Prospera Credit Union

Consolidated Financial Statements
December 31, 2010
(expressed in thousands of dollars)

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February 17, 2011

Independent Auditor's Report

To the Members of
Prospera Credit Union

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

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

Prospera Credit Union

Consolidated Balance Sheet

As at December 31, 2010

(expressed in thousands of dollars)

	2010 $	2009 $
Assets		
Cash resources	168,776	159,704
Loans to members (note 3)	1,821,262	1,751,426
Investments (note 5)	5,690	6,048
Property, premises, equipment and intangibles (note 6)	11,197	12,557
Other assets (note 7)	10,509	11,673
Future income taxes (note 14)	1,009	1,069
	2,018,443	1,942,477
Liabilities		
Borrowings (note 8)	42,000	118,000
Member deposits (note 9)	1,880,862	1,738,358
Accounts payable and accrued liabilities (note 13)	9,253	9,151
Income taxes payable	630	574
	1,932,745	1,866,083
Members' Equity		
Members' equity shares (note 10(c))	5,343	5,611
Retained earnings	80,110	70,560
Accumulated other comprehensive income	245	223
	85,698	76,394
	2,018,443	1,942,477

Commitments and contingent liabilities (note 15)

Approved by the Board of Directors

Karen [signature] Director

[signature] Director

See accompanying notes to financial statements.

Prospera Credit Union

Consolidated Statement of Members' Equity

(expressed in thousands of dollars)

	Members' equity shares $	Retained earnings $	Accumulated other comprehensive income $	Members' equity $
Balance - December 31, 2008	5,894	64,155	-	70,049
Net income and other comprehensive income for the year ended December 31, 2009	-	6,563	223	6,786
Dividends on members' equity shares	-	(158)	-	(158)
Share redemptions - net	(283)	-	-	(283)
Balance - December 31, 2009	5,611	70,560	223	76,394
Net income and other comprehensive income for the year ended December 31, 2010	-	9,705	22	9,727
Dividends on members' equity shares	-	(155)	-	(155)
Share redemptions - net	(268)	-	-	(268)
Balance - December 31, 2010	5,343	80,110	245	85,698

See accompanying notes to financial statements.

Prospera Credit Union

Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2010

(expressed in thousands of dollars)

	2010 $	2009 $
Interest income		
Loans	80,700	78,089
Cash resources and investments	5,283	8,397
	85,983	86,486
Interest expense		
Deposits	32,906	40,898
Borrowings	934	797
	33,840	41,695
Net interest income	52,143	44,791
Provision for credit losses (note 3)	2,000	1,500
Net interest income after provision for credit losses	50,143	43,291
Other income (note 11)	14,984	16,741
Net interest income and other income	65,127	60,032
Non-interest expenses		
Salaries and employee benefits	29,120	27,794
Occupancy	7,651	8,163
Administration	4,546	4,175
Other (note 12)	3,823	3,658
Amortization	2,876	3,244
Clearing charges	2,298	2,184
Communication and marketing	1,592	1,239
Data processing	1,146	932
	53,052	51,389
Income before dividends on member deposit shares	12,075	8,643
Dividends on member deposit shares	900	1,126
Income before income taxes	11,175	7,517
Provision for income taxes (note 14)		
Current	1,413	760
Future	57	194
	1,470	954
Net income for the year	9,705	6,563
Other comprehensive income for the year	22	223
Comprehensive income	9,727	6,786

See accompanying notes to financial statements.

Prospera Credit Union

Consolidated Statement of Cash Flows

For the year ended December 31, 2010

(expressed in thousands of dollars)

	2010 $	2009 $
Cash flows from operating activities		
Net income for the year	9,705	6,563
Items not affecting cash		
Amortization	2,876	3,244
Provision for credit losses	2,000	1,500
Loss (gain) on sale of property, premises, equipment and intangibles (notes 11 and 12)	421	(113)
Securitization gain on sale of loans (note 11)	-	(1,825)
Amortization of premium on securitization buyback	1,121	441
Net change in fair value of derivative financial instruments (note 18)	124	(697)
Amortization of service liability	(107)	(320)
Future income taxes	57	194
	16,197	8,987
Change in non-cash working capital items	657	(1,862)
	16,854	7,125
Cash flows from investing activities		
Increase in Central 1 term deposits	(8,176)	(16,509)
Net change in loans to members	(71,836)	(85,496)
Repurchase of securitized mortgages (note 4)	-	(85,545)
Proceeds from loan securitizations (note 4)	-	27,503
(Decrease) increase in other investments	(91)	106
Proceeds on sale of property, premises, equipment and intangibles	-	869
Additions to property, premises, equipment and intangibles	(1,936)	(2,120)
	(82,039)	(161,192)
Cash flows from financing activities		
(Decrease) increase in borrowings	(76,000)	54,500
Net increase in member deposits	148,898	103,627
Net decrease in member deposit shares and members' equity shares	(6,841)	(123)
Income tax reduction related to dividend	24	28
	66,081	158,032
Increase in cash and cash equivalents	896	3,965
Cash and cash equivalents - Beginning of year	19,394	15,429
Cash and cash equivalents - End of year	20,290	19,394
Cash resources consist of		
Cash and cash equivalents	20,290	19,394
Central 1 term deposits	148,486	140,310
	168,776	159,704

Supplementary cash flow information (note 21)

See accompanying notes to financial statements.

(expressed in thousands of dollars)

1 General

Prospera Credit Union (the "Credit Union") is incorporated under the laws of British Columbia and is regulated under the Financial Institutions Act of British Columbia. The Credit Union's primary business activities include providing financial services to its members and the general public across British Columbia. The Credit Union has locations in Greater Vancouver, the Fraser Valley and the Okanagan. It provides financial services through 16 retail banking centres, seven insurance offices, six commercial banking centres, on-line banking and a contact centre.

2 Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the assets, liabilities, results of operations and cash flows of all subsidiary entities. All inter-company balances and transactions are eliminated.

The consolidated financial statements include the accounts of Prospera Credit Union and its wholly owned subsidiaries, Prospera Insurance Agencies Ltd., Prospera Technologies Inc., 413297 B.C. Ltd., and Prospera Holdings Ltd.

