

# 2006 ANNUAL REPORT

GULF AND FRASER FISHERMENS' CREDIT UNION



we make dreams happen.

# WE MAKE DREAMS HAPPEN.

At G&F Financial Group, our objective is to help make your financial goals a reality. We invest in our membership, our communities and our people. We work passionately on a daily basis to ensure the sustainable growth of our credit union by establishing a growing branch network. We continually innovate to create new products and find new ways to deliver superior member service. Most importantly, we make a difference in the community as a responsible corporate citizen.

Through our actions, we hope to inspire optimism, promote value and make a positive impact everywhere we engage.

We are the credit union where members belong.



fountain of dreams

## BOARD OF DIRECTORS' REPORT

On behalf of the Board of Directors of Gulf and Fraser Fishermens' Credit Union, I am pleased to report that 2006 was a year of exceptional performance for our credit union. With the launch of our new vision, our team has displayed a strong commitment to this vision as we strive to make G&F Financial Group a credit union where members belong. As a result of our collective efforts, the credit union once again experienced record growth and posted solid earnings, furthering our efforts to build for the future of the credit union, our members and the communities in which we operate.

### Membership Rewarded

At G&F Financial Group, we recognize the importance of sharing the financial success of the credit union with our members. That's why we're committed to offering more than competitive rates on our products and services. Once again, the Board of Directors declared a 5% dividend on Membership Equity Shares, a 1% dividend on Non-Equity Shares, plus an additional 1% Patronage Dividend/Rebate on savings and personal loans. Over \$555,000 was returned to members in the form of dividends on equity and non-equity shares and in patronage rebates for loans and deposits for 2006. Returning income through rebates and dividends to our members acknowledges that the success of our credit union can only be achieved with their continued support.

As G&F Financial Group grows, making a difference in the community continues to be a key objective. In 2006, monetary commitment through sponsorships, donations, scholarships and other initiatives increased to almost \$400,000. Employee contributions to the United Way increased this year as well: with the G&F Financial Group Foundation matching the employee contribution, we were able to give over \$51,000 to United Way to benefit a variety of causes. Our increased presence at local community events also illustrated the staff's dedication to making a positive impact in the communities we serve.

This high level of enthusiasm in community investment and volunteerism has not gone unnoticed. The New Westminster and Port Coquitlam branches were both recognized in their respective communities. Nominated for three years running, the New Westminster branch was awarded the *Community Spirit Award* for the second time and also received the *Business of the Year Award* from the City of New Westminster. The Port Coquitlam branch was also recognized by their community with a *Spirit of Workplace Leadership Award* for their work with a variety of organizations, including the Eagle Ridge Hospital Foundation and the Terry Fox Foundation.

As we move forward into a new fiscal year, we are mindful of the challenges and excited about the potential for growth in the years ahead. At this time, the Board of Directors would like to thank the management and staff for their exceptional efforts during the past year. Their continued commitment to superior service and products and dedication to creating a positive impact in the community is one of the major reasons why G&F Financial Group is *where members belong*. In closing, the Board would also like to thank the membership for their support and patronage in 2006, and is looking forward to our continued partnership in the years to come.

Respectfully submitted,



Vince Fiamengo  
Chair, Board of Directors



### Board of Directors

**Vince Fiamengo**  
President and Chair

**Aubrey Searle**  
First Vice President

**Lewis Bublé**  
Second Vice President

#### Directors:

**Joe Boroevich**

**Vila Nova Carvalho**

**Christine Dacre**

**Brian Hamaguchi**

**Jim Heeps**

**Ed MacIntosh**

**Howard Normann**

**Jayne Roberts**

**John Secord**

**Al Wagner**

**Gary Williamson**

**Mercedes Wong**



## CHIEF EXECUTIVE OFFICER'S REPORT

Looking back on last year, we can be proud of the many accomplishments of our credit union. Not only did we achieve exceptional financial results, the management team of G&F Financial Group also kept a clear focus on meeting the ever-changing needs of our membership, our staff and the communities we serve. With a renewed commitment to the personal development of our employees and to service excellence for our members, G&F Financial Group is doing what we feel is crucial to be successful and distinctive in the financial services industry.

Strengthened by the successful introduction of a new corporate vision early in 2006, G&F Financial Group enjoyed the benefits of a solid, clear identity, resulting in continued development throughout our organization. With our excellent growth as a foundation, we continued to build our branch network, opening a location in Cloverdale to meet the needs of existing members in the area and attract new members in this ever-growing community.

### Record Growth

G&F Financial Group once again maintained strong financial margins and net income for 2006. Total assets grew by almost 14% to \$855 million dollars on balance sheet, with total funds under administration increasing to \$928 million. Although the hot housing market of the last few years is finally showing signs of slowing, strong demand for both retail and commercial loans has continued to fuel the growth of our loan portfolio. With excellent results posted for both Retail and Commercial Credit, the total loan portfolio grew by over \$104 million, an increase of 15.6% over the record breaking pace set last year. Our deposit portfolio also exhibited a healthy increase, with member accounts growing 9.7% to end the year at just under \$750 million.

The 2006 year end result of over \$4.65 million in operating income allowed retained earnings to increase by a very respectable 8% over last year. In addition to allocating \$500,000 to our loan loss provision to provide protection against a potential housing slowdown, significant investments were also made in technology, training and in the continued expansion of our branch network to ensure long-term growth and sustainability.

