



2009 ANNUAL REPORT

GULF AND FRASER
FISHERMEN'S
CREDIT UNION

rain or shine



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.

service statement

We belong to a dynamic team, committed to building long-term relationships, providing exceptional personalized service and exceeding the expectations of the people and communities we serve.

about us

G&F Financial Group is a member owned financial institution with over 30,000 members and \$1 billion in assets under administration. We are comprised of numerous credit unions and have served the Lower Mainland of British Columbia for 70 years. G&F Financial Group has 12 branches located in Vancouver, Burnaby, Richmond, New Westminster, Surrey and Port Coquitlam. In addition to personal banking, we offer Insurance, Investment Advisory and Commercial Services.

after the storm

Established 70 years ago, G&F Financial Group has weathered many storms but through them all, our vision for the future has been our beacon. Our mission is to make dreams happen, creating opportunities by investing in our people, our members, and our communities. We are passionate about offering superior service and are motivated by a member-first philosophy.

Our twelve branches span the Lower Mainland throughout six regions, including Vancouver, Burnaby, New Westminster, Port Coquitlam, Surrey, and Richmond. We are committed to seeing each community thrive and will be there to support our members, no matter the weather. Together, we each make our own contribution to the credit union story. Through our daily experiences, a touch

of service excellence, or employee feedback, we look to continue building a future of success in the marketplace and within our neighbourhoods. Ultimately, our legacy is built by our members, our staff, and our communities, and everyone at G&F Financial Group plays the role of the author as we cap off 2009 and enter into a new year of stories and memories.

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Vince Fiamengo
Chair, Board of Directors

Looking back at the uncertainties that plagued much of 2009, on behalf of the Board of Directors I am pleased to report that G&F Financial Group has lived up to its reputation as one of the strongest, best capitalized credit unions in the province. Posting solid financial results and continued commitment to our members and the communities we serve, your credit union has proven more than capable of rising to the many challenges of the past year.

Success has its own rewards

As a locally owned and operated financial institution, we clearly see how our success is directly related to the success of our members and the communities we serve. Because of this, sharing our success is more than a basic principle for us – it is an obligation that forms part of the very core of our foundation.

Based on our 2009 results, the Board of Directors was pleased to declare a 4% dividend on Membership Equity Shares and a 1% dividend on Non-Equity Shares. This brings the total returned directly to our members to over \$1 million in just the last four years.

At G&F Financial Group we not only believe in building deposit balances, we also believe in building lifelong relationships, strong communities, and solid family values. Throughout the last year, we never wavered from our commitment to support charitable organizations and the communities where we live and work. In a year of cutbacks for many institutions, we recognized the growing need and actually increased our expenditures through donations, sponsorships and scholarships. Our staff also showed their increased support and stepped up their countless volunteer hours. Through fundraising efforts, our staff raised over \$20,000 for BC Childrens' Hospital, over \$20,500 for SOS Childrens' Village of BC, and a whopping \$32,696 for United Way. When coupled with a match of \$25,000 from the Credit Union, this resulted in an incredible \$57,696 contributed to the United Way to help those less fortunate in finding their "way". These are just a few of the community organizations your credit union has helped in 2009, and will continue to support as we move together into the future.

What the future holds

As we look towards the next decade of this new millennium, the world seems a different and less certain place than it was just a few short years ago. What hasn't changed is our commitment to providing excellent service, sound financial advice, and ensuring our credit union will be here for you for the long haul. We are committed to building better lives for everyone – our employees, our members and our communities.

At this time, the Board would like to acknowledge the exceptional efforts of the staff and management this past year and thank everyone for their dedication. Commitment to our communities, to our members and to delivering exceptional service is the foundation of our success, past, present and future. In closing, the Board would also like to thank the membership for their loyalty, support and patronage in 2009. As members, you have all played a role in shaping G&F Financial Group into what it is today, and through your continued support, you will play a role in shaping who we become tomorrow.

Respectfully submitted,

Vince Fiamengo
Chair, Board of Directors

It has been called a financial “perfect storm” – a collision of events that would have been damaging enough on their own but together became something much more destructive. And, like any extreme weather, the financial crisis which began as a mere whisper 2 years earlier, continued to have lasting effects throughout 2009. Fortunately, Canada enjoys one of the strongest, most highly regulated financial environments in the world, deflecting some of the more devastating effects felt by other countries. The stability and health of the credit union system and our own strong financial position gave us a solid foundation to weather both the storm and its aftermath.

Results Oriented, Performance Driven

In 2009, our credit union rose to meet the challenges of a volatile marketplace, a shaky economy and a financial industry still reeling under the effects of a global collapse. Overall, our member deposits remained stable, showing a slight increase of \$8 million or just under 1%. Our loan portfolio became a reflection of what was happening in the surrounding environment. During the first part of the year when there was tremendous economic uncertainty, the housing market and, in turn, loan demand fell to its lowest levels in decades. In the latter part of 2009, optimism returned driving real estate sales to record levels, resulting in a return to loan growth. In total for 2009, our loan portfolio did decrease by \$77 million, or 8.6%, but extra measures were taken to ensure the high quality of the portfolio was maintained. The credit union was also able to reduce its use of external borrowing by \$31 million or 60%, further strengthening our overall financial position. Decreasing our borrowings and prudent asset liability management resulted in decreased financial expense, allowing us to avoid some of the more unpleasant cost cutting measures other institutions were forced to face. As a final result, retained earnings increased by 6.8%, while income showed a remarkable rebound over last year, doubling our 2008 final figures to end 2009 at just over \$3.6 million.

We were also successful in maintaining our focus on meeting the needs of our members, delivering additional services such as online brokerage and hiring a Life Insurance specialist to round out our Insurance and Advisory offerings. To ensure continued service excellence, we never wavered on employee training and on developing the tools and knowledge necessary to meet our members’ needs. With an eye toward the future, we partnered with our banking system provider to develop the next generation of our banking platform for the Canadian marketplace. This platform will provide improved efficiencies, flexibility, and enhance member service through easier access to information.

Looking Ahead

Although by definition we have come out of the recession, recovery will be slow. Low interest rates, which have managed to maintain the Lower Mainland real estate market, have continued to squeeze margins. The new, more stringent lending rules coming into effect may force the housing market to slow as first time buyers rethink their options. Regardless of these circumstances, G&F Financial Group remains in a strong position to offer competitive pricing, products and services, and sound financial advice to existing and new members.