Use of estimates

The preparation of the consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include accounting for financial instruments, provision for credit losses, accounting for securitization transactions and the values of retained interests, income taxes and employee future benefits. Actual results may differ from these estimates.

(expressed in thousands of dollars)

Financial instruments

An entity’s financial assets may be classified as available-for-sale (“AFS”), held-for-trading (“HFT”), held-to-maturity (“HTM”), or loans and receivables, and all financial liabilities are classified as HFT or other financial liabilities. All financial instruments classified as AFS or HFT are required to be measured at fair value on the balance sheet while financial instruments classified as loans and receivables, HTM or other financial liabilities are measured at amortized cost using the effective interest method. Unrealized gains and losses on financial instruments that are classified as AFS are reported in other comprehensive income (“OCI”). When gains or losses become realized through sale or other-than-temporary impairment, they are reclassified from accumulated other comprehensive income (“AOCI”) to income. Interest income earned on debt instruments classified as AFS is recorded directly to the consolidated statement of income using the effective interest method. Unrealized gains and losses on financial instruments that are classified as HFT are recognized along with income earned directly in the consolidated statement of income.

Financial assets and liabilities are presented on a net basis when the Credit Union has a legally enforceable right of offset of the recognized amounts and an intention to settle on a net basis.

Future year accounting policy changes

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants (“CICA”) has issued a plan for publicly accountable entities to converge with International Financial Reporting Standards (“IFRS”) effective for fiscal periods beginning on or after January 1, 2011. The Credit Union’s transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Credit Union for the year ending December 31, 2010. Management has established a change-over plan to adopt IFRS in 2011 and has assigned resources to implement the plan.

Cash resources

Cash resources include cash and cash equivalents comprising highly liquid balances with less than 90 days’ maturity from the date of acquisition and cash and deposits with Central 1.

Loans to members

Loans to members are stated at unpaid principal and accrued interest, net of deferred transaction costs and fees, on an amortized cost basis using the effective interest method. Loans are recorded net of specific provisions for estimated losses on impaired loans and a general provision.

(expressed in thousands of dollars)

Interest income is accounted for on an accrual basis using the effective interest method, except for loans classified as impaired. Loans are generally considered impaired when, in the opinion of management, there is no longer reasonable assurance of the timely collection of principal and interest, generally when principal or interest is 90 days past due, unless the loan is well secured and in the process of collection. Accrued but uncollected interest is provided for when a loan is determined to be impaired. When a loan is classified as impaired, interest income is recognized on a cash basis only after any specific provision or partial write-offs have been recovered and provided there is no further doubt as to the collectability of the principal. Loans considered uncollectable are written off.

Fees charged and related transaction costs incurred in connection with loan origination and renewals are recognized as an integral part of the yield earned on a loan and are recognized in interest income and expense using the effective interest method, unless a loan is repaid in full. In instances where a loan is refinanced and a prepayment fee is charged, the fee and any related transaction costs are recognized in income unless only minor modifications (based on a present value of future cash flows test) were made to the loan, in which case they are deferred and amortized over the estimated remaining loan payment period using the effective interest method.

Provision for credit losses

The Credit Union maintains a provision for credit losses that, in management’s estimation, is considered adequate to provide for credit-related losses.

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

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

(expressed in thousands of dollars)

Loan securitizations

The Credit Union periodically securitizes loans by selling to independent special purpose trusts that issue securities to investors. Securitizations of loans are accounted for as sales when the Credit Union surrenders control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. When such sales occur, the Credit Union accounts for gains or losses in the consolidated statement of income. The amount of the gain or loss is based on the carrying value of the loans being transferred, allocated between the loans sold and retained interests based on their relative fair values at the date of transfer. As market prices are not available for such asset sales, the Credit Union estimates fair value based on the present value of expected future cash flows. Fair values are determined by making the maximum use of market-based inputs and taking consideration of discount rates, forward yield curves and loan specific factors such as expected credit losses and rates of prepayments. The Credit Union also calculates an estimated servicing liability for the ongoing administration of securitized loans, where ongoing administrative services are provided to the special purpose trust. The deferred servicing liability is recorded as an accrued expense and amortized to the consolidated statement of income over the estimated rate of loan prepayments.

The Credit Union has designated its retained interests in securitized loans as AFS and HFT assets. The HFT retained interest is accounted for at its estimated fair value on the balance sheet with changes in fair value recorded through net interest income. The AFS retained interest is accounted for at its estimated fair value on the balance sheet with changes in fair value recorded through OCI, net of interest income being recorded through the consolidated statement of income. The retained interest is amortized over the estimated remaining life of the underlying loans sold. Changes in estimated future cash flows are re-estimated at each balance sheet date and discounted to the estimated present value using the original effective interest rate with any adjustments recognized as increases or decreases to interest income.

Investments

Investments in equity shares are designated as AFS securities. The equity shares held by the Credit Union do not have quoted market values in an active market and are accounted for at cost. Realized gains and losses on sale and writedowns to reflect other-than-temporary impairments in value are included in net income. Dividends from equity securities are included in other income.

Property, premises, equipment and intangibles

Land is reported at cost. Property, premises, equipment and intangibles are stated at cost less any accumulated amortization. Amortization is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Land	not amortized
Office equipment and furniture	3 - 7 years
Computer equipment and software	3 - 10 years
Leasehold improvements	1 - 10 years

Property held for resale is valued at the lower of cost and estimated net realizable value.

(expressed in thousands of dollars)

Goodwill

Goodwill arose on the acquisition of various insurance brokerage businesses and represents the excess of the purchase price of the acquired business over the amount allocated to assets acquired less liabilities assumed, based on their fair values.

Goodwill is not amortized but is tested annually for impairment at a business reporting unit level. Goodwill is determined to be impaired when the fair value of a reporting unit is less than its carrying amount. If goodwill is found to be impaired, the Credit Union would recognize an impairment loss by writing down the goodwill to its fair value.

Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from interest rates, foreign exchange rates, or other financial indices.

In the ordinary course of business, the Credit Union enters into various derivative contracts, including interest rate swaps. Derivative financial instruments may be used to manage risk from the Credit Union's interest rate exposures as part of the Credit Union's asset/liability management program.