### Service Excellence

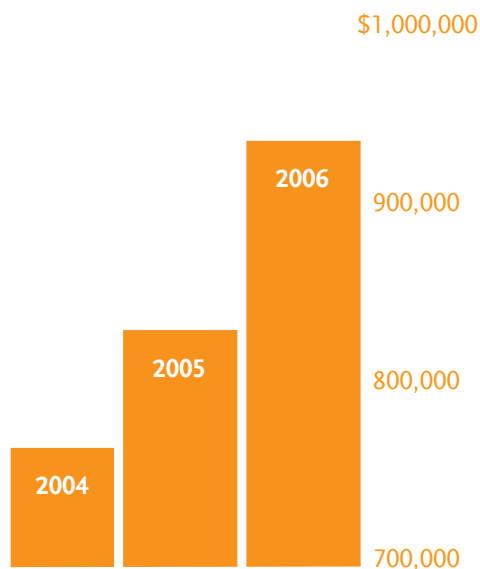
While member feedback tells us that members rate our service comparatively high, we will not become complacent but continue our efforts to meet and, whenever possible, exceed the expectations of our members. Only by providing the financial products and services as well as the knowledge and assistance our members need at every stage of their life, will we remain the credit union where members belong.

In closing, I would like to extend my sincere appreciation to the Board of Directors, staff and management for their extensive efforts and dedication over the last 12 months. Looking towards the future, our commitment to our members and to the achievement of our corporate objectives will be crucial to our continued success. I would also like to thank the members of G&F Financial Group for your continued support. Truly partners in our ongoing growth and success, only with your lasting dedication have we become the strong financial institution we are today.

Respectfully submitted,

Richard Davies  
Chief Executive Officer

### Assets under Administration



## MISSION STATEMENT

G&F FINANCIAL GROUP IS A PROGRESSIVE ORGANIZATION THAT CREATES OPPORTUNITIES BY INVESTING IN OUR PEOPLE, OUR MEMBERS AND OUR COMMUNITIES.

TOGETHER WE MAKE DREAMS HAPPEN.

## RESEARCH AND INNOVATION — A CATALYST FOR SUCCESS AND GROWTH

Understanding your financial needs has always been an important way for us to determine how to make your dreams happen. Research, such as our *2006 Member Satisfaction Survey*, gives us greater insight into what you want and look for when managing your finances. Ultimately, you benefit from innovative and practical solutions while our credit union grows from your patronage and satisfaction.

In previous member satisfaction surveys, we became aware of the need to expand our branch network to accommodate our growing membership and communities. We also saw the need for new products and ways to give greater attention and deliver a consistent approach to in-branch member service.

### January – December

#### New Personal Account Managers

The hiring of four new Personal Account Managers offered members additional access to financial planning, empowering members to make informed investment decisions.

### October

#### High Interest Savings Account

The introduction of the High Interest Savings Account gave members greater flexibility and control over their savings with some of the most competitive rates in the industry.

## 2006: A YEAR IN REVIEW

### November

#### 2006 Member Satisfaction Survey

The survey provided valuable insight into members' needs and measured results of our new service standards implementation. Member participation was at an all-time high.

### May

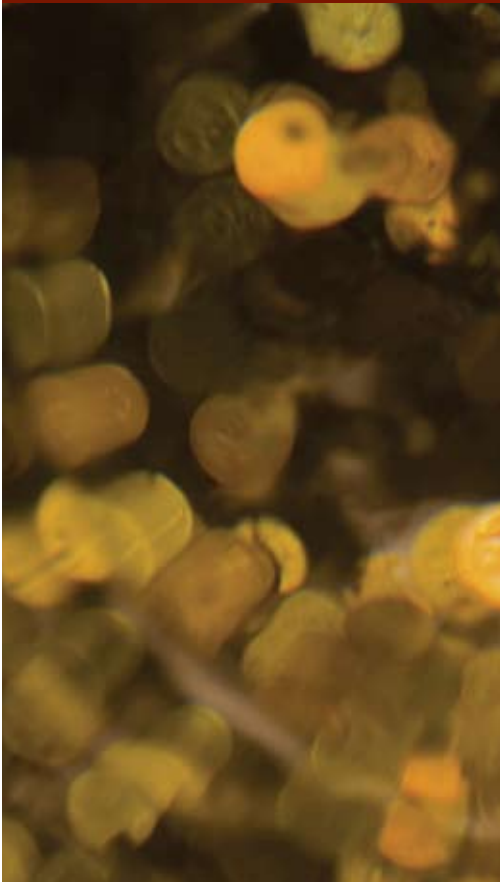
#### Re-launch of website and online banking

Members can now find information more easily with separate sections for personal and business banking. Members can also search for information within the G&F Financial Group website without having to open separate windows on their computer while logged in to online banking.

### December

#### Cloverdale Branch Grand Opening

The grand opening of the Cloverdale branch offered increased access to members in Surrey, Langley, White Rock and other areas.