In closing, I would like to thank the Board of Directors, management and staff for their support and hard work this past year. Weathering the perfect storm takes teamwork and dedication to a common purpose – the success of our credit union, our members and our communities. It is the commitment of our people that will ensure our continued success, now and in the future – rain or shine.

Respectfully submitted,



Richard Davies
Chief Executive Officer



Richard Davies
Chief Executive Officer

chief executive officer's report



our past connects us to our future

g&f financial group – our credit union story

The world seems to be moving faster every day, and now, more than ever, innovation drives us to constantly explore new ways to improve our business and enhance our relationships with those who are touched by it—from students to first-time home owners, from home based businesses to medium and large enterprises. Even in the face of financial upheavals within the financial services industry, everyone at G&F Financial Group is committed to confronting these challenges and emerging with success from these uncertain times. Our ultimate goal is to reward and satisfy our members, and contribute positively to the communities where we live and work.

Expanding our product offerings and improving our service levels are part of how we will build our credit union profitably and sustainably. This past year, we've added more ways to communicate with our members, ensured our technological requirements are sufficient for the future needs of our people and added more channels for member interaction including entering the realm of social media. On the same token, our strong dedication to community partnerships and decreasing our overall environmental impact continues to lead our social responsibility model.

At G&F Financial Group, we endeavor to help people realize their dreams and create the special moments that add to their life story through innovative products, expert advice, exceptional service, and by giving back to the community and the environment. We're constantly listening and finding new ways to make communication easier and more open. We recognize that values and profits are not mutually exclusive, and we are committed to such ideals. The following pages tell the story of our credit union, constantly moving forward to deliver this promise to our members.

nurturing the environment – our green story

Throughout the year, we have also increased our focus on supporting community initiatives that promote the reduction of our ecological footprint. These include the switch to electronic banking statements and the suppression of paper statements, as well as community partnerships encouraging environmental stewardship and sustainability.

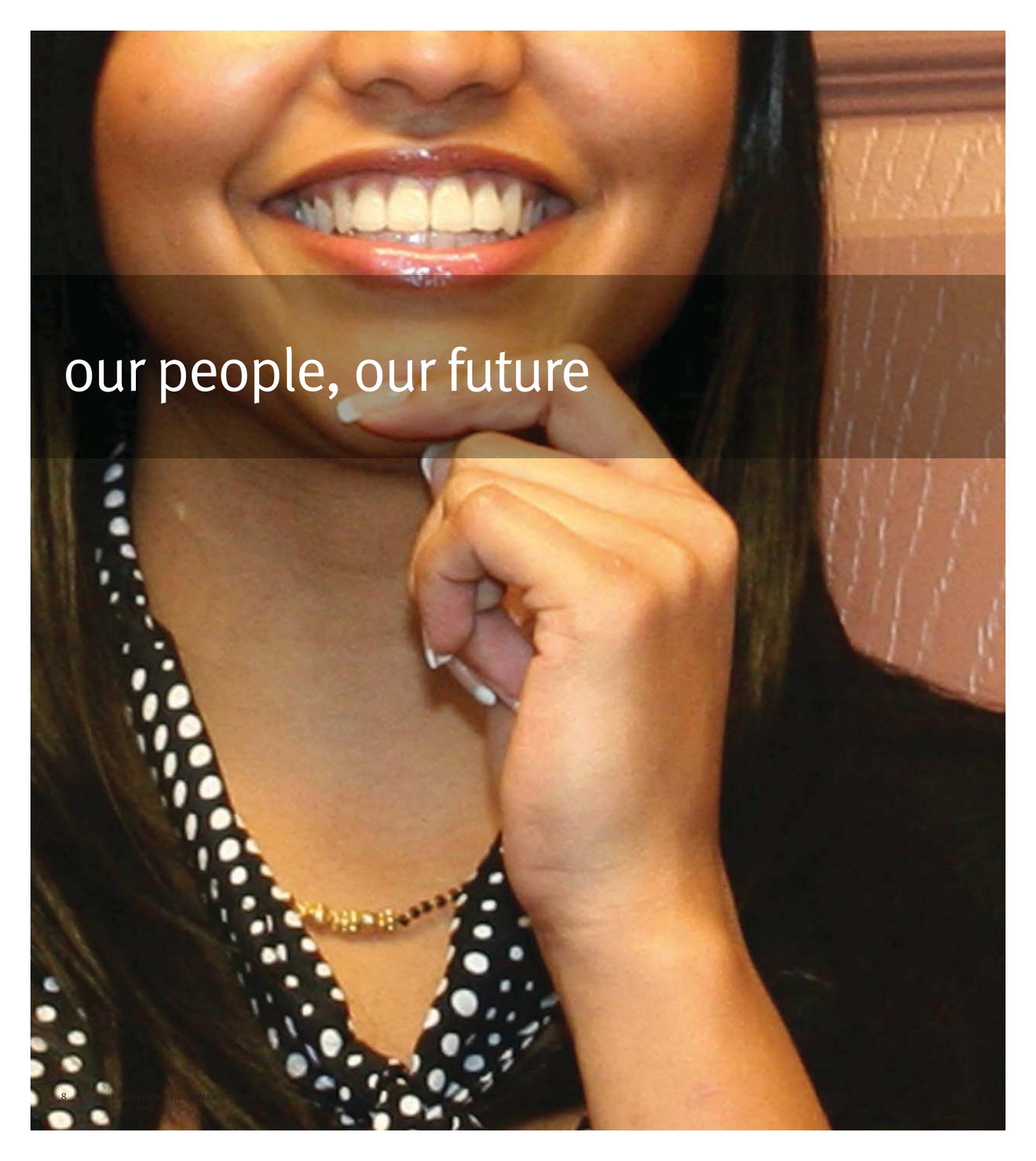
According to Statistics Canada, it is estimated that Canadians use approximately 20,000 pages per person per year. This number continues to climb, increasing the amount of resources used, and putting our environmental resources in jeopardy. Beginning as a small initiative in 2009, the switch to electronic banking statements (e-statements) and the suppression of paper statements have become a growing phenomenon for our members. Over 25% of our membership have embraced e-statements, which are delivered securely and conveniently through a member's on-line banking account once they sign up for the services. The benefits are numerous, but the reduction in the use of paper and

other resources are by far the greatest advantage in the suppression of paper statements.

