	11.33%	12.21%
Tier 1 capital to total assets	6.59%	7.36%
Tier 2 capital to tier 1 capital	4.45%	4.23%

15. RELATED PARTY TRANSACTIONS

Loans Receivable

As of December 31, 2009, certain directors and management were indebted to the Credit Union or had credit available for an amount totaling \$1,011,974 (2008 - \$1,711,370). 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 member deposits on the balance sheet.

16. 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 when available or quoted market prices of similar investments.

SPECTRA CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2009

16. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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.

	2009 (000's)		2008 (000's)	
	Stated Value	Fair Value	Stated Value	Fair Value
Assets				
Cash	\$ 9,840	\$ 9,840	\$ 17,692	\$ 17,692
Investments	178,906	183,191	171,671	170,944
Loans	352,305	352,906	334,164	351,873
Other	1,226	1,226	1,251	1,251
	\$ 542,277	\$ 547,163	\$ 524,778	\$ 541,760
Liabilities				
Deposits	\$ 517,298	\$ 521,036	\$ 489,026	\$ 496,412
Other	2,990	2,990	3,399	3,399
Membership and investment shares	1,404	1,404	1,524	1,524
	\$ 521,692	\$ 525,430	\$ 493,949	\$ 501,335

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

	2009 (000's)				
	Stated Value	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash	\$ 9,840	\$ 9,840	\$ 9,840	\$ -	\$ -
Investments	62,053	62,053	-	62,053	-
Other	1,141	1,141	-	1,141	-
	\$ 73,034	\$ 73,034	\$ 9,840	\$ 63,194	\$ -
Liabilities					
Other	\$ 1,141	\$ 1,141	\$ -	\$ 1,141	\$ -

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16. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2008 (000's)				
	Stated Value	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash	\$ 17,692	\$ 17,692	\$ 17,692	\$ -	\$ -
Investments	116,445	116,445	-	116,445	-
Other	1,039	1,039	-	1,039	-
	<u>\$ 135,176</u>	<u>\$ 135,176</u>	<u>\$ 17,692</u>	<u>\$ 117,484</u>	<u>\$ -</u>
Liabilities					
Other	\$ 1,039	\$ 1,039	\$ -	\$ 1,039	\$ -

17. 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.

18. 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. 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. In addition, CUDGC establishes standards with which the Credit Union must comply.

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 implement a prudent and effective granting process to assess the borrower's ability to repay.

The Credit Union mitigates this 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.

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

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18. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

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

Investment Portfolio Rating	2009		2008	
		Carrying Amount		Carrying Amount
AAA	\$	2,132,375	\$	3,352,971
AA		103,543,025		51,873,557
A		10,685,670		-
Unrated		62,545,131		116,444,540
Total Investments	\$	178,906,201	\$	171,671,068

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.

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 or letters of credit.

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

- a) commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions; and
- b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), or letters of credit.

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

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18. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

As at December 31, 2009, the Credit Union had the following outstanding financial instruments subject to credit risk:

	<u>2009</u>		<u>2008</u>
Undrawn lines of credit	\$ 48,026,420	\$	64,958,078
Commercial letters of credit	2,583,436		2,026,080
Commitments to extend credit	15,150,964		17,194,953
	<u>\$ 65,760,820</u>	<u>\$</u>	<u>84,179,111</u>

At December 31, 2009, the Credit Union holds credit derivative financial instruments totaling \$10,443 (2008 - \$10,040) with authorized limits to \$59,055 (2008 - \$78,734). The Credit Union is exposed to credit risk in the event of non performance by counterparties to its derivative financial instruments, but does not anticipate non-performance by any of the counterparties. Management monitors the credit risk and credit standing of counterparties on a regular basis.

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's exposure changes depending on market conditions.

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

Interest rate risk is the potential adverse impact on the earnings due to changes in interest rates. It arises primarily from timing differences in the re-pricing of investments as they mature. 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.

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18. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

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 shows the Credit Union's gap position as at December 31, 2009.

	2009 (000's)						
	Floating	Within	Over	Over	Over	Non-	
	rate	3 months	3 months	1 year	5 years	interest	Total
			to 1 year	to 5 years	5 years	sensitive	
ASSETS							
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	-	-	-	-	-	85	85
LIABILITIES							
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	-	-	-	-	-	1,849	1,849
Membership Shares	-	-	-	-	-	82	82
Investment Shares	-	-	264	1,058	-	-	1,322
On-balance sheet gap	\$(89,404)	\$ 4,484	\$ 7,446	\$ 143,263	\$ 22,228	\$(67,432)	\$ 20,585

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18. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

	Floating rate	Within 3 months	2008 (000's) Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non- interest sensitive	Total
ASSETS							
Cash	\$ 17,692	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,692
Investments	115,546	-	8,513	42,683	4,156	773	171,671
Effective interest rate	3.08%		4.58%	4.84%	5.25%		
Loans	182,473	10,506	34,584	101,877	2,108	2,616	334,164
Effective interest rate	5.11%	7.99%	7.42%	6.79%	5.79%		
Other Assets	-	-	-	-	-	212	212
LIABILITIES							
Deposits	265,601	20,617	33,385	77,958	1,480	89,985	489,026
Effective interest rate	3.21%	3.13%	3.65%	2.77%	1.49%		
Other Liabilities	-	-	-	-	-	2,360	2,360
Member Shares	-	-	-	-	-	202	202
Investment Shares	-	-	264	1,058	-	-	1,322
On-balance sheet gap	\$ 50,110	\$ (10,111)	\$ 9,448	\$ 65,544	\$ 4,784	\$ (88,946)	\$ 30,829

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

For every 25 basis points that average interest rates would have changed in 2009, there would have been a resulting change to the bottom line of the organization of approximately \$150,000. If the average interest rate would have been 25 basis points higher for the year, the net income for the year would have been approximately \$150,000 higher. If the average interest rate would have been 25 basis points lower for the year, the net income would have been approximately \$150,000 lower. These measures are based upon assumptions made by management.

The impact of movements in interest rates on the financial position and earnings of the Credit Union is measured through a number of sophisticated tests, namely: income simulation, static gap analysis, value at risk, and duration analysis.

SPECTRA CREDIT UNION
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18. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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.

19. COMMITMENTS

The Credit Union contracted with a third party, committing them to spend \$541,296 in 2010 with respect to the operating costs for the Credit Union's new banking system platform. This is a long-term commitment extending beyond five years, with costs calculated annually based on the Credit Union's reported volume factors as of June 30 of each year.

20. COMPARATIVE FIGURES

Certain prior year's comparative figures have been reclassified or adjusted to conform to the current year's basis of presentation.