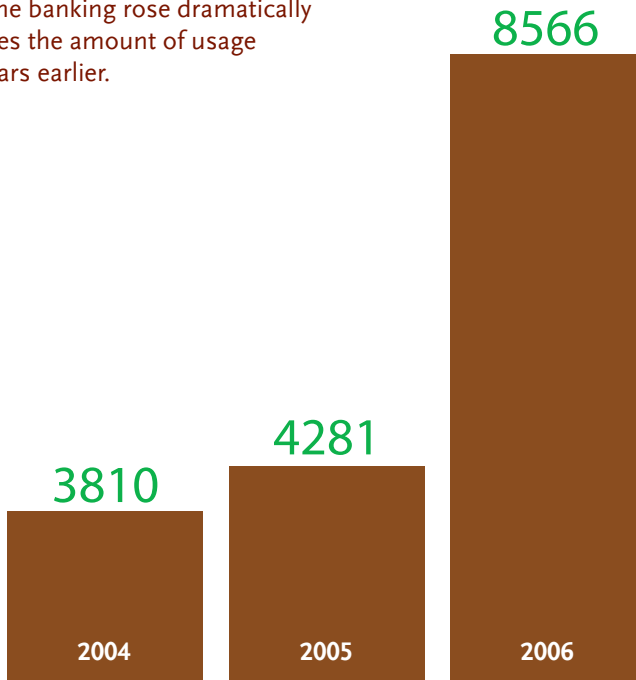


### Member Satisfaction Survey

The results of the 2006 Member Satisfaction Survey were overwhelmingly positive. According to November's survey, member satisfaction is at an all-time high since the merger with United Savings Credit Union in 2004. Most members also perceived that G&F Financial Group delivers better customer service than the other financial institutions where they bank, and over 90% surveyed find our staff knowledgeable and accurate. We will strive to maintain and, where possible, improve these results in the coming years. Your positive feedback reflects our continued commitment to your priorities and our dedication to your financial goals and dreams.

### MemberDirect online banking usage

Our members' use of online banking rose dramatically in 2006, with over two times the amount of usage compared to only a few years earlier.



### What you say about us:





wish upon a star



**2006 CONSOLIDATED  
FINANCIAL STATEMENTS**

# AUDITORS' REPORT

## To the Members of Gulf and Fraser Fishermen's Credit Union:

We have audited the consolidated balance sheet of Gulf and Fraser Fishermen's Credit Union as at December 31, 2006, and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating 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, 2006, and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.



**CHARTERED ACCOUNTANTS**

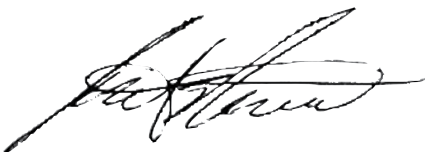
Vancouver, BC  
February 2, 2007

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These consolidated financial statements have been prepared by the management of Gulf and Fraser Fishermen's Credit Union which is responsible for their reliability, completeness and integrity. They were developed in accordance with requirements of the Financial Institutions Act of British Columbia and conform in all material respects with Canadian generally accepted accounting principles. The financial information presented in the annual report is consistent with the consolidated financial statements.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that financial records are complete and accurate so as to safeguard the assets of the Credit Union. These systems provide assurance that all transactions are authorized and proper records are maintained. Internal audit procedures provide management with the ability to assess the adequacy of these controls. In addition, they are reviewed by the Credit Union's external auditors.

The Board of Directors has approved the consolidated financial statements. The Audit Committee of the Board has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. Berris Mangan, Chartered Accountants, the independent external auditors appointed by the membership, examined the consolidated financial statements of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full and free access to the management and staff of the Credit Union and the Audit Committee of the Board. Their report appears as above.



**Richard Davies**  
Chief Executive Officer



**William Kiss**  
Chief Financial Officer

# CONSOLIDATED BALANCE SHEET

Year Ended December 31, 2006 (in thousands of dollars)

ASSETS	2006	2005
Cash resources	\$66,526	\$68,462
Loans (Notes 1(b) and 2)	773,410	669,064
Investments (Notes 1(c) and 3)	2,946	2,895
Receivables and prepaid expenses	1,846	728
Training trust fund (Note 4)	–	162
Premises and equipment (Notes 1(d) and 5)	9,786	8,362
Future income tax asset (Note 10)	524	825
	<u>\$855,038</u>	<u>\$750,498</u>
<b>LIABILITIES</b>		
<b>Deposits</b>		
Deposits withdrawable on demand	\$234,284	\$183,809
Term deposits	333,523	320,850
Registered savings plans (Note 6)	166,965	165,853
Accrued interest	10,276	8,018
<b>Share savings (Note 7)</b>		
Members' non equity shares	970	1,115
Members' equity shares	3,786	3,807
Dividends payable (Note 1(f))	189	225
<b>Total members' accounts</b>	<u>749,993</u>	<u>683,677</u>
Loan payable (Note 13)	54,982	20,500
Accounts payable and other liabilities (Note 8)	3,170	2,618
Patronage refund payable (Note 1(f))	367	485
Training trust fund (Note 4)	–	162
	<u>808,512</u>	<u>707,442</u>
<b>MEMBERS' EQUITY</b>		
<b>Contributed Surplus</b>	17,291	17,291
<b>Retained earnings (Note 9)</b>	29,235	25,765
	<u>46,526</u>	<u>43,056</u>
	<u>\$855,038</u>	<u>\$750,498</u>
Commitment (Note 11)		
Contingent liability (Note 21)		