G&F Financial Group Foundation's \$5,000 donation to Evergreen's Learning Grounds project, a non-profit organization dedicated to creating natural and sustainable environments around cities and schools, is another example of our concern for the environment. This sizeable donation established local gardens on the grounds of several Richmond secondary schools, thereby creating an environment that welcomes interaction from students and volunteers, and teaches them the ways of conservation and sustainability.



one planet – a sustainable future



our people, our future

the source of our strength – our employees' stories

Unlike many of our competitors, we don't define ourselves by profits alone. Our credit union grows from the strength of its people – our employees, and we work hard to respond to their needs for a balanced and healthy lifestyle as much as we work to help our members achieve their financial goals and dreams.

The effort shows – our employees are engaged, involved, and enthusiastic about their workplace, and our bond is stronger than ever. Surveys asking staff to rate the service we provide to one another, which forms of communications are preferred, and how they feel about resources and training all are used to develop new programs and processes that make it easier for everyone to do their jobs. It is these collective details that help us move toward even bigger and more positive changes ahead. Our employees aren't afraid to speak their minds, showing a strong response to giving feedback on our employee opinion survey, which stands at 85.9 percent, exceeding the credit union industry norm.

We are also united through our commitment to the community, whether it is volunteering at events or fundraising efforts for charities like BC Children's Hospital, Variety Club the Children's Charity, Cops for Cancer, and Big Brothers of Greater Vancouver. Internally we have raised tens of thousands of dollars for BC Children's Hospital and the United Way through activities such as slo-pitch for kids, draws, raffles, and 50-50s, as well as bake sales and car washes. We also share in a passion for a balanced, healthy lifestyle, offering programs to encourage wellness and activity by supporting sporting events such as the Sun Run.

good neighbours – our community stories

The well-being of our communities is interconnected to how we do business, and our commitment to these neighborhoods is something that is always top of mind for everyone at G&F Financial Group. A strong credit union and a strong community go hand in hand, and we are committed to making that happen. From volunteering at events to sponsorship and donations, we strive to lend a hand to a variety of charities, projects, and causes through collaborative partnerships with numerous groups to support the needs of those around us.

While charities were hit hard from a troubled economy in the past year, G&F Financial Group continued to support its core areas of focus for youth, education, health, and athletics. For example, during 2009, our Foundation granted over \$4,000 to the Burnaby Moresports Program, which provides sustainable sport and physical activity opportunities for children and families. Moresports places a special emphasis on those who typically do not have the opportunity to participate in sports due to gender, ethnic barriers, and those who simply face barriers to participation in sports due to cost.

For 2009, our credit union's Annual Charity Golf Tournament and Raffle was in support of SOS Children's Village BC. This local chapter of a global organization is dedicated to helping foster children and their families

through a variety of support programs. Over \$20,000 was raised to help the organization, while staff, sponsors, and members generously supported the cause through donations, participation, sponsorship, and volunteering. After months of organization and effort, this day-long event was a huge success and is a testament of our dedication to investing in the human spirit and building successful, thriving communities.

In addition to the countless volunteer hours put in by our staff and the in-kind donations made to help raise funds for a variety of causes and organizations, our credit union made sizeable monetary contributions as well. In total, for 2009, over \$165,000 was directly invested in the well-being of our communities and the people we view as our neighbours.



communities built for the future

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, 2009 and the consolidated statements of changes in members' equity, income and comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2009 and the results of its operations and 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 5, 2010

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.



Richard Davies
Chief Executive Officer



William Kiss
Chief Financial Officer

consolidated balance sheet

FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of dollars)

| | 2009 | 2008 (Note 22) |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash resources (Note 3) | \$ 144,430 | \$ 82,372 |
| Loans (Notes 2(c) and 4) | 819,404 | 896,493 |
| Investments (Note 5) | 3,253 | 2,980 |
| Receivables and prepaid expenses | 2,474 | 6,390 |
| Premises and equipment (Notes 2(f) and 6) | 7,916 | 9,170 |
| Future income tax asset (Note 12) | 309 | 424 |
| | \$ 977,786 | \$ 997,829 |
| LIABILITIES | | |
| Deposits | | |
| Deposits withdrawable on demand | \$ 398,625 | \$ 307,974 |
| Term deposits | 296,952 | 384,566 |
| Registered savings plans (Note 7) | 193,457 | 185,049 |
| Accrued interest | 6,862 | 10,117 |
| Share savings (Note 8) | | |
| Members' non-equity shares | 673 | 736 |
| Members' equity shares | 3,379 | 3,547 |
| Dividends payable (Note 2(g)) | 134 | 138 |
| Total members' accounts | 900,082 | 892,127 |
| Borrowings (Note 9) | 20,000 | 51,000 |
| Accounts payable and other liabilities (Note 10) | 2,393 | 3,003 |
| | 922,475 | 946,130 |
| MEMBERS' EQUITY | | |
| Retained earnings (Note 11) | 55,311 | 51,761 |
| Accumulated other comprehensive income (Note 2(h)) | - | (62) |
| | 55,311 | 51,699 |
| | \$ 977,786 | \$ 997,829 |
| Commitment (Note 13) | | |

Approved on behalf of the Board



Vince Fiamengo - Director



Brian Hamaguchi - Director

consolidated statement of changes in members' equity

FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of dollars)

| | 2009 | 2008 |
|---|------------------|------------------|
| RETAINED EARNINGS | | |
| Retained earnings at beginning of year | \$ 51,761 | \$ 49,926 |
| Net income for year | 3,550 | 1,835 |
| Retained earnings at end of year | 55,311 | 51,761 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | | |
| Accumulated other comprehensive income at beginning of year | (62) | 202 |
| Other comprehensive income for year | 62 | (264) |
| Total accumulated other comprehensive income | - | (62) |
| TOTAL EQUITY | \$ 55,311 | \$ 51,699 |

consolidated statement of income & comprehensive income

FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of dollars)

