



2009
Annual Report

Table of Contents

| | |
|---|----|
| Minutes of Last Annual Meeting | 4 |
| Report of the Board of Directors | 8 |
| Auditors' Report | 9 |
| Report of the General Manager | 10 |
| Financial Statements | |
| Balance Sheet | 11 |
| Statement of Earnings | 12 |
| Statement of Changes in Members' Equity | 13 |
| Statement of Cash Flows | 14 |
| Notes to Financial Statements | 15 |
| Schedule of Expenses | 34 |
| Report of the Audit Committee | 35 |
| Loan Report | 36 |
| Marketing Report | 37 |
| Privacy and Compliance Report | 38 |
| Board of Directors and Staff | 39 |

Minutes of the Annual General Meeting

7:00 p.m. April 8, 2009

Royal Canadian Legion Branch 76, Sudbury, ON

Mission: *Northridge Savings & Credit Union is a community based financial cooperative providing cost-effective financial products and services to people and businesses in Greater Sudbury in a friendly, professional, and personal manner.*

Vision: *Northridge Savings & Credit Union will be the first choice for financial services and will be recognized as a distinguished partner with our members and our community.*

Values: **Caring** **Organized** **Open minded** **Professional** **Ethical**
Responsible **Accountable** **Teamwork** **Integrity** **Visionary**
Excellence

Regrets: G. Labelle, President; A. Frattini, Director

Registration

The meeting was attended by 35 members and 3 guests:

- ✿ Don Garrioch, auditor - KPMG
- ✿ Stevens Horton, legal counsel - Weaver, Simmons
- ✿ Rick Moeskops - CGI

Call to Order

Vice-President P. McNally called the meeting to order at 7:04 p.m. Invocation was given by Ms. Bette Choquette to guide us in our work for the Organization and its members, followed by a moment of silence in memory of those no longer with us.

Chair's Opening Remarks

A warm welcome was extended to all in attendance, with optimism and gratefulness for the state of Northridge's finances.

Establishment of Quorum

A Quorum was established. It was generally agreed that the reading of the reports would be dispensed with the exception of the auditors' report.

Minutes of Last Meeting (April 2, 2008)

Motion: That the minutes of the annual meeting of April 2nd, 2008 be accepted as presented.

Moved: B. Choquette Seconded: V. LaFlamme

CARRIED

Directors' Report

Vice-President P. McNally presented the Directors' Report on behalf of G. Labelle, President. Our 2007 growth has been matched and surpassed, as was our goal. The hard work of staff, management and directors was recognized and appreciated.

Motion: That the Director's report be received.

Moved: E.R. Unger Seconded: R. Abreu

CARRIED

Auditors' Report

Mr. Don Garrioch of KPMG read the auditors' report. The unqualified report reflected the fact that Northridge Savings and Credit Union had enjoyed another good year.

Motion: That the Auditors' Report be accepted as presented.

Moved: L. Racette Seconded: M. Teskey

CARRIED

General Manager's Report

Mr. Erik Jokinen presented highlights of his written report. Northridge Savings & Credit Union exceeded the \$50 million mark, finishing the year at \$51 million in assets. This is the continuation of a favorable trend, with an assets increase of 19.1%. Loans and deposits are continuing to grow. Revenue investment income and profitability are still very good. Expenses are largest in keeping members through good interest rates.

After-tax revenues are lower than last year, largely due to the BC merger for which Credit Unions picked up the deficit through Central Shares (Northridge's share is \$19,300), plus Asset-Backed Securities write-off of \$63,800 totaling \$83,100.

Our Banking System will continue to be with CGI due to Desjardins terminating their bid, and CGI committing to the service for another 4 years.

CHIP cards are definitely entering the financial markets and will soon be available. Mobile banking is now available at Northridge.

New International Financial Reporting Standards will impact us by 2011.

It is expected that tougher times may be coming. A patronage refund has been set aside, but will not be spent until we can see the trend for the year.