Approved by the Directors



Vince Fiamengo,  
Director



Joseph Boroevich,  
Director

# CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended December 31, 2006 (in thousands of dollars)

<b>Financial Income</b>	<b>2006</b>	<b>2005</b>
Loan interest	\$42,057	\$33,326
Investment and cash resource income	3,050	2,939
	<b>45,107</b>	<b>36,265</b>
<b>Financial Expenses</b>		
Interest on members' deposits	20,704	16,138
Interest on borrowed money	1,939	327
	<b>22,643</b>	<b>16,465</b>
<b>Financial Margin</b>	<b>22,464</b>	<b>19,800</b>
<b>Other Income (Expense)</b>		
Member Services Income	4,386	4,645
Other Income	790	1,010
Provision for doubtful loans	(500)	–
	<b>4,676</b>	<b>5,655</b>
<b>Operating Margin</b>	<b>27,140</b>	<b>25,455</b>
<b>Operating Expenses</b>		
Salaries and employee benefits	12,333	11,343
Office	2,438	2,283
Occupancy	1,821	1,861
Data processing	1,472	1,391
Advertising and promotion	1,022	836
Professional and other services	930	261
Other	606	565
Capital tax	504	476
Amortization	1,363	1,348
	<b>22,489</b>	<b>20,364</b>
<b>Income From Operations</b>	<b>4,651</b>	<b>5,091</b>
<b>CUDIC Special Assessment</b>	–	(1,846)
<b>Stab Central Special Dividend</b>	–	1,776
<b>Donation To G&amp;f Financial Group Foundation</b>	(100)	(100)
<b>Distribution To Members (Note 1(f))</b>	(520)	(730)
<b>Income Before Income Taxes</b>	<b>4,031</b>	<b>4,191</b>
<b>Income Taxes (Recovery) (Note 10)</b>		
Current	395	837
Future	301	(20)
	<b>696</b>	<b>817</b>
<b>Net Income For Year</b>	<b>3,335</b>	<b>3,374</b>
<b>Retained Earnings At Beginning Of Year</b>	<b>25,765</b>	<b>22,295</b>
<b>Withdrawals From Training Trust Fund</b>	<b>135</b>	<b>96</b>
<b>Retained Earnings At End Of Year</b>	<b>\$29,235</b>	<b>\$25,765</b>



# CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2006 (in thousands of dollars)

	2006	2005
<b>OPERATING ACTIVITIES</b>		
Net income for the year	\$3,335	\$3,374
Adjustments:		
Amortization	1,363	1,348
Provision for doubtful loans	500	–
Future income taxes (recovery)	301	(20)
	5,499	4,702
Changes in non cash working capital:		
Decrease (increase) in:		
Accrued interest on loans	(357)	(216)
Accounts receivable and prepaid expenses	(1,118)	473
Increase (decrease) in:		
Accrued interest on deposits	2,258	878
Accounts payable and other liabilities	552	(716)
	6,834	5,121
<b>INVESTING ACTIVITIES</b>		
Decrease in property acquired in settlement of loans	–	248
Disposition (Acquisition) of investments	(51)	133
Increase in loans	(104,489)	(93,222)
Acquisition of premises and equipment	(2,804)	(1,640)
Proceeds on disposition of equipment	17	6
Withdrawals from training trust fund	135	96
	(107,192)	(94,379)
<b>FINANCING ACTIVITIES</b>		
Increase in members' accounts	64,094	37,580
Increase in loan payable	34,482	20,500
Increase in dividends payable	(36)	2
Increase (decrease) in patronage refund payable	(118)	85
	98,422	58,167
<b>DECREASE IN CASH</b>	<b>(1,936)</b>	<b>(31,091)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>68,462</b>	<b>99,553</b>
<b>CASH, END OF YEAR</b>	<b>\$66,526</b>	<b>\$68,462</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2006 (all tabular amounts are in thousands of dollars)

## 1. SIGNIFICANT ACCOUNTING POLICIES

### a) Principles of Consolidation

The consolidated financial statements include the accounts of Gulf and Fraser Fishermen's Credit Union (the "Credit Union"), Gulf and Fraser Insurance Services Ltd. and Gulf and Fraser Holdings Ltd. Gulf and Fraser Insurance Services Ltd. is a wholly owned subsidiary of the Credit Union. Gulf and Fraser Holdings Ltd. is a wholly owned subsidiary of Gulf and Fraser Insurance Services Ltd.

### b) Loans and Revenue Recognition

Loans are stated net of an allowance for doubtful loans. Interest income from loans is recorded on the accrual method, except where a loan is impaired.

An allowance is provided on loans for which collection is doubtful in management's opinion. The allowance consists of specific and general provisions. The specific provision is determined on the basis of specific loans which may not be fully collectible. The specific provision is the difference between the carrying value of an impaired loan and its estimated realizable amount. The general provision is determined by management's opinion based on historical loss experience, current economic conditions and trends, and known risks in the loan portfolio. Loans determined to be uncollectible are written off.

### c) Investments

Investments are carried at cost. Gains and losses are taken into earnings when realized, except for permanent impairments in the value of investments. Permanent impairments are charged against earnings in the year that the investments are determined to have experienced a decline in value which is other than temporary.