For derivative instruments designated as hedges, the Credit Union formally documents all relationships between hedging instruments and hedged items as well as the risk management objective and strategy for undertaking various hedge transactions. The Credit Union also formally assesses, at both hedge inception and on an ongoing basis, whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Credit Union designates instruments as fair value hedges where derivatives are used to hedge exposure to changes in the fair value of financial instruments with fixed interest rates. Changes in fair value attributed to the hedged risk are recognized in net interest income. Changes in fair value of the hedging derivative are also recognized in net interest income. Accordingly, any hedging ineffectiveness is recognized in net interest income.

The Credit Union designates instruments as cash flow hedges where derivatives are used to hedge exposures to instruments with exposure to variable cash flows by effectively converting variable rate financial instruments to fixed rate financial instruments. The effective portion of the change in fair value of the derivative instrument is recorded in OCI until the variability in cash flows being hedged is recognized in income, at which time an equivalent portion of the amount within AOCI is adjusted into income. Any ineffective portion of the change in fair value of the hedging derivative is accounted for within net interest income.

Derivative transactions that do not meet the hedge documentation and effectiveness criteria are accounted for at fair value on the consolidated balance sheet with changes in fair value being recorded in net income.

The Credit Union has several interest rate swaps designated as cash flow hedges as disclosed in note 18.

(expressed in thousands of dollars)

Embedded derivatives

All derivatives embedded in other financial instruments are valued as separate derivatives when: their economic characteristics and risks are not closely related to the host contract, the terms of the embedded derivatives are not the same as those of a free-standing derivative, and the combined instrument is not measured at fair value. Changes in fair value are recorded through the consolidated statement of income.

Embedded derivatives related to index-linked deposit obligations are measured at estimated fair value, with changes in fair value recorded through interest expense fully offset by an option contract to hedge the Credit Union's exposure to pay index-linked returns.

Income taxes

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

The Credit Union accounts for uncertain tax positions using the contingent liability model, whereby a provision is set aside only if it is considered likely that a payment will be required to be made.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at prevailing exchange rates at the consolidated balance sheet date. Revenue and expenses are translated using daily exchange rates. Realized and unrealized gains and losses arising from translation are included in the consolidated statement of income and comprehensive income.

Defined benefit plans

The Credit Union accrues its obligations under employee benefit plans (including pension plans and post-retirement plans) and the related costs, net of plan assets, for defined benefit plans. The accrued benefit assets (liabilities) are included in other assets (accounts payable and accrued liabilities). The Credit Union has adopted the following policies:

a) the cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, mortality and expected health care costs. The discount rate used to measure liabilities is derived from market rates as at the measurement date;

(expressed in thousands of dollars)

b) the expected return on plan assets is based on management's best estimate of the long-term expected rate of transitional obligations on adoption of Section 3461, *Employee Future Benefits*, ("Section 3461") and return on plan assets and a market related value of plan assets;

c) transitional obligations on adoption of Section 3461 are amortized over the estimated average remaining service period of employees active on adoption of the accounting standard;

d) past service costs from plan amendments are amortized on a straight-line basis over the estimated average remaining service period of employees active at the date of amendment;

e) the excess of net actuarial gains (losses) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the estimated average remaining service period of active employees. The estimated average remaining service period of the active employees covered by the pension plans is 10 years (2009 - 10 years). The estimated average remaining service period of the active employees covered by the post-retirement benefit plan is five years (2009 - five years); and

f) when the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Defined contribution plan

The Credit Union is a member of a multi-employer pension plan that is accounted for as a defined contribution plan. Contributions are expensed as incurred.

Fees and commission income

Service charges and foreign exchange transaction fees are recognized on an accrual basis when the service is performed.

Commission income is earned on the sale of insurance policies and is recognized as at the related insurance policy's effective date. The Credit Union is also entitled to contingent profit commission from insurance companies, which is recorded at the earlier of the period in which amounts can be reasonably estimated or the period in which the amounts are received. The Credit Union maintains an allowance, if required, for estimated policy cancellations and commission returns based upon the application of historical policy cancellation and commission return rates.

Investment management fees, mutual fund fees and financial planning fees are recorded at the date of sale on an accrual basis.

(expressed in thousands of dollars)

Equity and non-equity shares

Upon opening an account at the Credit Union, new members are required to purchase a minimum of 25 Membership equity shares (junior members - five shares). Membership equity shares are redeemable on demand by the member. Periodically, members may purchase Class F, G, H or I Preferred shares, as authorized by the Board of Directors, which are redeemable at the end of the time periods stated for that particular class of share. Accordingly, these classes of shares are recorded as member deposits.

Membership, Class C Investment, Class E Equity, and Preferred shares of the Credit Union are not subject to guarantee by the Credit Union Deposit Insurance Corporation of British Columbia ("CUDIC"). No Class H or I Preferred shares are issued. Dividends may be declared annually on Membership, Class C Investment, and Class E Equity shares at the discretion of the Board of Directors.

Members, periodically, as authorized by the Board of Directors, are permitted to purchase Class C Investment and Class E Equity shares. Redemption of Class C Investment and Class E Equity shares is subject to certain conditions and approval of the Board of Directors. Accordingly, they are recorded as members' equity.

Comparative figures

Certain prior year comparative figures have been reclassified to conform to the presentation adopted in the current year.

3 Loans to members

	2010 $	2009 $
Retail		
Residential mortgages	1,032,750	972,998
Personal loans	294,834	301,057
Commercial mortgages and loans	496,631	480,891
Net deferred transaction fees and related costs	(3)	(512)
Accrued interest	3,608	3,884
	1,827,820	1,758,318
Less: Total provision for credit losses	6,558	6,892
	1,821,262	1,751,426

(expressed in thousands of dollars)

Change in provision for credit losses

	2010			2009
	Residential mortgages and personal loans $	**Commercial mortgages and loans** $	**Total** $	**Total** $
Balance - Beginning of year	4,133	2,759	6,892	6,342
Loans written off in the year	(846)	(1,488)	(2,334)	(950)
Provisions made in the year	201	1,799	2,000	1,500
Balance - End of year	3,488	3,070	6,558	6,892
Specific provisions	386	1,617	2,003	1,863
General provision	3,102	1,453	4,555	5,029
Total provision for credit losses	3,488	3,070	6,558	6,892

Loans past due

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due.