Review of Financial Statements

Mr. Erik Jokinen summarized and explained both graphically and verbally, the financial statements included in the Annual Report.

Motion: That the General Manager's and Financial Reports be accepted as presented.

Moved: L. La Croix Seconded: E.R. Unger

CARRIED

A question from the floor regarding the purpose of Professional Fees was addressed by E. Jokinen, who explained that accounting and legal fees made up the Professional Fees entry.

The reduction in Board Expenses was questioned from the floor. E. Jokinen assured those present that items had not been re-designated and the values given are a true reflection of expenses during 2008.

Audit Committee Report

Mr. Pat McNally submitted the Audit Committee Report regarding internal policies and procedures and the external auditor's findings.

Motion: That the Audit Committee's Report be accepted as presented.

Moved: E. R. Unger Seconded: B. McNally

CARRIED

Loan Report

Mr. Erik Jokinen noted that loans for 2008 totaled \$41,269,170. This represents a slight decrease in the number of loans, but an increase in the amount of funds borrowed by members over the previous year. Ms. Joanne Lamirande has taken over the Loans Officer position at Second Avenue from Ms. Patti Guy, who retired recently due to poor health.

Motion: That the Loan Report be accepted as presented.

Moved: L. Racette Seconded: R. Abreu

CARRIED

Marketing Report

Mr. David Lepage presented the marketing report, detailing activities and funds raised for specific charities throughout the year. Specifically noted was the addition of a Cortina Cruise for 10 students at each of the 3 schools in our area, which was appreciated by the recipients, and the production of a short commercial which received many positive responses.

Motion: That the Marketing Report be accepted as presented.

Moved: V. LaFlamme Seconded: L. La Croix

CARRIED

Privacy and Compliance Report

Mr. David Lepage reported that all Privacy and Compliance requirements are up to date. Required training has been completed.

Motion: That the Privacy and Compliance Report be accepted as presented.

Motion: J. Lamirande Seconded: L. Racette

CARRIED

Balances Score Card Report

Ms. Bette Choquette presented the Balanced Score Card Report.

Motion: That the Balanced Score Card Report be accepted as presented.

Moved: B. Choquette Seconded: E.R. Unger

CARRIED

Appointment of Auditors

Vice-President P. McNally called for a motion to re-appoint KPMG as our auditors for 2009.

Motion: That KPMG be retained as auditors for Northridge Savings and Credit Union in 2009.

Moved: R. Abreu Seconded: L. Racette

CARRIED

Election of Members to the Board

An election was called to fill the seats on the Board for those members whose terms have expired.

- ✓ Ron Abreu was nominated by L. Racette
- ✓ V. LaFlamme was nominated by E. Lovin
- ✓ Robert Unger was nominated by S. Horton
- ✓ No nominated were offered from the floor.

Nominations for the Board of Directors were closed. Incumbents acclaimed.

The Chairs was returned to P. McNally.

Other Business

Mr. Rick Moeskops (CGI) thanked us for our business and assured all present that CGI is looking forward to continuing as our Banking System provider.

A question from the floor regarding the possibility of staff reductions due to economic times was taken by Mr. Erik Jokinen, who affirmed there are no expected reductions at this time. Although the member was concerned about loan delinquency and a lock-down encountered at another institution, assurances were given that Northridge is still in good shape with plenty of capital, and a lock-down of invested funds is not a consideration.

Mr. E. Jokinen presented long service awards to employees:

- ✚ 10-year pin presented to Pat Brady
- ✚ 15-year pin presented to Tess McLaughlin

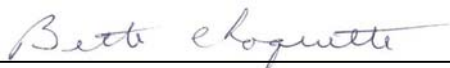
Draws were made for various prizes from names of members in attendance. Prizes included solar lights, Tim Horton's gift certificates, travel mugs, data stick, bird feeder and were won by L. Racette, M. Hadner, B. Cropper, J. Lindsay, M.A. Meunier, S. Stevens, M. Teskey, N. Sauter, J. Lamirande, M.E. Friend and A. Ashley. Two of the prizes were donated by CGI.