### d) Amortization

Amortization is provided for on the following basis:

<b>Building</b>	straight line over 25 – 45 years
<b>Furniture and equipment</b>	straight line over 2 – 10 years
<b>Leasehold improvements</b>	straight line over 5 years

The Credit Union reviews for the impairment of property and equipment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from expected future cash flows, and makes any appropriate adjustments to the carrying amount at that time.

### e) Derivative Financial Instruments

Derivative instruments are contracts that require or provide the opportunity to exchange cash flows determined by applying certain rates, indices or changes therein to notional contract amounts. Derivatives of the Credit Union comprise interest rate swaps and cross currency swaps used only for hedging purposes to manage interest rate and foreign exchange risks.

Interest rate swaps that qualify for hedge accounting are recorded on the accrual basis. Income and expense on these derivative instruments are accrued for and recognized in interest income or expense in the consolidated statement of earnings, over the term of the hedging relationship. Realized gains and losses from the settlement or the early termination of hedge contracts are deferred and amortized over the remaining original life of the hedged item. When the hedged item is sold or terminated early, any realized or unrealized gain or loss on the derivative is recognized in income.

### f) Distribution To Members

Distribution to members consists of dividends and patronage refunds. Distributions are accounted for by a charge to earnings in the year of declaration by the Board of Directors.

### g) Future Income Taxes

The Credit Union and its subsidiaries follow the liability method of accounting for income taxes. Under this method, a current income tax liability is recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, as well as for the benefit of tax losses available to be carried forward to future years that are likely to be realized. 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.

### h) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date the financial statements and the reported amount of revenues and expenses during the reporting year. Actual results could differ from those estimates.

## 2. LOANS

	2006	2005
Residential mortgages	\$457,363	\$396,904
Commercial mortgages	211,628	177,346
Less: syndicated and sold loans	(6,171)	(5,419)
	<u>662,820</u>	568,831
Other loans	23,855	32,812
Lines of credit	87,858	68,878
Accrued interest	2,204	1,847
	<u>776,737</u>	672,368
Less: allowance for doubtful loans	(3,327)	(3,304)
	<u>\$773,410</u>	\$669,064

## 3. INVESTMENTS

	2006	2005
Credit Union Central of BC	\$2,364	\$2,421
Other	582	474
	<u>\$2,946</u>	<u>\$2,895</u>

Shares in Credit Union Central of British Columbia are a required investment condition of membership in Credit Union Central of British Columbia and provincial legislation. The amount of the investment is determined based on the Credit Union's membership and asset base and is realizable only on withdrawal from membership.

## 4. TRAINING TRUST FUND

Assets of the Training Trust Fund are available to the Credit Union only for prescribed activities relating to the training of credit union employees. At December 31, 2006, all funds have been utilized.

## 5. PREMISES AND EQUIPMENT

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Land	\$2,930	\$ –	\$2,930	\$2,930
Buildings	4,582	1,643	2,939	3,243
Furniture and equipment	6,425	2,839	3,586	1,842
Leasehold improvements	1,526	1,195	331	347
	<u>\$15,463</u>	<u>\$5,677</u>	<u>\$9,786</u>	<u>\$8,362</u>

## 6. REGISTERED SAVINGS PLANS

	2006	2005
Registered Retirement Savings Plans	\$128,563	\$128,766
Registered Retirement Income Funds	36,110	35,062
Registered Education Savings Plans	2,292	2,025
	<u>\$166,965</u>	<u>\$165,853</u>



## 7. SHARE SAVINGS

Members' non equity shares are withdrawable on demand by the member and may be redeemed by the Credit Union.

Members' equity shares are voting, have a par value of \$1 and may be withdrawn by the member subject to certain restrictions. Equity shares may be issued in the form of patronage refunds or dividends by the Credit Union.

## 8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2006	2005
Accounts payable and accrued liabilities	\$2,916	\$2,367
Deferred revenue	254	251
	<b>\$3,170</b>	<b>\$2,618</b>

## 9. CAPITAL REQUIREMENT

The Capital Adequacy Requirement under the Financial Institutions Act of British Columbia provides that the Credit Union must maintain a capital base of at least 8% of the total value of risk weighted assets as defined by the Act, to avoid certain operating restrictions. The Credit Union has satisfied this requirement at December 31, 2006.

## 10. INCOME TAXES

Details of the components of income taxes are as follows:

	2006		2005	
Combined basic federal and provincial statutory income tax	\$1,375	34.1%	\$1,430	34.1%
Increase (decrease) in tax due to:				
Preferred rate deduction available to credit unions	(370)	(9.2%)	(410)	(9.8%)
Non deductible and other items, net	(309)	(7.6%)	(203)	(4.8%)
<b>Total income taxes</b>	<b>\$696</b>	<b>17.3%</b>	<b>\$817</b>	<b>19.5%</b>

At December 31, 2006, taxes payable of \$353,667 are included in accounts payable and other liabilities. At December 31, 2005, taxes recoverable of \$191,336 are included in receivables and prepaid expenses.