| | 2009 | 2008 |
|--|-----------------|-----------------|
| FINANCIAL INCOME | | |
| Loan interest | \$ 40,169 | \$ 48,791 |
| Investment and cash resource income | 3,025 | 3,716 |
| | <u>43,194</u> | <u>52,507</u> |
| FINANCIAL EXPENSES | | |
| Interest on members' deposits | 20,246 | 28,262 |
| Interest on borrowed money | 388 | 2,654 |
| | <u>20,634</u> | <u>30,916</u> |
| FINANCIAL MARGIN | <u>22,560</u> | <u>21,591</u> |
| OTHER INCOME (EXPENSE) | | |
| Member Services Income | 4,423 | 4,804 |
| Other Income | 1,404 | 654 |
| Provision for doubtful loans (Note 4) | - | (500) |
| | <u>5,827</u> | <u>4,958</u> |
| OPERATING MARGIN | <u>28,387</u> | <u>26,549</u> |
| OPERATING EXPENSES | | |
| Salaries and employee benefits | 13,368 | 13,016 |
| Office | 2,398 | 2,600 |
| Occupancy | 2,074 | 2,027 |
| Amortization | 1,760 | 1,806 |
| Data processing | 1,493 | 1,482 |
| Professional and other services | 1,122 | 958 |
| Advertising and promotion | 884 | 958 |
| Other | 613 | 556 |
| Capital tax | 233 | 433 |
| | <u>23,945</u> | <u>23,836</u> |
| INCOME FROM OPERATIONS | <u>4,442</u> | <u>2,713</u> |
| DONATION TO G&F FINANCIAL GROUP FOUNDATION | (25) | (75) |
| DISTRIBUTION TO MEMBERS (Note 2(g)) | (133) | (136) |
| INCOME BEFORE INCOME TAXES | <u>4,284</u> | <u>2,502</u> |
| INCOME TAXES (Note 12) | | |
| Current | 619 | 614 |
| Future | 115 | 53 |
| | <u>734</u> | <u>667</u> |
| NET INCOME FOR YEAR | <u>3,550</u> | <u>1,835</u> |
| OTHER COMPREHENSIVE INCOME | | |
| Gains (losses) on derivatives designated as cash flow hedges | 62 | (264) |
| COMPREHENSIVE INCOME | <u>\$ 3,612</u> | <u>\$ 1,571</u> |

consolidated statement of cash flows

FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of dollars)

| | 2009 | 2008 |
|--|-------------------|------------------|
| OPERATING ACTIVITIES | | (Note 22) |
| Net income for the year | \$ 3,550 | \$ 1,835 |
| Adjustments: | | |
| Amortization | 1,760 | 1,806 |
| Provision for doubtful loans | – | 500 |
| Gain on sale of insurance license | (601) | – |
| Gain on sale of securitized loans | (150) | – |
| Future income tax expense (recovery) | 115 | 53 |
| | <u>4,674</u> | <u>4,194</u> |
| Changes in non-cash working capital: | | |
| Decrease (increase) in: | | |
| Accrued interest on loans | 169 | 320 |
| Receivables and prepaid expenses | 3,978 | (5,054) |
| Increase (decrease) in: | | |
| Accrued interest on deposits | (3,255) | 1,170 |
| Accounts payable and other liabilities | (610) | (2,966) |
| | <u>4,956</u> | <u>(2,336)</u> |
| INVESTING ACTIVITIES | | |
| (Acquisition) disposal of investments | (273) | 135 |
| Decrease (increase) in loans | 73,096 | (55,684) |
| Acquisition of premises and equipment | (506) | (846) |
| Proceeds on sale of insurance license | 601 | – |
| Proceeds on sale of securitized loans | 3,974 | – |
| | <u>76,892</u> | <u>(56,395)</u> |
| FINANCING ACTIVITIES | | |
| Increase in members' accounts | 11,214 | 78,063 |
| Decrease in borrowings | (31,000) | (7,000) |
| Decrease in dividends payable | (4) | (44) |
| | <u>(19,790)</u> | <u>71,019</u> |
| INCREASE IN CASH | 62,058 | 12,288 |
| CASH, BEGINNING OF YEAR | 82,372 | 70,084 |
| CASH, END OF YEAR | \$ 144,430 | \$ 82,372 |

Supplemental information (Note 21)

notes to the consolidated financial statements

YEAR ENDED DECEMBER 31, 2009

(in thousands of dollars)

1. NATURE OF BUSINESS

Gulf and Fraser Fishermen's Credit Union (the Credit Union) is incorporated under the British Columbia Credit Union Incorporation Act. The operation of the Credit Union is regulated under the British Columbia Financial Institutions Act. The Credit Union provides financial services to members principally in the Lower Mainland and Greater Victoria regions of British Columbia.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and Gulf and Fraser Insurance Services Ltd. Gulf and Fraser Insurance Services Ltd. is a wholly owned subsidiary of the Credit Union.

b) Classification and Measurement of Financial Assets and Liabilities

All financial assets must be classified at initial recognition as trading, available for sale (AFS), held to maturity (HTM), or loans and receivables based on the purpose for which the instrument was acquired and its characteristics. All financial assets and all derivatives are measured at fair value with the exception of loans and receivables, debt securities classified as HTM, and AFS equities that do not have quoted market values in an active market. All financial liabilities are carried at amortized cost other than derivatives or liabilities that are designated as AFS, in which case they are carried at fair value. Interest expense is recognized on an accrual basis using the effective interest rate method.

c) Loans and Revenue Recognition

Loans are recorded at amortized cost and 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.

d) Securitization of Loans

The Credit Union sells mortgage loan receivables to Central 1 Credit Union ("Central 1"), who in turn packages these mortgages into pools of mortgage backed securities. These are then issued by Central 1 to investors through the Canada Housing Trust ("CHT"). These transactions are accounted for as sales and the related loans are removed from the balance sheet when the Credit Union is deemed to surrender control over such assets and consideration has been received by the Credit Union in exchange.

The Credit Union determines fair value of mortgages sold based on the present value of future expected cash flows using management's best estimate of key assumptions such as repayment rates, discount rates and excess spread. Gains and losses on securitization transactions are recognized in other income or expense and depend in part on the previous carrying amounts of the loans involved in the sale, which is allocated between the loans sold and the retained interests, based on their relative fair values at the date of transfer.