Adjournment

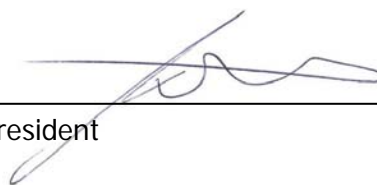
Motion: That the meeting be adjourned at 8:07 p.m.

Moved: B. McNally

A social and refreshments followed the meeting.



Secretary



President

Report of the Board of Directors

Northridge Savings and Credit Union had a successful and eventful year as it grappled with a turbulent and difficult economic climate in 2009. Despite the bad economic news that seemed to develop with each passing day, I'm pleased to report that Northridge Savings and Credit Union, performed well in 2009.

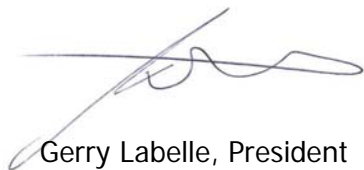
While we are still weathering an 8 month old strike with one of the larger employers in this city and are dealing with the impact on families struggling to keep their heads above water, our business model of member ownership worked well as we battled the unprecedented downturn in the global economy. Never has the idea, of serving the needs of credit union members to guide our decisions, served us so well. We did not take unnecessary risks with lending or investment programs which in turn ensured that our members' money was not exposed to high risk, but tended towards a more conservative approach.

Northridge Savings and Credit Union is ready for the challenges we'll face in 2010. Some economic indicators predict a bottoming out of the economic downturn in 2010 while others are not as rosy. Regardless of when our economy starts to grow, Northridge Savings' managers under the leadership of our CEO will continue to monitor each development and maintain a flexible and innovative approach to providing the best financial services to our members.

This year there were a number of regulatory changes that saw us changing our General Manager's title to CEO. We were also directed to limit the number of terms a member can serve on the Board. These changes have been incorporated to our revised By-Laws which you will be asked to vote on at this meeting. The Board also took on the task of putting together a Best Practices document to help in its ongoing work. The document defines the role of the Board and the way it conducts its business. It is an exciting move forward that was long overdue and the Board is to be commended for the manner in which this document was developed and approved.

Having served four consecutive years as president, I must step down as president and allow someone else to stand up and serve the members. I will however remain on the Board and continue to be a part of Northridge for as long as the new regulations will allow and as long as the members vote me back on the Board. I extend my thanks to the members of Northridge Savings and Credit Union for your continued patronage. Also, I'd like to thank our, CEO, management team and staff for their dedication and commitment to our ongoing success and without whom we might not have fared as well. ... And a big "Thank You!" to my fellow board members who put up with my sense of humour and my pushing meetings along so that we could get everything on the agenda covered in the time allotted.

Respectfully submitted,



Gerry Labelle, President
Board of Directors



KPMG LLP
Chartered Accountants

Claridge Executive Centre
144 Pine Street PO Box 700
Sudbury ON P3E 4R6

Telephone (705) 675-8500
Telefax (705) 675-7586
In Wats (1-800) 461-3551
www.kpmg.ca

Auditors' Report to the Members

We have audited the balance sheet of **Northridge Savings & Credit Union Limited** as at December 31, 2009 and the statements of earnings, changes in members' equity and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these 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 cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Credit Union taken as a whole. The current year's supplementary information included in the Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chartered Accountants, Licensed Public Accountants

Sudbury, Canada
January 19, 2010



KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International, a Swiss nonoperating association.

Report of the Chief Executive Officer

The past year has been a tough one when considering the world economy and the local labour issues. However, I am truly pleased to report that your Credit Union has continued to progress through these tough economic times. There continued to be a good demand for member loans which increased 11.5% to \$46 million. These loans were funded with member deposits that grew 9.2% to \$52.4 million. Overall assets of the credit union were up 9.4% and stood at \$55.9 million at year end. More important is the measure of a sound business; our members' equity improved 13.4% for the year and increased to \$3,068,967. Net earnings for the year were \$363,713. It should be noted that in excess of \$100,000 over the amount provided last year, has been allocated to impaired loans. This does not mean that those funds have been lost, but that a prudent decision has been made to help cushion any unforeseen delinquencies.