The income tax effects of temporary differences that give rise to the net future tax (asset) liability is presented below:

	2006	2005
<b>Future Income Tax Assets</b>		
Allowance for doubtful loans	\$(75)	\$(113)
Deferred revenues and expenses	(24)	—
Loss carryforward	—	(49)
Premises and equipment	(424)	(661)
Intangible asset	(1)	(2)
	<b>(524)</b>	<b>(825)</b>
<b>Net Future Income Tax Asset</b>	<b>\$(524)</b>	<b>\$(825)</b>



## 11. COMMITMENT

The Credit Union has committed to the following minimum lease payments for various branch premises over the next five years of approximately the following amounts:

<b>2007</b>	\$848
<b>2008</b>	858
<b>2009</b>	806
<b>2010</b>	758
<b>2011 and subsequent years</b>	2,573
	<b>\$5,843</b>

## 12. OTHER INFORMATION

- a) At December 31, 2006, outstanding loans to directors, officers, employees and related parties, as specified under the Financial Institutions Act of British Columbia, totalled \$12,614,458 (2005: \$11,389,700).
- b) Employees of the Credit Union are eligible for reduced interest rates on personal loans, lines of credit and mortgages. Directors are not eligible for these benefits. Employees and directors must comply with the credit policies of the Credit Union.
- c) Certain Credit Union employees participate in a multi employer defined benefit pension plan. The annual cost of the pension plan benefits has been determined by an independent actuary based on the accrued benefit actuarial cost method. The most recent actuarial valuation was as of December 31, 2003, at which time it was determined that the pension plan assets exceeded the actuarial liability.
- d) During the year, directors, in their capacity as directors, received aggregate remuneration of \$151,796 (2005: \$141,288).

## 13. CREDIT FACILITIES

The Credit Union maintains an operating line and term loan facility of \$70,000,000 (2005: \$50,000,000) with Credit Union Central of British Columbia, bearing interest that varies with the bankers acceptance rate. This facility is secured by an assignment of book accounts and a debenture in favour of Credit Union Central of British Columbia.

## 14. CONCENTRATIONS OF CREDIT RISK

Credit risk is the risk that a member will fail to meet an obligation, causing the Credit Union to incur a financial loss. Concentrations of credit risk arise when members are engaged in similar economic activities or in similar geographic areas. The Credit Union's market service area is primarily the Lower Mainland and Greater Victoria regions of British Columbia and as a result, repayment by members is dependent in part upon the general economic conditions of these geographic regions.

## 15. LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. To manage this risk, the Credit Union is required by Provincial Legislation to maintain with Credit Union Central of British Columbia in the form of cash and term deposits, a 8% liquidity at all times, based on total members' deposits and non equity shares. At December 31, 2006, the Credit Union had exceeded statutory liquidity requirements.

## 16. INTEREST RATE SENSITIVITY

Interest rate risk is the risk that the value of the Credit Union's assets will fluctuate due to changes in market interest rates. The Credit Union manages this risk through the maturity terms of interest sensitive assets and liabilities, and interest rate swaps. The Credit Union's management estimates the interest rate risk as follows:

Assets	Weighted Average	Within 1 Year	1 – 2 Years	2 – 3 Years	3 – 4 Years	Over 4 Years	Not Interest Sensitive	Total
Cash resources	3.82%	\$29,270	\$10,293	\$10,230	\$8,263	\$3,200	\$5,270	<b>\$66,526</b>
Loans	5.88%	370,771	87,480	93,704	109,185	113,095	(825)	<b>773,410</b>
Investments and other							5,316	<b>5,316</b>
Premises & equipment							9,786	<b>9,786</b>
		<b>400,041</b>	<b>97,773</b>	<b>103,934</b>	<b>117,448</b>	<b>116,295</b>	<b>19,547</b>	<b>855,038</b>
<b>Liabilities and Members' Equity</b>								
Deposits	3.12%	493,831	63,288	61,131	6,535	6,839	118,369	<b>749,993</b>
Other	3.94%	50,500					8,019	<b>58,519</b>
Members' Equity							46,526	<b>46,526</b>
		<b>544,331</b>	<b>63,288</b>	<b>61,131</b>	<b>6,535</b>	<b>6,839</b>	<b>172,914</b>	<b>855,038</b>
Interest Sensitivity Position		<b>\$(144,290)</b>	<b>\$34,485</b>	<b>\$42,803</b>	<b>\$110,913</b>	<b>\$109,456</b>	<b>\$(153,367)</b>	<b>\$ –</b>

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following information represents the estimated fair values of the Credit Union's financial instruments. Fair values have not been disclosed for those assets and liabilities which are not considered financial instruments. The under noted fair values, presented for information only, reflect conditions that existed only at December 31, 2006 and do not necessarily reflect future value or the amounts which the Credit Union might receive or pay if it were to dispose of any of its financial instruments prior to maturity.

Assets	BOOK VALUE	FAIR VALUE	FAIR VALUE OVER (UNDER) BOOK VALUE
Cash	\$66,526	\$66,526	\$ –
Loans	773,410	771,822	(1,588)
Investments and other	3,188	3,188	–
	<b>\$843,124</b>	<b>\$841,536</b>	<b>\$(1,588)</b>
<b>Liabilities and Members' Equity</b>			
Deposits	\$749,993	\$754,395	\$4,402
Other	57,395	57,395	–
	<b>\$807,388</b>	<b>\$811,790</b>	<b>\$4,402</b>

The fair values of highly liquid or short term items approximate their carrying values. Such items would include cash, investments, other assets and other liabilities. The fair value of loans and member deposits with fixed rates have been calculated using present value techniques and are based on market conditions at December 31, 2006. The fair value of loans and member deposits with variable rates of interest approximate their carrying value.