	2010				2009
	1-29 days $	**30-89 days** $	**90 days and greater** $	**Total** $	**Total** $
Retail					
Residential mortgages	14,372	3,326	4,080	21,778	24,282
Personal	1,007	1,188	453	2,648	2,616
Commercial	695	35	11,089	11,819	12,875
	16,074	4,549	15,622	36,245	39,773
Impaired	-	-	8,310	8,310	6,216
Not impaired	16,074	4,549	7,312	27,935	33,557
	16,074	4,549	15,622	36,245	39,773

(expressed in thousands of dollars)

The fair value of the collateral held by the Credit Union as security for the above loans was $57,556 (2009 - $67,401). The Credit Union has estimated the fair value of collateral based on an updated assessment of the security appraisal undertaken at the original funding assessment or management's knowledge of the fair value of securities.

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

4 Loan securitizations

The Credit Union did not enter into any loan securitization arrangements in 2010. During 2009, the Credit Union securitized residential mortgages with principal outstanding of $27,665 and recognized gains on sale of $1,825. The gains are included in other income (note 11).

The Credit Union has an agreement with Central 1 to sell Canada Mortgage and Housing Corporation ("CMHC") insured mortgages for participation in the Canada Mortgage Bond Program, which are used by Central 1 to create mortgage-backed securities sold to Canada Mortgage Housing Trust, an independent special purpose entity. In past years, the Credit Union also securitized loans through other securitization vehicles and sold them directly to a special purpose entity.

The Credit Union's retained interests in securitized loans consist of a right to receive future cash flows arising after the investors in the special purpose entity have received the return for which they contracted and from credit enhancement provided to the special purpose entity in the form of cash collateral accounts. The investors and special purpose entities, as holders of the securitized mortgages, have recourse only to a cash collateral account, the mortgages securitized and cash flows from the securitized mortgages. The investors and the third parties have no recourse to the Credit Union's other assets for failure of debtors to pay when due. The Credit Union's retained interests are subject to credit, prepayment and interest rate risks on the securitized mortgages.

As part of these securitizations of mortgage receivables, the Credit Union retained servicing responsibilities. A servicing liability of $200 was recognized initially on new securitizations in 2009. Servicing liabilities amortized to income during the year amounted to $107 (2009 - $320).

The fair value of retained interests amounted to $969 at December 31, 2010 (2009 - $1,773). The carrying value of recognized servicing liabilities amounted to $167 at December 31, 2010 (2009 - $274).

(expressed in thousands of dollars)

During 2009, the Credit Union repurchased certain uninsured mortgage receivables that were previously securitized to an independent special purpose trust under a mortgage securitization program as a result of an offer from the trust to repurchase. The transaction was accounted for at fair value, with fair value determined using a discounted cash flow model that included maximum use of market observable inputs such as interest yield curves and estimates as to credit spreads. As a result, the Credit Union recognized mortgage receivables of $86,958 on the consolidated balance sheet and derecognized retained interests of $1,627 and $360 attributable to servicing liabilities. The premium on the mortgages was amortized using the effective interest method over the remaining mortgage term of maturity.

Key assumptions used in measuring the Credit Union's retained interests in securitized residential mortgages include the following:

	2010 **%**	**2009** **%**
Prepayment rate	25.00	25.00
Expected credit losses	0.00	0.00
Residual cash flows discount rate	2.93	2.84
Weighted average life (in years)	2.44	3.45

The following table presents the sensitivity of the fair value of retained interests resulting from two adverse changes in each key assumption as at December 31, 2010. The sensitivity analysis is hypothetical and should be used with caution as changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption may not be exact. Furthermore, the effect of a change in assumption on the fair value of retained interests is calculated without changing any other assumptions. Changes in one estimate may result in changes in another assumption, which may have an impact on the estimate of fair value.

	2010 **$**	**2009** **$**
Potential decrease in fair value due to the following hypothetical adverse changes		
Discount rate		
+10%	83	150
+20%	167	301
Repayment rate		
+10%	29	80
+20%	56	130

(expressed in thousands of dollars)

5 Investments

	2010 $	2009 $
Central 1 equity shares and accrued dividends	4,663	4,955
Other investments	1,027	1,093
	5,690	6,048

6 Property, premises, equipment and intangibles

	2010			2009
	Cost $	Accumulated amortization $	Net $	Net $
Office equipment and furniture	13,406	9,944	3,462	3,973
Leasehold improvements	8,893	4,332	4,561	5,185
Software - intangibles	7,445	5,816	1,629	1,945
Goodwill - intangibles	839	-	839	839
Property held for resale	616	-	616	525
Land and buildings	90	-	90	90
Automotive equipment	32	32	-	-
	31,321	20,124	11,197	12,557

Amortization expense for the year was $2,876 (2009 - $3,244).

7 Other assets

	2010 $	2009 $
Accounts receivable	6,493	6,190
Retained interests in securitized loans (note 4)	969	1,773
Prepaid expenses	3,047	3,710
	10,509	11,673

(expressed in thousands of dollars)

8 Borrowings

	2010		2009	
	Weighted average interest rate %	**Amount $**	**Weighted average interest rate %**	**Amount $**
Central 1 call loans	1.55	42,000	0.80	118,000

The Credit Union has available approved operating and customized financing facility aggregating $145,100 (2009 - $156,200). The available facilities are secured by an assignment of loans to members, accounts receivable and a demand debenture in favour of Central 1.

9 Member deposits

	2010 $	**2009 $**
Term deposits	1,044,018	904,961
Demand deposits	484,051	497,623
Registered savings plans	318,113	293,738
Member deposit shares (note 10(b))	19,211	25,663
Deferred transaction costs	(344)	(291)
Accrued interest	15,813	16,664
	1,880,862	1,738,358

The Credit Union holds funds in segregated accounts for members investing in self-directed registered savings plans and mutual funds. The value of publicly traded investments is determined using the quoted market amounts at the year-end date. These funds are not included in the consolidated balance sheet at December 31, 2010 and amount to $389,015 (2009 - $313,245).