We are well on our way to implementing the Chip card in 2010. A lot has happened over the past year and it will be important to continue focusing on our Chip card roll out in order to meet the objectives of the Credit Union implementation program. Our primary goal is to ensure compliance for meeting Interac deadlines. Our deposit-taking ATMs must be 90% compliant by the end of this year and 100% compliant by the end of 2012. We must have at least 65% of our member debit cards with PINS at the end of 2010 and 100% by 2012. Northridge's ATMs will be upgraded or replaced this year to meet these important dates. Chip-enabled debit cards will be issued prior to November. Of course, all of these changes will require staff time and additional financial resources.

In June of last year, the Deposit Insurance Corporation of Ontario conducted an on-site audit of Northridge Savings. DICO is the provincial organization charged with auditing all Credit Unions and Caisse Populaires in Ontario. DICO also insures our members' deposits to \$100,000. We are pleased to report that DICO's inspection went extremely well and only a few minor recommendations were noted. On a similar note, Bulldog Digital Services performed an external risk scan of our security systems. Of the areas that were scanned, all were found to be compliant with no cautionary notes. The average external risk of the credit union was rated as very low. Both of these inspections and tests are done regularly to ensure that we remain fully compliant with regulations and our own internal policies.

Legislative amendments to the Credit Unions and Caisses Populaires Act, 1994 and new Regulations were passed in 2009 and became law in October. We had to amend our general by-law to bring the Credit Union into compliance with the recent amendments. There are numerous changes but most are of a house-keeping nature. Of note is the Credit Union's bond of association being expanded to include persons who reside anywhere in Ontario and not just in the Sudbury area. Directors can no longer serve more than five consecutive three-year terms and the Chair of the Board may not now serve for more than four consecutive one-year terms.

Challenges for the credit union will continue with changes occurring both internally and externally. We are in an excellent position to meet them head on and will continue with our prudent approach to growth and risk. Our financial results for the past year speaks well of the hard work from all staff members and most definitely the dedicated efforts and direction provided by the board of directors. Our thanks are also extended to the members for your on-going business and loyalty.

Respectfully submitted,



Erik K. Jokinen
Chief Executive Officer

Northridge Savings & Credit Union Limited
BALANCE SHEET

December 31, 2009, with comparative figures for 2008

| | 2009 | 2008 |
|--|----------------------|----------------------|
| Assets | | |
| Cash | \$ 3,758,548 | \$ 4,000,209 |
| Loans to members (note 3) | 46,011,729 | 41,269,170 |
| Other assets | 153,273 | 78,435 |
| Investments & marketable securities (note 4) | 4,418,171 | 4,066,009 |
| Property, plant and equipment (note 5) | 1,485,100 | 1,598,661 |
| Income taxes receivable | - | 8,902 |
| Future Income taxes (note 10) | 61,000 | 44,000 |
| | \$ 55,887,821 | \$ 51,065,386 |
| Liabilities and Members' Equity | | |
| Members' deposit accounts (note 6) | \$ 52,381,683 | \$ 47,988,048 |
| Liabilities to non-members: | | |
| Accounts payable & accrued liabilities | 229,171 | 184,446 |
| Income taxes payable | 16,826 | - |
| | 245,997 | 184,446 |
| Liabilities qualifying for regulatory capital (note 7) | 191,174 | 187,638 |
| Members' equity | 3,068,967 | 2,705,254 |
| Commitments (note 11) | | |
| Contingencies (note 14) | | |
| | \$ 55,887,821 | \$ 51,065,386 |