## 18. OFF BALANCE SHEET

### Funds Under Administration

Funds under administration by the Credit Union comprise loans that have been syndicated, sold, and administered in the capacity as an agent. It also includes investment portfolios and mutual fund accounts that are managed on behalf of members. Funds under administration are kept separate from Credit Union assets and therefore are not reflected in the consolidated balance sheet.

	2006	2005
Sold Loans	\$ –	\$49
Syndicated Loans	6,171	5,370
Investment portfolios and mutual funds, at market value	67,652	69,903
	<b>\$73,823</b>	<b>\$75,322</b>

### Letters of Credit

In the normal course of business, the Credit Union enters into various off balance sheet commitments such as letters of credit. Letters of credit are not reflected in the balance sheet. At December 31, 2006, the Credit Union has outstanding letters of credit on behalf of members in the amount of \$8,220,042 (2005: \$9,753,225).

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 2006, the Credit Union has outstanding interest rate swap contracts in the notional amount of \$nil (2005: \$10,000,000) and a cross currency swap contract in the amount of \$10,000,000 USD (receiving \$10,000,000 USD and paying \$11,000,000 CAD, maturing on June 1, 2007).

## 20. NOTE TO THE STATEMENT OF CASH FLOWS

	2006	2005
Income taxes paid (received)	<b>\$(137)</b>	\$640
Dividends paid	<b>\$674</b>	\$644
Interest paid	<b>\$20,385</b>	\$15,587

## 21. CONTINGENT LIABILITY

During the 2004 year, the Credit Union entered into an agreement to sell its shares in Datawest Solutions Inc, which was completed during the 2005 year. To facilitate this sale, the Credit Union agreed to provide a guarantee to a maximum amount of \$237,000 with respect to certain outstanding litigation matters related to Datawest Solutions Inc. The outcome of this legal action and the related liability, if any, to the Credit Union, cannot be determined at this time.

# FIVE YEAR FINANCIAL REVIEW

For the year ended December 31, 2006 (In Thousands of Dollars)

<b>Consolidated Statement of Assets and Liabilities (Unaudited)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Cash and investments	\$69,472	\$71,357	\$102,582	\$63,485	\$71,647
Loans	773,410	669,064	575,626	244,291	239,008
Other Assets	12,156	10,077	10,624	5,209	5,412
<b>Total Assets</b>	<b>855,038</b>	<b>750,498</b>	<b>688,832</b>	<b>312,985</b>	<b>316,067</b>
Member Deposits	749,993	683,677	645,218	290,990	295,491
Other Liabilities	58,519	23,765	4,028	2,654	2,059
Retained Earnings and Contributed Surplus	46,526	43,056	39,586	19,341	18,517
<b>Total Liabilities and Member's Equity</b>	<b>\$855,038</b>	<b>\$750,498</b>	<b>\$688,832</b>	<b>\$312,985</b>	<b>\$316,067</b>

<b>Consolidated Statement of Earnings (Unaudited)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Interest Income	\$45,107	\$36,265	\$27,780	\$17,329	\$17,521
Interest Expense	22,643	16,465	11,689	8,231	9,391
Other Income	4,676	5,655	4,512	2,278	2,297
Operating Expenses	22,489	20,364	16,867	9,327	9,144
Earnings before Income Tax and Distributions	\$4,651	\$5,091	\$3,736	\$2,049	\$1,283

<b>Selected Statistical Data (Unaudited) (as a percentage of average assets)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Financial Margin	2.79	2.78	3.07	2.89	2.58
Other Income	0.58	0.79	0.86	0.72	0.73
Operating Expenses	2.79	2.86	3.22	2.97	2.90
Income before Distribution and Taxes	0.58	0.71	0.71	0.65	0.41

<b>Allowance for Losses on Loans</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Closing Balance	\$3,327	\$3,304	\$3,494	\$2,298	\$2,131



big day wishes

IN OUR COMMUNITY



## IN OUR COMMUNITY

Our members are an extension of our organization and we are an extension of their lives. That's why we strive to positively affect our communities and help them flourish wherever we happen to be. For G&F Financial Group, making a difference in the community means volunteering at numerous events, participating in community organizations and volunteer boards, as well as allocating sponsorships and "donations in kind" to a variety of charitable causes.

Whether it's nurturing young minds through our participation in the Junior Achievement Program to raising money in our annual charity golf tournament for early childhood development programs, everyone at G&F Financial Group is as passionate and committed to helping communities flourish as they are to making your financial dreams happen.

This dedication has led to some important achievements for the credit union in 2006 in the areas of education, health, sports, youth development and general community causes.

### Education

The youth of today truly are the leaders of tomorrow, and education plays a vital role in making their futures a success. With this in mind, G&F Financial Group has a long history of helping students on the path to success through numerous scholarships, bursaries and educational awards at the secondary and post-secondary level.

We contributed **\$30,000** towards scholarships and awards at secondary and post-secondary institutions throughout British Columbia, including awards administered by the UBC Affiliates Program as well as **two \$1,000** awards at Simon Fraser University and **three \$1,000** awards at Kwantlen University College.