(expressed in thousands of dollars)

10 Member deposit and members' equity shares

a) Authorized shares
(expressed in thousands of dollars except for value per share)

Unlimited number of shares with a par value and redemption value of $1 each:
- Class A Membership voting equity shares
- Class B Patronage voting equity shares
- Class C Investment non-voting equity shares
- Class D Non-equity shares

Unlimited Class E Equity voting, non-redeemable, non-cumulative, equity shares with a par value of $1 each

Unlimited Class F, G, H and I Preferred shares. Each class of Preferred share is issuable in Series (Series 1, 2 or 3). Each Series of each class can be offered in three, five, seven or 10-year terms. Each class of Preferred share is redeemable at the end of its term, is non-voting and is entitled to cumulative dividends at a rate set when issued.

b) Issued shares classified as member deposits (note 9) consist of the following:
(expressed in thousands of dollars except for number of shares)

	2010 **$**	**2009** **$**
4,841,741 (2009 - 5,020,432) Class A Membership equity shares	4,842	5,020
60,982 (2009 - 64,612) Class D Non-equity shares	61	65
12,235,168 (2009 - 17,602,650) Class F, Series 1-3 and Class G, Series 1, 3-to-10 year Preferred shares; the shares have cumulative dividends of 5.07% to 7.00%	12,235	17,602
Accrued dividends on Preferred shares	2,130	3,056
	19,268	25,743
Deferred transaction costs	(57)	(80)
	19,211	25,663

(expressed in thousands of dollars)

The Class F, Series 1, 2 and 3 and Class G, Series 1 Preferred shares are subject to redemption as follows:

	2010 **$**	**2009** **$**
2010	-	6,518
2012	312	309
2013	10,809	10,695
2015	1,366	1,354
2016	1,878	1,782
Less: Accrued dividends	(2,130)	(3,056)
	12,235	17,602

c) Issued shares classified as members' equity consist of the following:
(expressed in thousands of dollars except for number of shares)

	2010 **$**	**2009** **$**
5,101,372 (2009 - 5,358,612) Class C Investment equity shares	5,101	5,359
242,000 (2009 - 252,000) Class E Equity shares	242	252
	5,343	5,611

11 Other income

	2010 **$**	**2009** **$**
Service charges	5,593	6,246
Insurance commissions	4,659	4,849
Investment management	2,646	1,514
Loan fees	1,030	1,265
Foreign exchange	996	540
Other	60	389
Gain on sale of property, premises, equipment and intangibles	-	113
Securitization gain on sale of loans	-	1,825
	14,984	16,741

(expressed in thousands of dollars)

12 Other expenses

	2010 $	2009 $
Deposit insurance and other fees	1,285	1,288
Other	991	925
Professional services	733	719
Loss on sale of property, premises, equipment and intangibles	421	-
Central 1 dues	302	336
BC capital tax	91	390
	3,823	3,658

13 Pension plans

The Credit Union sponsors a number of pension plans and a post-retirement benefit plan covering eligible employees of the Credit Union and its subsidiaries.

The Multi-Employer Plan is administered on behalf of the Credit Union by Central 1 and accounted for as a defined contribution plan. Pension expense of $1,219 (2009 - $1,153) with respect to the Multi-Employer Plan has been charged to salaries and employee benefits in the consolidated statement of income.

A group RSP is administered by the Credit Union and accounted for as a defined contribution plan. Pension expense of $124 (2009 - $132) with respect to the group RSP has been charged to salaries and employee benefits in the consolidated statement of income.

The other pension plans are defined benefit plans and are referred to as the Prospera Plan, the Multiple Employer Plan and the Supplemental Retirement Plan. The Prospera Plan does not have any active members and accordingly a valuation allowance has been recorded against the accrued benefit asset.

The Post-Retirement Benefit Plan is also a defined benefit plan.

(expressed in thousands of dollars)

	Prospera Plan		Multiple Employer Plan		Supplemental Retirement Plan		Post-Retirement Benefit Plan	
	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $
Accrued benefit obligation								
Balance - Beginning of year	1,282	1,131	10,660	7,532	1,029	816	1,442	1,404
Current service cost	-	-	567	532	134	113	5	4
Past service cost	-	-	-	-	19	-	-	-
Interest cost	77	73	663	591	76	67	91	100
Benefits paid	(87)	(73)	(350)	(277)	(23)	(9)	(83)	(51)
Actuarial loss (gain)	248	151	1,108	2,282	41	42	166	(15)
Balance - End of year	1,520	1,282	12,648	10,660	1,276	1,029	1,621	1,442
Plan assets								
Fair value - Beginning of year	1,527	1,417	9,231	8,149	16	-	-	-
Actual return on plan assets	139	183	1,101	596	-	-	-	-
Employer contributions	39	-	793	763	4	16	-	-
Benefits paid	(87)	(73)	(350)	(277)	-	-	-	-
Fair value - End of year	1,618	1,527	10,775	9,231	20	16	-	-
Fund surplus (deficit)	98	245	(1,873)	(1,429)	(1,256)	(1,013)	(1,621)	(1,442)
Unamortized net actuarial loss (gain)	443	245	2,496	1,946	(178)	(248)	(57)	(243)
Unamortized past service costs	-	-	-	-	16		-	
Unamortized transitional (asset) obligation	(28)	(45)	(115)	(181)	-	-	146	340
Accrued benefit asset (liability) before valuation allowance	513	445	508	336	(1,418)	(1,261)	(1,532)	(1,345)
Valuation allowance against accrued benefit asset	(98)	(245)	-	-	-	-		-
Accrued benefit asset (liability) net of valuation allowance	415	200	508	336	(1,418)	(1,261)	(1,532)	(1,345)

The accrued benefit liability for the Supplemental Retirement Plan is secured by an irrevocable letter of credit issued by the Credit Union in the amount of $2,068 (2009 - $1,806).

Total cash payments for employee future benefits for 2010, consisting of cash contributed by the Credit Union to its funded pension plan and cash payments for benefits for unfunded post-employment benefit plans were $1,379 (2009 - $1,189).