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

Northridge Savings & Credit Union Limited

STATEMENT OF EARNINGS

Year ended December 31, 2009, with comparative figures for 2008

| | 2009 | 2008 |
|--|-------------------|-------------------|
| Revenue: | | |
| Interest Income | | |
| - non-mortgage loans | \$ 781,984 | \$ 760,928 |
| - mortgage loans | 1,958,009 | 1,903,419 |
| - investment income | 144,366 | 128,385 |
| | <u>2,884,359</u> | <u>2,792,732</u> |
| Cost of financing: | | |
| Interest Expense | | |
| - registered retirement savings plan | 161,503 | 176,585 |
| - term deposits | 646,175 | 655,424 |
| - deposits | 65,201 | 71,793 |
| - registered retirement income funds | 49,706 | 58,506 |
| | <u>922,585</u> | <u>962,308</u> |
| Net interest income | 1,961,774 | 1,830,424 |
| Provision for impaired loans (note 3c) | 124,725 | 24,000 |
| Net interest income after provision for impaired loans | 1,837,049 | 1,806,424 |
| Other revenue | 467,232 | 465,868 |
| | <u>2,304,281</u> | <u>2,272,292</u> |
| Non-Interest Expenses: (Schedule) | | |
| Salaries and benefits | 895,027 | 905,968 |
| General | 381,229 | 344,134 |
| Computer, office and other equipment | 223,672 | 217,160 |
| Occupancy | 211,159 | 196,606 |
| Advertising and communications | 89,656 | 89,135 |
| Member security | 76,150 | 66,209 |
| | <u>1,876,893</u> | <u>1,819,212</u> |
| Earnings before the undernoted | 427,388 | 453,080 |
| Write-down of investments | - | (83,100) |
| Earnings before income taxes | 427,388 | 369,980 |
| Income taxes (note 10) | | |
| Current income taxes | 80,675 | 74,200 |
| Future income taxes (recovered) | (17,000) | (8,800) |
| | <u>63,675</u> | <u>65,400</u> |
| Net earnings | \$ 363,713 | \$ 304,580 |

See accompanying notes to financial statements.

Northridge Savings & Credit Union Limited
STATEMENT OF CHANGES IN MEMBERS' EQUITY

Year ended December 31, 2009, with comparative figures for 2008

| | 2009 | 2008 |
|-----------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 2,705,254 | \$ 2,400,674 |
| Net earnings | 363,713 | 304,580 |
| Balance, end of year | \$ 3,068,967 | \$ 2,705,254 |

See accompanying notes to financial statements.

Northridge Savings & Credit Union Limited

STATEMENT OF CASH FLOWS

Year ended December 31, 2009, with comparative figures for 2008

| | 2009 | 2008 |
|---|---------------------|---------------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Net earnings | \$ 363,713 | \$ 304,580 |
| Adjustments for: | | |
| Amortization of property & equipment | 149,670 | 151,122 |
| Provision for impaired loans | 124,725 | 24,000 |
| Write-down of investments | - | 83,100 |
| | 522,238 | 562,802 |
| Change in non-cash working capital | | |
| Other assets | (74,838) | 29,141 |
| Future income taxes | (17,000) | (8,800) |
| Accounts payable & accrued liabilities | 44,725 | 17,049 |
| Income taxes | 25,728 | (42,356) |
| | 616,723 | 557,836 |
| Financing activities: | | |
| Net change in members' deposit accounts | 4,393,635 | 7,901,383 |
| Net change in membership shares | 3,536 | 1,160 |
| | 4,397,171 | 7,902,543 |
| Investing activities: | | |
| Net change in loans to members | (4,867,284) | (4,358,419) |
| Purchase of equipment | (36,109) | (28,991) |
| Increase in investments | (352,162) | (791,626) |
| | (5,255,555) | (5,179,036) |
| Increase (decrease) in cash position | (241,661) | 3,281,343 |
| Cash, beginning of year | 4,000,209 | 718,866 |
| Cash, end of year | \$ 3,758,548 | \$ 4,000,209 |

Supplemental cash flow information:

Income taxes paid - \$54,947 (2008 - \$53,444)

Interest paid - \$1,018,522 (2008 - \$902,260)

See accompanying notes to financial statements.