The Credit Union retains interests in the securitized loans, together with an obligation to service these loans on a fee for service basis. Retained interests are classified as AFS assets and are recorded at fair value at the time of sale, with subsequent changes in fair value flowing through other comprehensive income. The carrying value of the retained interests is reviewed periodically for impairment and adjusted as required. Where the Credit Union continues to service the loans, servicing revenue is recognized and amortized over the servicing period. Income from securitized assets comprises of income from retained interests and servicing income, and is reported in the consolidated statement of income.

e) Investments

Investment in equity shares are designated as AFS securities. Equity shares and other investments held by the Credit Union do not have quoted market values in an active market and are carried at cost.

f) Amortization

Amortization is provided for on the following basis:

| | |
|-------------------------|--------------------------------|
| Buildings | Straight line over 25–45 years |
| Furniture and equipment | Straight line over 2–10 years |
| Leasehold improvements | Straight line over 5 years |

The Credit Union reviews for the impairment of premises 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.

g) Distribution To Members

Distribution to members consists of dividends on equity and non equity shares. Distributions are accounted for by a charge to earnings in the year of declaration by the Board of Directors.

h) Accumulated Other Comprehensive Income (AOCI)

AOCI is included on the consolidated balance sheet as a separate component of members' equity, and includes net realized gains and losses on AFS securities, and the effective portion of gains and losses on derivative instruments designated within effective cash flow hedges.

i) 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.

j) 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.

k) Current Accounting Changes

Goodwill and Intangible Assets

Effective January 1, 2009, the Credit Union adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which clarifies that the costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, start up costs must be expensed as incurred. CICA Handbook Section 1000, *Financial Statement Concepts*, was also amended to provide consistency with the new standard. The adoption of these standards did not have a material impact on the financial position, cash flows, or earnings of the Credit Union.

Credit Risk and Fair Value

Effective January 1, 2009, the Credit Union adopted the CICA Emerging Issues Committee (EIC) Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The abstract clarifies how the Credit Union's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material impact on the financial position, cash flows, or earnings of the Credit Union.

l) Future Accounting Changes

International Financial Reporting Standards (IFRS)

In March 2009, the Canadian Accounting Standards Board ("AcSB") reconfirmed in its second omnibus Exposure Draft that IFRS will replace Canadian GAAP for publicly accountable enterprises for interim and annual periods beginning on or after January 1, 2011, including the restatement of the comparative period of the financial statements on the same basis. Credit unions are specifically scoped into the definition of a publicly accountable enterprise. As such, the Credit Union will be required to prepare its year ended December 31, 2011 financial statements including comparative information for 2010 in compliance

notes to the consolidated financial statements

YEAR ENDED DECEMBER 31, 2009

(in thousands of dollars)

I) Future Accounting Changes (continued)

with IFR. The Credit Union's project plan includes three phases: (1) Scope and Plan, (2) Design and Build, and (3) Implement and Review. The Scope and Plan phase has been completed and the standards that are expected to have a significant impact on the Credit Union's recognition, measurement, presentation and disclosure of its financial statements have been identified. The Credit Union is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada and management has begun its analysis of the expected areas of impact on the organization. Management has completed a detailed Diagnostic / Impact assessment with respect to the IFRS standards of relevance to the conversion.

Significant changes to the IFRS accounting standards are expected to be issued by the International Accounting Standards Board ("IASB") throughout 2010 and 2011. As a result, there is uncertainty regarding the expected accounting standards that will ultimately be in place in 2011, and therefore applicable to the first IFRS financial statements, including comparatives and opening IFRS balance sheet. The IFRS project plan includes activities to ensure management monitors these changes. At this point in the project, management is not able to reasonably estimate the quantitative impact of transitioning to IFRS on its financial statements.

A formal project governance structure has been established which includes a steering committee consisting of senior levels of management from finance, treasury, information technology, human resources, credit and operations.

Management is currently in the process of assessing differences between its current accounting policies and those provided by IFRS, as well as the elections and policy choices available on adoption. Management's assessment will include the potential impact of the conversion effort on its systems, internal controls over financial reporting, disclosure controls and business activities.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement, presentation and disclosure. Set out below are the key areas where changes in accounting policies as a result of adopting IFRS are expected to impact the Credit Union's financial statements. This should not be regarded as a complete list of changes that will ultimately result from transition to IFRS. The actual impact on transition will ultimately be dependent on the status of IASB amendment activities and the specific circumstances surrounding its assets, liabilities and activities at that date. Management's analysis of changes and policy decisions have been made based on its expectations regarding the accounting standards that they anticipate will be effective at the time of the transition. At this stage, management is not able to reliably quantify the impacts expected on the financial statements of these differences.

IFRS 1 – First time Adoption of International Financial Reporting Standards

The Credit Union's adoption of IFRS will require the application of IFRS 1 First time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. Management will be required to prepare an opening IFRS statement of financial position as of January 1, 2010 which will be disclosed in the first annual financial statements under IFRS. In addition, IFRS 1 will require reconciliation between Canadian GAAP and IFRS with detailed explanations of the adjustments required for the comparative year. IFRS 1 does require certain mandatory exceptions and provides limited optional exemptions in specified areas of certain standards from the general requirement of retrospective application of the standards. Management is currently assessing the elective exemptions and mandatory exceptions, and the potential impact they may have on the determination of its regulatory capital ratios.

IAS 39 – Financial Instruments: Securitization

Derecognition of securitized assets will generally be more difficult to achieve under IFRS than under current Canadian GAAP as IFRS introduces a more complex series of requirements which focus on risk and rewards, control and the nature of the asset transferred. The Credit Union currently maintains securitized assets off balance sheet. These assets may be required to come back on balance sheet resulting in an increase in mortgages and secured borrowing balances on the balance sheet. The regulatory capital implications of this change in accounting treatment are not yet known.

IAS 39 – Financial Instruments: Loan Loss Provisioning

Similar to Canadian GAAP, IFRS adopts an "incurred loss" model for loan loss provisioning, however, IAS 39 provides more explicit guidance with respect to the methodology to be followed in assessing and measuring loan impairment. Provisions can only be recorded where there is objective evidence that a loss event has occurred and that loss event is expected to change the timing and or amount of the expected cashflows on the underlying loan(s) based on past experience. Loan losses are assessed on an individual loan and collective basis. Unallocated general provisions are not permitted under IFRS. The impact of any potential changes to the impairment assessment models and the resulting loan loss provision levels held is currently not yet known.

IAS 39 – Financial Instruments: Recognition & Measurement of Financial Assets/ Liabilities

IFRS 1 contains an election to designate any financial asset on initial recognition for IFRS purposes as available for sale or as a financial asset held at fair value through profit or loss provided that certain criteria are met. The Credit Union is currently assessing whether it will take advantage of this election to re designate its financial assets upon adoption to IFRS.

IAS 16 – Property, Plant and Equipment and IAS 40 – Investment Property

IFRS 1 allows an entity to initially measure an item of property, plant and equipment ("PPE") upon transition to IFRS at fair value as opposed to recreating depreciated cost under IFRS. Management is currently assessing whether it will take the "deemed cost" election.

Under IAS 16, own use PPE asset can be measured at amortized cost using the Cost Model or at fair value using the Revaluation Model with changes in fair value recorded in other comprehensive income. The selection of this accounting policy has not been finalized by the Credit Union.