The Credit Union measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was at December 31, 2010, and the next required valuation will be as of December 31, 2013.

(expressed in thousands of dollars)

Pension plan assets consist of:

	Prospera Plan		**Multiple Employer Plan**		**Supplemental Retirement Plan**		**Post-Retirement Benefit Plan**	
	2010 %	**2009 %**	**2010 %**	**2009 %**	**2010 %**	**2009 %**	**2010 %**	**2009 %**
Asset category								
Equity securities	63	65	58	58	n/a	n/a	n/a	n/a
Real estate	-	-	10	10	n/a	n/a	n/a	n/a
Debt securities	37	34	32	32	n/a	n/a	n/a	n/a
Cash and short-term	-	1	-	-	n/a	n/a	n/a	n/a
	100	100	100	100	-	-	-	-

The significant weighted average actuarial assumptions adopted in measuring the Credit Union's accrued benefit obligations are:

	Prospera Plan		**Multiple Employer Plan**		**Supplemental Retirement Plan**		**Post-Retirement Benefit Plan**	
	2010 %	**2009 %**	**2010 %**	**2009 %**	**2010 %**	**2009 %**	**2010 %**	**2009 %**
Discount rate	5.25	6.25	5.50	6.00	5.50	6.50	5.50	6.50
Expected long-term rate of return on plan assets	6.25	7.00	6.75	6.75	n/a	n/a	n/a	n/a
Rate of compensation increase	n/a	n/a	3.00	3.00	3.00	3.00	3.00	3.00

The assumed medical cost trend used in estimating the accumulated post-employment benefits obligation was 8% for extended health, 6% for MSP and 3% for Dental.

(expressed in thousands of dollars)

The net benefit (recovery) expense is as follows:

	Prospera Plan		Multiple Employer Plan		Supplemental Retirement Plan		Post-Retirement Benefit Plan	
	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $
Current service cost	-	-	567	533	134	113	5	4
Past service cost	-	-	-	-	4	-	-	-
Interest cost	77	73	663	591	76	67	91	100
Expected return on plan assets	(92)	(90)	(630)	(577)	-	-	-	-
Experience gains (losses)	248	151	1,101	2,281	(41)	(30)	(166)	16
Deferral of experience (losses) gains	(248)	(151)	(1,101)	(2,281)	41	30	166	(16)
Amortization of net actuarial gains (losses)	3	1	88	-	(29)	(98)	(20)	(22)
Amortization of transitional (asset) obligation	(17)	(17)	(66)	(66)	-	-	194	194
Decrease in valuation allowance provided against accrued benefit asset	(146)	(40)	-	-	-	-	-	-
Net benefit plan (recovery) expense	(175)	(73)	622	481	185	82	270	276

14 Income taxes

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

	2010 $	2009 $
Computed tax expense	3,182	2,305
(Decrease) increase resulting from		
Preferred rate amount deduction for credit unions	(1,673)	(1,277)
Non-taxable gains	(74)	(55)
Effect of tax rate changes and changes in future income tax asset	60	17
Other	(25)	(36)
	1,470	954

(expressed in thousands of dollars)

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are:

	2010 **$**	**2009** **$**
Future income tax assets		
Provision for credit losses	642	629
Deferred revenue	116	116
Pension, severance and long-term incentive accruals	336	398
Property, premises, equipment and intangibles - differences between net book value and undepreciated capital cost	228	227
Loss carry-forwards	47	46
	1,369	1,416
Future income tax liabilities		
Prepaid expenses	171	86
Retained interest on securitizations	43	94
Goodwill, client lists and licences	93	96
Other	53	71
	360	347
Net future income tax asset	1,009	1,069

15 Commitments and contingent liabilities

a) Commitments

Leases

Most of the Credit Union's premises are leased for varying terms. Current minimum annual payments are approximately $4,567 (2009 - $4,729) for each of the next five years and $20,843 (2009 - $23,777) in aggregate thereafter.

Letters of credit and other guarantees

Arising through its normal course of business, the Credit Union has outstanding letters of credit issued on behalf of members totalling $10,643 (2009 - $7,101) and has guaranteed credit card accounts on behalf of members totalling $nil (2009 - $605), which are secured by member term deposits or property mortgages.

b) Contingent liabilities

In the course of its business, various claims and legal proceedings may arise against the Credit Union. The Credit Union defends itself where appropriate and is currently of the opinion that it is likely to prevail; accordingly, no provision has been made in these financial statements.

(expressed in thousands of dollars)

16 Risk management

The Credit Union's risk management policies are designed to identify and analyze risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Risk management is carried out by a number of delegated committees reporting to the Board of Directors. The Board provides written principles for risk tolerance and overall risk management, and management reports to the Board on compliance with the risk management policies of the Credit Union. In addition, the Credit Union maintains an internal audit function, which is responsible for independent review of risk management and the Credit Union's control environment.

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and floating rates for various periods and seeks to earn an interest rate margin by investing these funds in high quality financial instruments - principally mortgages. The primary types of financial risk that arise from this activity are credit risk, liquidity risk, interest rate risk, foreign exchange risk and price risk.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the method used in managing those risks:

Activity	**Risk**	**Method**
Fixed rate savings products and funding activities involving fixed rate instruments	Sensitivity to changes in interest rates	Asset-liability matching and periodic use of derivatives
Fixed rate mortgages	Sensitivity to changes in interest rates	Asset-liability matching and periodic use of derivatives
Index linked deposit products	Sensitivity to changes in Canadian equity indices	Options
Foreign currencies	Sensitivity to changes in foreign currency	Asset-liability matching and investment limits

(expressed in thousands of dollars)

Credit risk

Credit risk is the risk of a financial loss occurring due to a Credit Union member's or counterparty's inability or refusal to fully honour the contractual obligations of a balance sheet or off-balance sheet financial instrument. This risk results from being a party to a financial operation with a counterparty. Provisions for credit losses are made for losses that have been incurred at the balance sheet date. Significant changes in the economy of British Columbia, specifically the Greater Vancouver, Fraser Valley and Okanagan areas of British Columbia, or deteriorations in lending sectors that represent a concentration within the Credit Union's loan portfolio may result in losses that are different from those provided for at the balance sheet date.