Northridge Savings & Credit Union Limited

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2009

Northridge Savings & Credit Union Limited (the "Credit Union") was incorporated on June 1, 1984 and operates in compliance with the Credit Union and Caisses Populaires Act of Ontario (the "Act"). The Credit Union is a member of Central 1 Credit Union ("Central 1") and the Deposit Insurance Corporation of Ontario ("DICO"). The Credit Union provides financial services and products to its members through two branches in the Greater Sudbury area.

1. FUTURE ACCOUNTING CHANGES:

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Credit unions are specifically scoped into the definition of a publicly accountable enterprise. As such, the Credit Union will be required to prepare the December 31, 2011 financial statements including comparative information in compliance with IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The Credit Union is currently in the process of assessing the differences between current accounting policies and those provided by IFRS, as well as the alternatives available on adoption. The assessment will include the potential impact of the conversion on accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures, financial reporting, and business activities.

2. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Credit Union have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies adopted by the Credit Union are as follows:

(a) Loans to members:

Loans to members are designated as loans and receivable and are initially measured at fair value and are subsequently remeasured at their amortized cost (net of an allowance for loan losses) using the effective interest rate method. Loans considered uncollectible are written off.

All transaction fees and expenses are recorded in other income and expense at the transaction date.

NOTES TO FINANCIAL STATEMENTS (continued)

(b) Allowance for impaired loans:

The Credit Union maintains allowances for impaired loans which reduce the carrying value of loans identified as impaired to their estimated realizable amounts. Loans classified as impaired include loans for which interest or principal payments are ninety days past due and those considered to be impaired by management. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans, by estimating the fair value of security underlying the loans and deducting costs of realization, or by estimating market prices for the loans.

Specific allowances are established for loans identified as impaired. These allowances are supplemented by general allowances for losses based on payment arrears, known risk in the portfolio, historical loan loss experience and current economic conditions and trends. The allowance for impaired loans is in accordance with the guidelines established by DICO.

(c) Financial instruments - recognition and measurement:

Financial assets and liabilities are recognized on the balance sheet of the Credit Union at the time that the Credit Union becomes a party to the contractual provision of the instrument. The Credit Union recognizes financial instruments at the settlement date.

All financial assets and liabilities are to be measured at fair value upon initial recognition, except for certain related party transactions. Subsequent measurement is dependent upon the financial instrument's classification

There have been no reclassifications or derecognition of financial assets during the year.

(d) Effective interest method:

Interest income and expense are recognized in the Statement of Earnings using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

(e) Cash resources:

Cash resources comprise balances with less than 100 days maturity from the date of acquisition, including cash on hand, current accounts, short term deposits with other financial institutions and cheques and other items in transit. Cash resources have been designated as Held for Trading, except for short term deposits with less than 100 days maturity from the date of acquisition which are designated as Loans and Receivables, and are measured at fair value with all changes in fair value being recognized in interest income. Given their short term nature, the book value of cash resources, excluding short term deposits, is a reasonable approximation of fair value. Interest earned on these instruments is included in interest income and transaction costs are expensed as incurred.

NOTES TO FINANCIAL STATEMENTS (continued)

(e) Cash resources (continued):

The calculation of the effective interest rate includes transaction costs and discounts or premiums that are an integral part of the effective interest rate.

(f) Financial instruments - non-derivative financial instruments:

Non-derivative financial instruments comprise cash, investments and marketable securities, loans to members, members' deposit accounts and accounts payable and accrued liabilities.

Assets - Loans and receivables:

Non-derivative financial assets that have fixed or determinable payments are classified as loans and receivables. They are carried at amortized cost, using the effective interest rate method.

Assets - Held for Trading:

Non-derivative financial assets which the Credit Union has acquired principally for the purpose of selling or repurchasing in the near term, or are part of a portfolio of identified investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or are designated at fair value using the fair value option are classified as held for trading. These investments are recorded at fair value with changes taken directly to the statement of earnings.