Under IAS 40 investment property can be measured at cost using the IAS 16 Cost Model or at fair value with changes in fair value recorded through income. The selection of this accounting policy has not been finalized by the Credit Union.

3. CASH RESOURCES

| | 2009 | 2008 |
|--------------------------------------|-------------------|------------------|
| Cash | \$ 3,308 | \$ 3,372 |
| Central 1 Credit Union cash | 16,672 | 1,426 |
| Central 1 Credit Union term deposits | 123,360 | 75,838 |
| Accrued interest on deposits | 1,090 | 1,376 |
| | \$ 144,430 | \$ 82,372 |

Cash resources with Central 1 Credit Union in term deposits as at December 31, 2009 totals \$123,360 (2008: \$75,838), and bears interest at 0.25% to 5.22% with maturities from January 4, 2010 to July 29, 2014.

4. LOANS

| | 2009 | 2008 |
|------------------------------------|-------------------|-------------------|
| Residential mortgages | \$ 478,491 | \$ 524,955 |
| Commercial mortgages | 214,583 | 233,486 |
| | 693,074 | 758,441 |
| Other loans | 12,765 | 17,540 |
| Lines of credit | 115,379 | 122,510 |
| Accrued interest | 1,900 | 2,069 |
| | 823,118 | 900,560 |
| Less: allowance for doubtful loans | (3,714) | (4,067) |
| | \$ 819,404 | \$ 896,493 |

notes to the consolidated financial statements

YEAR ENDED DECEMBER 31, 2009

(in thousands of dollars)

4. LOANS (continued)

The activity in the allowance for doubtful loans during the year and the resulting year-end balance is as follows:

| | 2009 | 2008 |
|---|----------|----------|
| Allowance for doubtful loans, beginning of year | \$ 4,067 | \$ 3,763 |
| Provision for credit losses | – | 500 |
| Write-offs (net of recoveries) | (353) | (196) |
| Allowance for doubtful loans, end of year | \$ 3,714 | \$ 4,067 |

5. INVESTMENTS

| | 2009 | 2008 |
|--------------------------------|----------|----------|
| Central 1 Credit Union—at cost | \$ 2,479 | \$ 2,469 |
| Other—at cost | 774 | 511 |
| | \$ 3,253 | \$ 2,980 |

Shares in Central 1 Credit Union are a required investment condition of membership in Central 1 Credit Union 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.

6. PREMISES AND EQUIPMENT

| | Cost | Accumulated Amortization | 2009 Net Book Value | 2008 Net Book Value |
|-------------------------|-----------|--------------------------|---------------------|---------------------|
| Land | \$ 3,468 | \$ – | \$ 3,468 | \$ 3,468 |
| Buildings | 4,647 | 2,894 | 1,753 | 1,955 |
| Furniture and equipment | 8,823 | 6,371 | 2,452 | 3,235 |
| Leasehold improvements | 3,019 | 2,776 | 243 | 512 |
| | \$ 19,957 | \$ 12,041 | \$ 7,916 | \$ 9,170 |

7. REGISTERED SAVINGS PLANS

| | 2009 | 2008 |
|-------------------------------------|------------|------------|
| Registered Retirement Savings Plans | \$ 147,652 | \$ 147,410 |
| Registered Retirement Income Funds | 34,669 | 34,606 |
| Registered Education Savings Plans | 3,309 | 3,033 |
| Tax Free Savings Account | 7,827 | – |
| | \$ 193,457 | \$ 185,049 |

8. 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 one dollar 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.

9. BORROWINGS

| | 2009 | 2008 |
|--|-----------|-----------|
| Central 1 Credit Union—operating line and term loan facility | \$ – | \$ 51,000 |
| Central 1 Credit Union—discretionary term loan | 20,000 | – |
| | \$ 20,000 | \$ 51,000 |

The Credit Union maintains an operating line and term loan facility of \$19,900 (2008: \$110,000) with Central 1 Credit Union, 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 Central 1 Credit Union.

During 2009 year, the Credit Union entered into a discretionary 1 year closed term loan with Central 1 Credit Union in the amount of \$20,000 bearing interest at an effective interest rate of 0.80% based on Central 1 Credit Union's cost of funds by participating in the Bank of Canada's Term Purchase and Resale Agreement Auction under the same security arrangement as the above facility.

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | 2009 | 2008 |
|--|----------|----------|
| Accounts payable and accrued liabilities | \$ 2,358 | \$ 2,989 |
| Deferred revenue | 35 | 14 |
| | \$ 2,393 | \$ 3,003 |

11. CAPITAL MANAGEMENT

The *Financial Institutions Act* requires the Credit Union to maintain a prescribed capital base at all time. This base consists primarily of equity shares and retained earnings. The level of capital required is based on a percentage of the total value of risk weighted assets. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may occur on the ultimate realization of that asset. The *Financial Institutions Act* Regulations prescribe a total capital ratio of 8%, to avoid certain operating restrictions. To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in the risk weighted asset levels. At December 31, 2009, the Credit Union's estimated capital ratio of 17.11% (2008: 14.39%) exceeded the required capital ratio.

Effective May 1, 2004, Gulf and Fraser Fishermen's Credit Union acquired the assets and assumed the liabilities of United Savings Credit Union. As a result of this business combination, included within the Credit Union's retained earnings is \$17,291 of contributed surplus.

12. INCOME TAXES

Details of the components of income taxes are as follows:

| | 2009 | | 2008 | |
|--|----------|---------|--------|---------|
| Combined Basic Federal and Provincial Statutory Income Tax | \$ 1,285 | 30.0% | \$ 788 | 31.5% |
| Decrease in tax due to: | | | | |
| Preferred rate deduction available to credit unions | (605) | (14.1%) | (659) | (26.4%) |
| Non deductible and other items, net | 54 | 1.3% | 538 | 21.6% |
| Total income taxes | \$ 734 | 17.2% | \$ 667 | 26.7% |

At December 31, 2009, taxes payable (receivable) of (\$45) (2008: \$371) are included in accounts payable and other liabilities.