The classes of financial instruments to which the Credit Union is most exposed are loans to members, cash resources and derivatives. The following table presents the maximum exposure to credit risk of financial instruments including undrawn commitments of $108,457 (2009 - $232,416):

			2010	2009
Credit risk exposure	**Outstanding $**	**Undrawn commitments $**	**Total exposure $**	**Total exposure $**
Cash resources	168,776	-	168,776	159,704
Residential				
Mortgages	1,032,750	16,421	1,049,171	982,155
Loans	78,595	290	78,885	70,741
Line of credit and overdraft	216,239	17,224	233,463	399,138
Commercial				
Mortgages	426,904	24,816	451,720	433,759
Loans	31,346	2,355	33,701	24,179
Line of credit and overdraft	38,381	47,351	85,732	77,390
Accrued interest on loans	3,608	-	3,608	3,884
Loan transaction costs	(3)	-	(3)	(512)
Other assets	6,493	-	6,493	6,190
Total exposure	2,003,089	108,457	2,111,546	2,156,628

Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in member loans and advances and Treasury activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is centralized in the Investment and Lending Committee which reports to the Board of Directors and the respective operating units of the Credit Union.

Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member.

(expressed in thousands of dollars)

The Investment and Lending Committee is responsible for approving and monitoring the Credit Union's tolerance for credit exposures, which it does through review and approval of the Credit Union's lending policies and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits, and prior to advancing funds to a member, an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and establishes that loans are within the member's ability to repay, rather than relying exclusively on collateral.

Loans to members consist of $1,032,750 (2009 - $972,998) residential loans which are fully secured on residential property with a further $231,901 (2009 - $253,546) secured on personal loans. Loans to members also include $63,063 (2009 - $47,538) of unsecured loans, which principally consist of personal loans and lines of credit.

The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The credit quality of the commercial loan portfolio for those loans that are neither past due nor impaired can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the probability of a default using internal rating tools and takes into account both statistical analysis and the experience and judgement of the Credit department. Commercial loans are divided into segments and are regularly reviewed and updated as appropriate.

Credit risk within the Treasury department arises from the investments in cash resources held by the Credit Union to meet regulatory and internal liquidity requirements and for general business purposes. This aspect of credit risk is principally managed by the Treasury department, which reports to the Investment and Lending Committee. The Treasury department managed assets consist of cash resources held with Central 1.

(expressed in thousands of dollars)

Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity threshold at all times, based on total members' deposits and non-equity shares. At December 31, 2010, the Credit Union's liquidity exceeded the required level. The level of restricted cash resources required is based on total deposits and other debt liabilities. Included in cash resources are restricted cash resources of $156,333 (2009 - $150,947). The Credit Union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, securitizations and asset-liability maturity management techniques. Management monitors rolling forecasts of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union also maintains a borrowing facility with Central 1 of $145,100 as an integral part of its liquidity management strategy as disclosed in note 8.

Contractual repricing and maturity risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of interest-sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are summed to show the interest rate and maturity gap.

Market risk

a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Interest margins reported in the consolidated statement of income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mis-match of interest rate repricing that may be undertaken, which is monitored by the Credit Union's Treasury department and reported to the Asset and Liability Committee ("ALCO"), which is responsible for managing interest rate risk.

In managing interest rate risk, the Credit Union relies primarily upon use of asset-liability and interest rate sensitivity simulation models. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the repricing of the Credit Union's financial instruments. The Credit Union's derivative instruments as at the year-end are disclosed in note 18 of the financial statements.

(expressed in thousands of dollars)

Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a 12-month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to the ALCO. Based on current differences between financial assets and financial liabilities as at December 31, 2010, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $1,576 (2009 - $3,645) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest income by $2,422 (2009 - $667) over the next 12 months.

Other types of interest rate risk may involve basis risk. The risk of loss arising from changes in the relationship of interest rates that have similar but not identical characteristics, for example the difference between Prime rates and the Canadian Deposit Offering Rate ("CDOR"), and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans) are also monitored on a regular basis and are reported to the ALCO.

b) Foreign exchange risk

Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial instruments for an extended period. Foreign denominated deposits are matched with foreign denominated liquidity to minimize any exposure. Foreign exchange revenues earned by the Credit Union are primarily generated by crystallized spreads on dollars exchanged with members.

c) Price risk

The Credit Union is exposed to price risk on retained interests on securitized residential mortgage pools where the Credit Union's residual interest in those pools consists of an exchange of fixed interest cash flows of the Trust with floating rate cash flows based on the Trust's overall cost of funds. The Credit Union manages its exposure to price risk as an integral part of its asset-liability matching risk management. Disclosures of the potential exposures on the amount of retained interests being amortized through the income statement are included in note 4.

Capital management

The Financial Institutions Act regulations prescribe a minimum required capital adequacy ratio of 8%. As at December 31, 2010, the Credit Union has met this requirement. Capital is managed in accordance with policies established by the Board. Management regards a strong capital base as an integral part of the Credit Union's strategy. The Credit Union has a capital plan to provide a long-term forecast of capital requirements. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

(expressed in thousands of dollars)

17 Contractual repricing and maturity schedule

Contractual repricing and maturity risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of interest-sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are summed to show the interest rate sensitivity gap.