### Health

We spent **numerous dollars** in sponsorships and donations in the areas of health and wellness. Recipients include the Pacific Open Heart Foundation; Variety, the Children's Charity; Terry Fox Foundation; Eagle Ridge Hospital Foundation; Royal Columbian Hospital; the Burnaby and Surrey Firefighters' Burn Unit; and many more.

### Sports

**Over \$10,000** in sponsorships and donations were spent in the area of athletics. Donations and sponsorships include the Suburban Rush Adventure Race, the International Track and Field Championships, and many other events.

### Youth Development

G&F Financial Group committed a large amount of funding to sponsorships and donations to youth related programs, including **\$2,500** to Literacy BC. Additionally, G&F Financial Group's annual charity golf tournament raised a **record \$15,400** to benefit Success by 6, an early childhood development program dedicated to providing children with a positive start in life.



## Giving Back to the Community

Another year of record success for G&F Financial Group has allowed the credit union to return approximately \$940,000 to our membership and the communities we serve.

We returned over \$555,000 to our members in the form of dividends on equity and non-equity shares and in patronage rebates for both loans and deposits, while the G&F Financial Group Foundation donated \$90,000 to various community programs and charitable causes. An additional \$30,000 was given in scholarships and educational awards to provide students with the opportunity to pursue higher education. Plus, over \$270,000 was given back through sponsorships and donations for local charities, community causes and *gifts in kind*.

In addition to giving back through monetary means, in-branch initiatives and staff volunteers have dedicated countless hours to various community events and causes throughout the Lower Mainland, demonstrating G&F Financial Group's commitment to positive change in the communities we serve.



## Supporting our community

In 2006, G&F Financial Group disbursed **over \$28,000** towards general community causes, including the East Side Culture Crawl; Rotary Clubs in Burnaby, New Westminster, Richmond and the Tri-Cities areas; and several chambers of commerce and board of trades.

As well, our employees contributed to the communities where they work and live:

- the G&F Financial Group Foundation matched employee contributions to the United Way, doubling the total to **\$51,358**, our greatest contribution to the United Way ever.
- Employees raised over **\$2,500** in pledges in the *2006 Bowling for Big Brothers Classic*.
- Employees also volunteered and attended **over 60** local community and charity events.

## Recognition from the community

As a result of our initiatives and support in the communities where we operate, many of our branches have been formally recognized for their community leadership and involvement. With participation and contributions on the rise in all areas, we commend our branches for their increased involvement in their communities.

Our New Westminster branch led the way once again, receiving the New Westminster **Community Spirit Award** for the second time in three years, as well as **Business of the Year** accolades. Our Port Coquitlam branch was awarded the Tri-Cities **Community Development Spirit of Community Workplace Leadership Award**, a notable accomplishment for a branch that celebrated only its second anniversary in July of 2006. For displaying such enthusiasm and embracing the community spirit, both our New Westminster and Port Coquitlam branches have become valued leaders and community partners.

## Continuing our support

As we move into the 2007 fiscal year, we will continue to foster our relationships with the communities where we live and work and maintain our focus on developing and improving quality of life for people on a daily basis.



a field of dreams

# MAKE YOUR DREAMS A REALITY.

Many opportunities abound for G&F Financial Group as we move forward into the next fiscal year. We will continue to explore new ways to help you reach your financial goals by offering services and products that meet your ever-changing needs and desires. By following the core principles of member ownership, product innovation, superior service and community spirit, we are dedicated to being the credit union where members belong.

Expressed in our mission statement *We Make Dreams Happen*, G&F Financial Group is well placed to make your dreams a reality.

## ABOUT US

G&F Financial Group is a member owned financial institution with approximately 29,000 members and over \$925 million in assets under administration. We are a cumulation of numerous credit unions and have served the Lower Mainland of British Columbia for over 65 years. G&F Financial Group has 12 branches located in Burnaby, New Westminster, Port Coquitlam, Richmond, Surrey and Vancouver. In addition to personal banking, we offer insurance, investment advisory and commercial services.

<i>Burnaby</i>	<i>New Westminster</i>	<i>Port Coquitlam</i>	<i>Richmond</i>	<i>Surrey</i>	<i>Vancouver</i>
<b>KINGSWAY</b> 7375 Kingsway 604.521.2315	<b>NEW WESTMINSTER</b> 760 6 <sup>th</sup> Street 604.526.2122	<b>PORT COQUITLAM</b> 400 – 2748 Lougheed Hwy 604.941.8300	<b>RICHMOND CENTRE</b> 7971 Westminster Hwy 604.278.0220	<b>CLOVERDALE</b> 500 – 6456 176 <sup>th</sup> Street 604.575.3900	<b>41<sup>st</sup> AVENUE</b> 2735 East 41 <sup>st</sup> Avenue 604.437.4774
<b>SOUTHPOINT</b> Podium B, 6911 Southpoint Drive 604.528.8383			<b>STEVESTON</b> 3471 Chatham Street 604.271.5911	<b>FLEETWOOD</b> 101–15910 Fraser Hwy 604.599.6177	<b>HASTINGS</b> 803 East Hastings Street 604.254.9811
				<b>NORDEL CROSSING</b> 101–12020 Nordel Way 604.507.8688	<b>MAIN STREET</b> Centre Point 1–2949 Main Street 604.879.7131