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

| | 2009 | 2008 |
|------------------------------|--------|--------|
| Future Income Tax Assets | | |
| Allowance for doubtful loans | \$ 158 | \$ 225 |
| Premises and equipment | 248 | 278 |
| Other | (97) | (79) |
| Net Future Income Tax Asset | \$ 309 | \$ 424 |

notes to the consolidated financial statements

YEAR ENDED DECEMBER 31, 2009

(in thousands of dollars)

13. 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:

| | |
|---------------------------|-----------------|
| 2010 | \$ 852 |
| 2011 | 692 |
| 2012 | 705 |
| 2013 | 667 |
| 2014 and subsequent years | 780 |
| | <u>\$ 3,696</u> |

14. OTHER INFORMATION

- At December 31, 2009, outstanding loans to directors, officers, employees and related parties, as specified under the Financial Institutions Act of British Columbia, totalled \$16,493 (2008: \$13,662).
- 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.
- During the year, directors, in their capacity as directors, received aggregate remuneration of \$229 (2008: \$229).

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The three primary types of risk inherent in the Credit Union environment include credit, liquidity and market.

Credit Risk

Credit risk is the risk that the Credit Union will incur a loss because a member fails to meet an obligation. Risk management policies are implemented by management and the Board. These policies include evaluating the member's ability to repay the loan when it is originally granted and subsequently renewed and regularly monitoring member information such as delinquent and over limit amounts. 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.

Liquidity Risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, an 8% liquidity at all times, based on total members' deposits and non equity shares. At December 31, 2009, the Credit Union's liquidity exceeded the required level.

Market Risk

Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates and market prices. The level of market risk to which the Credit Union is exposed varies depending on market conditions and the composition of the Credit Union's investment, lending and deposit portfolios.

The Credit Union's business is predominantly conducted in Canadian currency. However, some of the Credit Union's deposits are denominated in US funds. The Credit Union hedges its exposure to negative impacts from US currency fluctuations by maintaining US dollar denominated investments in amounts which approximate its US deposits. Therefore, exposures to foreign currency fluctuations are managed to immaterial levels on an ongoing basis.

Interest rate risk is the potential impact on the Credit Union's earnings and economic value due to changes in interest rates. The Credit Union continuously monitors its exposure to interest rate changes and their potential effects on financial margin by modeling its assets, liabilities and equity against the impact of various possible rate increases or decreases. The Credit Union has formal internal policies that establish acceptable levels of interest rate risk. These policies are directed at ensuring that expected financial margin has a high probability of falling within an acceptable

range. There are further policies designed to ensure that the market value of equity is not eroded by interest rate changes beyond an acceptable range. The Credit Union also consults with independent experts with regards to both the quality and interpretation of its internal interest rate risk management programs.

The following table summarizes the pre tax impact of an immediate and sustained parallel 100 basis increase or decrease shift in interest rates over the next 12 months on financial margin, assuming that no further hedging is undertaken. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the risk management initiatives.

| Impact of: | 2009 | | 2008 | |
|--------------------------|------------------|-----------------------------|------------------|-----------------------------|
| | Financial Margin | | Financial Margin | |
| | Amount | Percentage of Base Forecast | Amount | Percentage of Base Forecast |
| 100 bp increase in rates | \$ 1,129 | 4.84% | \$ 1,325 | 5.93% |
| 100 bp decrease in rates | \$ (633) | (2.71)% | \$(1,346) | (6.02)% |

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 | WITHIN | 1 TO 2 | 2 TO 3 | 3 TO 4 | OVER 4 | NOT INTEREST | TOTAL |
|--|----------|------------|----------|----------|----------|-----------|--------------|-----------|
| | AVERAGE | | | | | | | |
| | RATE | | | | | | | |
| Cash resources | 1.50% | \$81,449 | \$14,677 | \$10,625 | \$9,110 | \$7,500 | \$21,069 | \$144,430 |
| Loans | 4.41% | 507,189 | 89,075 | 83,606 | 38,341 | 102,963 | (1,770) | 819,404 |
| Investments and other | | - | - | - | - | - | 6,036 | 6,036 |
| Premises and equipment | | - | - | - | - | - | 7,916 | 7,916 |
| | | 588,638 | 103,752 | 94,231 | 47,451 | 110,463 | 33,251 | 977,786 |
| LIABILITIES AND MEMBERS' EQUITY | | | | | | | | |
| Deposits | 1.80% | 597,777 | 97,337 | 68,273 | 7,667 | 5,403 | 123,625 | 900,082 |
| Other | 0.72% | 20,000 | - | - | - | - | 2,393 | 22,393 |
| Members' Equity | | - | - | - | - | - | 55,311 | 55,311 |
| | | 617,777 | 97,337 | 68,273 | 7,667 | 5,403 | 181,329 | 977,786 |
| Interest Sensitivity Position | | \$(29,139) | \$6,415 | \$25,958 | \$39,784 | \$105,060 | \$(148,078) | \$- |

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, 2009 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:

notes to the consolidated financial statements

YEAR ENDED DECEMBER 31, 2009
(in thousands of dollars)

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

| ASSETS | BOOK VALUE | FAIR VALUE | FAIR VALUE |
|--|-------------------|-------------------|----------------------------|
| | | | OVER (UNDER) BOOK VALUE |
| Cash resources | \$ 144,430 | \$ 145,613 | \$ 1,183 |
| Loans | 819,404 | 830,891 | 11,487 |
| Investments and other | 3,253 | 3,253 | - |
| | <u>\$ 967,087</u> | <u>\$ 979,757</u> | <u>\$ 12,670</u> |
| LIABILITIES AND MEMBERS' EQUITY | | | |
| Deposits | \$ 900,082 | \$ 905,639 | \$ 5,557 |
| Other | 22,393 | 22,360 | (33) |
| | <u>\$ 922,475</u> | <u>\$ 927,999</u> | <u>\$ 5,524</u> |

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, 2009. 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 securitized or syndicated 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.

| | 2009 | 2008 |
|---|------------------|------------------|
| Securitized Loans (Note 19) | \$ 3,043 | \$ - |
| Syndicated Loans | 15,141 | 18,628 |
| Investment portfolios and mutual funds, at market value | 80,648 | 65,145 |
| | <u>\$ 98,832</u> | <u>\$ 83,773</u> |

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, 2009, the Credit Union has outstanding letters of credit on behalf of members in the amount of \$7,899 (2008: \$8,875).