	Weighted average rate %	Variable rate $	Within 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Non-interest sensitive $	Total $
Assets								
Cash resources	2.79%	-	15,885	32,499	115,987	-	4,405	168,776
Loans to members	4.27%	695,485	52,420	89,784	982,079	4,824	(3,330)	1,821,262
Investments	2.00%	4,596	-	-	-	-	1,094	5,690
Other	2.06%	969	-	-	-	-	21,746	22,715
		701,050	68,305	122,283	1,098,066	4,824	23,915	2,018,443
Liabilities and Members' Equity								
Central 1 call loans	1.55%	-	42,000	-	-	-	-	42,000
Member deposits	1.92%	537,928	131,724	616,533	570,903	1,390	22,384	1,880,862
Other		-	-	-	-	-	95,581	95,581
		537,928	173,724	616,533	570,903	1,390	117,965	2,018,443
On balance sheet mismatch		163,122	(105,419)	(494,250)	527,163	3,434	(94,050)	-
Off balance sheet mismatch			(217,664)		217,664			-
Total mismatch		163,122	(323,083)	(494,250)	744,827	3,434	(94,050)	-

18 Derivatives

The table below provides an analysis of the Credit Union's derivative-related credit exposure:

	2010		2009	
	Notional amount $	**Current replacement amount $**	**Notional amount $**	**Current replacement amount $**
Equity options	17,876	1,871	18,489	2,486
Interest rate swaps	217,664	489	223,935	622

Equity options are transactions in which the Credit Union manages its exposure to changes in the value of index-linked deposit products. Equity options purchased by the Credit Union, for a premium, provide the right, but not the obligation, to buy or sell to the writer of the option an underlying stock index. These option contracts are transacted on an over-the-counter basis.

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates.

(expressed in thousands of dollars)

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposure to the Credit Union. Notional amounts are not exchanged.

Current credit exposure is limited to the amount of loss that the Credit Union would suffer if every counterparty to which the Credit Union was exposed were to default at once, which is represented by the current replacement cost of the fair value of all outstanding contracts.

19 Fair value of financial instruments

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

			2010			2009
	Book value $	**Fair value $**	**Difference $**	**Book value $**	**Fair value $**	**Difference $**
Assets						
Cash resources	168,776	171,392	2,616	159,704	163,315	3,611
Loans to members	1,821,265	1,843,536	22,271	1,750,817	1,777,510	26,693
Investments	5,690	5,690	-	6,048	6,048	-
Other financial assets	7,462	7,462	-	7,963	7,963	-
Liabilities						
Borrowings	42,000	42,000	-	118,000	118,000	-
Member deposits	1,881,263	1,887,690	6,427	1,738,729	1,750,761	12,032
Accounts payable	9,591	9,591	-	9,356	9,356	-

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act and is best evidenced by a quoted market price.

The fair values of loans and member deposits with variable rates of interest approximate their carrying values since these instruments reprice to market frequently. On that basis, fair value approximates carrying value, net of any general or specific loan loss provision.

As many of the Credit Union's financial instruments lack an available trading market, the fair values of loans and member deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of instruments. The Credit Union adjusts the fair value of loans and deposits with fixed terms to take account of any significant changes in credit risk using observable market inputs in determining the counterparty credit risk of loans and entity level credit risk of deposits, respectively. The inputs to the valuation model for fixed rate loans include scheduled loan amortization rates, estimated rates of repayment with the future cash flows discounted using current market rates for equivalent groups of mortgages or loans. The future cash flows on fixed rate deposits and fixed rate borrowings are discounted to their estimated present value using a discount rate based on an appropriate interest yield curve. Other inputs may include the addition of an interest rate spread to incorporate an appropriate risk premium over market rates with a subsequent adjustment for any significant changes in credit risk.

(expressed in thousands of dollars)

The fair values of loans with variable rates of interest approximate their carrying values since the interest rates of these instruments reprice for changes in prime interest rates frequently. The Credit Union adjusts its valuation model to take account of changes in credit spreads, net of any general or specific loan loss provision.

The fair values of over-the-counter derivatives, which the Credit Union periodically uses for risk management purposes, incorporate changes in the appropriate interest yield curve or appropriate market rate in the estimation of fair value. The fair values are also adjusted to take account of significant changes in credit risk.

The fair value of financial instruments traded in active markets is obtained by reference to quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by the use of valuation techniques which use market based inputs, where available, or non-market based inputs.

The Credit Union hedges a portion of interest cash flow risk arising from its mortgage book using interest rate swaps. It accounts for certain of these swaps as economic hedges with changes in fair value swaps recorded to the income statement. Other interest rate swaps, where designated as hedging instruments in a cash flow hedging relationship with accompanying hedging documentation and effectiveness measurement tests in place at the outset of the hedging relationship, are accounted for as cash flow hedges. Interest rate swaps accounted for as economic hedges with a notional value of $57,664 (2009 - $163,935) and a fair value of $242 (2009 - $342) were outstanding as at December 31, 2010. Interest rate swaps accounted for as cash flow hedges held a notional value of $160,000 (2009 - $60,000) and a fair value of $247 (2009 - $280). The effective portion of the hedges amounting to $(15) (2009 - $280) was recognized in AOCI.

The following table summarizes the valuation methods used to measure the fair value of financial instruments which are accounted for at fair value on the Credit Union's consolidated balance sheet as at December 31, 2010:

	2010		
	Quoted market price $	**Valuation technique - market observable inputs $**	**Valuation technique - non-market observable inputs $**
Financial assets			
Cash resources	-	168,776	-
Derivatives	-	489	-
Retained interests	-	-	969
Financial liabilities			
Index-linked embedded derivatives	-	1,871	-
	-	171,136	969

(expressed in thousands of dollars)

			2009
	Quoted market price $	**Valuation technique - market observable inputs $**	**Valuation technique - non-market observable inputs $**
Financial assets			
Cash resources	-	159,704	-
Derivatives	-	622	-
Retained interests	-	-	1,773
Financial liabilities			-
Index-linked embedded derivatives	-	2,486	
	-	162,812	1,773

The fair values of member deposits with variable rates of interest approximate their carrying values since these instruments reprice to market frequently. On that basis, fair value of each individual deposit approximates carrying value, since the fair value cannot be less than the maturity amount.

20 Other information

At December 31, 2010, outstanding loans to directors, executive management and employees with credit-granting authority of the Credit Union amounted to $28,761 (2009 - $27,595). All loans to directors, executive management and employees of the Credit Union are subject to the credit policies established for all members. Credit Union employees and executive management may receive special rates or other considerations with respect to loans at the Credit Union. Directors do not receive special rates or other considerations with respect to loans at the Credit Union.

21 Supplementary cash flow information

During the year, the Credit Union paid the following amounts:

	2010 $	**2009 $**
Interest	34,691	47,717
Dividends paid	1,079	1,312
Income taxes	741	672