19. LOAN SECURITIZATION

The following table summarizes residential loans securitized during the year:

| | 2009 | 2008 |
|------------------------------------|--------------|----------|
| Net cash proceeds received | \$ 3,974 | \$ - |
| Retained rights to excess interest | 197 | - |
| Deferred servicing revenue | (41) | - |
| | <u>4,130</u> | <u>-</u> |
| Mortgages securitized | 3,980 | - |
| Net gain on sale | \$ 150 | \$ - |

The key assumptions used to value the retained interests at the date of securitization were as follows:

| | 2009 | 2008 |
|--|-------|------|
| Prepayment rate | 20% | - |
| Excess spread | 2.42% | - |
| Discount rate | 2.28% | - |
| Weighted average life of loans (years) | 2.15 | - |

At December 31, 2009, the total principal outstanding in respect of securitized loans amounted to \$3,043. The retained interest in securitization, included in receivables and prepaid expenses, amounted to \$171. Deferred servicing revenue included in accounts payable and other liabilities are \$26.

20. DERIVATIVE FINANCIAL INSTRUMENTS

On June 2, 2008 the Credit Union entered into a hedging transaction, whereby it used a cross currency swap contract in the amount of \$20,000 USD (receiving \$20,000 USD and paying \$19,800 CAD, maturing on March 2, 2009), to hedge a \$20,000 USD term deposit maturing on the same date.

At the 2008 year end the term deposit liability had a fair value of \$24,400 CAD. The swap receivable also had a fair value of \$24,400 CAD. At the 2008 year end this derivative contract was marked to market, which involves present valuing the price of the equivalent forward rate at year end. The difference between the forward rate and the swap rate is a loss of \$264, which was included in other comprehensive income for the 2008 year.

During 2009, the cross currency swap contract matured.

21. NOTE TO THE STATEMENT OF CASH FLOWS

| | 2009 | 2008 |
|-------------------|-----------|-----------|
| Income taxes paid | \$ 595 | \$ 694 |
| Dividends paid | \$ 138 | \$ 180 |
| Interest paid | \$ 23,889 | \$ 29,746 |

22. COMPARATIVE FIGURES

Certain 2008 comparative figures have been restated to conform with the current year's presentation.

five year financial review

YEAR ENDED DECEMBER 31, 2009
(in thousands of dollars)

CONSOLIDATED BALANCE SHEET (UNAUDITED)

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Cash and Investments | \$ 147,683 | \$ 85,352 | \$ 73,199 | \$ 69,472 | \$ 71,357 |
| Loans | 819,404 | 896,493 | 841,629 | 773,410 | 669,064 |
| Other Assets | 10,699 | 15,984 | 12,207 | 12,156 | 10,077 |
| Total Assets | \$ 977,786 | \$ 997,829 | \$ 927,035 | \$ 855,038 | \$ 750,498 |

| | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Member Deposits | \$ 900,082 | \$ 892,127 | \$ 812,938 | \$ 749,993 | \$ 683,677 |
| Other Liabilities | 22,393 | 54,003 | 63,969 | 58,519 | 23,765 |
| Members' Equity | 55,311 | 51,699 | 50,128 | 46,526 | 43,056 |
| Total Liabilities and Members' Equity | \$ 977,786 | \$ 997,829 | \$ 927,035 | \$ 855,038 | \$ 750,498 |

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|-----------|-----------|-----------|-----------|-----------|
| Interest Income | \$ 43,194 | \$ 52,507 | \$ 52,646 | \$ 45,107 | \$ 36,265 |
| Interest Expense | 20,634 | 30,916 | 30,000 | 22,643 | 16,465 |
| Other Income | 5,827 | 4,958 | 4,732 | 4,676 | 5,655 |
| Operating Expenses | 23,945 | 23,836 | 23,162 | 22,489 | 20,364 |
| Earnings before Income Tax and Distributions | \$ 4,442 | \$ 2,713 | \$ 4,216 | \$ 4,651 | \$ 5,091 |

Selected Statistical Data (Unaudited)

(as a percentage of average assets)

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|--------------------------------------|------|------|------|------|------|
| Financial Margin | 2.32 | 2.21 | 2.50 | 2.79 | 2.78 |
| Other Income | 0.60 | 0.51 | 0.52 | 0.58 | 0.79 |
| Operating Expenses | 2.46 | 2.44 | 2.56 | 2.79 | 2.86 |
| Income before Distribution and Taxes | 0.46 | 0.28 | 0.47 | 0.58 | 0.71 |

Allowance for Losses on Loans

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|-----------------|----------|----------|----------|----------|----------|
| Closing Balance | \$ 3,714 | \$ 4,067 | \$ 3,763 | \$ 3,327 | \$ 3,304 |

board of directors



Vince Fiamengo, *Chair*



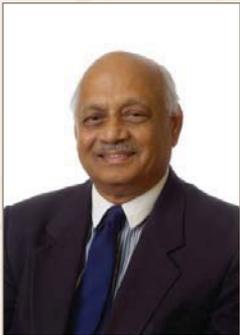
Lewis Bubl , *1st Vice Chair*



Aubrey Searle, *2nd Vice Chair*



Joseph Borojevich, *Director*



Vila Nova Carvalho, *Director*



Brian Hamaguchi, *Director*



Tim Major, *Director*



Howard Normann, *Director*



John Secord, *Director*



Gary Williamson, *Director*



Mercedes Wong, *Director*



Floyd Yamamoto, *Director*

corporate office

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604.517.5100

gulf & fraser insurance services

Vancouver Agency
803 E. Hastings Street 604.254.8224

senior management team

Richard Davies, Chief Executive Officer
William Kiss, Chief Financial Officer
Jeff Shewfelt, Vice President Sales and Service
Juliana Yung, Vice President Commercial Credit
Bill Hartley, Vice President Human Resources
Ron Lee, Associate Vice-President Finance
Kathy O'Flaherty, Associate Vice-President Retail Credit
Chris Goodman, Associate Vice-President Technology

branch locations

vancouver

41st Avenue
2735 E. 41st Avenue
604.437.4774

Main Street
1-2949 Main Street
604.879.7131

Hastings
803 E. Hastings Street
604.254.9811

new westminster

New West
760 6th Street
604.526.2122

richmond

Richmond Centre
7971 Westminster Hwy.
604.278.0220

Steveston
3471 Chatham Street
604.271.5911

burnaby

South Burnaby
7375 Kingsway
604.521.2315

Southpoint
Pod B, 6911 Southpoint Dr.
604.528.8383

port coquitlam

Lougheed & Westwood
400-2748 Lougheed Hwy.
604.941.8300

surrey

Fleetwood
101-15910 Fraser Hwy.
604.599.6177

Nordel Crossing
101-12020 Nordel Way
604.507.8688

Cloverdale
500-6456 176th Street
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WHERE MEMBERS BELONG