Assets - Available for Sale:

Non-derivative financial assets that the Credit Union may not hold until maturity are classified as available for sale and reported at estimated fair value. Unrealized gains and losses, after applicable taxes, are reported in Other Comprehensive Income. Non-marketable equity investments, which include investments in companies not traded on an active market and are part of the credit union system. These assets are accounted for using the amortized cost method.

The Credit Union reduces the carrying value when any declines in the value of investments are considered other than temporary and records the charge to earnings.

The Credit Union accounts for the purchase and sale of securities using settlement date accounting.

Assets - Held to Maturity:

Non-derivative financial assets which the Credit Union both positively intends and has the ability to hold to maturity are classified as investments held to maturity and are carried at amortized cost. Intent and ability to hold are not considered to be satisfied if an investment is available to be sold in response to changes in interest rates, prepayment rates or other reasons as part of the overall asset/liability management strategy.

NOTES TO FINANCIAL STATEMENTS (continued)

(f) Financial instruments - non-derivative financial instruments (continued):

Liabilities - Other Liabilities

The Credit Union has designated all financial liabilities as Other Liabilities. Financial liabilities designated as Other Liabilities are recorded at amortized cost. Interest incurred on these liabilities is included in interest expense.

(g) Comprehensive earnings:

In the event that the Credit Union has any financial instruments that would impact other comprehensive earnings, a statement of comprehensive earnings is included in the financial statements displaying the effects of the current period net income plus the impact on other comprehensive earnings resulting from these financial instruments.

(h) Other assets:

Other assets include prepaid expenses and accounts receivable.

(i) Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated amortization. Amortization is provided on the straight-line basis over the expected useful life of the assets, as follows:

| | |
|-------------------------|----------------|
| Buildings | 40 to 50 years |
| Building renovations | 10 years |
| Building additions | 20 years |
| Parking lot | 10 years |
| Furniture and equipment | 5 years |

(j) Income taxes:

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

(k) Share capital:

The membership shares are classified on the balance sheet as a liability as the shares are redeemable at the options of the member. Accordingly, any dividends authorized on these shares are recorded as interest expense.

NOTES TO FINANCIAL STATEMENTS (continued)

(l) 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 amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods specified. Significant estimates are made with regard to the potential loan loss on impaired loans and the valuation of property, plant and equipment. Actual results could differ from those estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the year in which they become known.

(m) Equity swap agreements:

The Credit Union offers members term deposits whose rate is derived from a market index or basket of stocks. These Index-Linked term deposits offer principal guarantee and a variable rate of return contingent on the performance of equity markets.

The Credit Union enters into equity swap agreements to hedge the risk of interest payments due at the maturity date of index-linked term deposits. The equity swaps involve the Credit Union paying Central 1 a fixed rate of interest while Central 1 pays the return owed to members on the index-linked term deposits. The index-linked products are recorded at fair value with all changes in fair value recorded in income. Interest expense related to these products is expensed as incurred. The fair market value of the related option value and liability to members are included in other assets and payable and accrued liabilities.

(n) Foreign currency translation:

Assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on translation of monetary items are included in earnings for the year.

3. LOANS TO MEMBERS:

(a) Net carrying value of loans:

An analysis of the loan portfolio is as follows:

| | 2009 | | | 2008 | | |
|-----------------------|---------------------|-----------|------------|---------------------|-----------|------------|
| | Balance Outstanding | Allowance | Net | Balance Outstanding | Allowance | Net |
| Residential mortgages | \$ 34,209,236 | - | 34,209,236 | 30,791,447 | - | 30,791,447 |
| Personal loans | 9,653,260 | 126,367 | 9,526,893 | 8,415,051 | 38,517 | 8,376,534 |
| Commercial | | | | | | |
| - mortgage loans | 1,983,983 | - | 1,983,983 | 1,824,759 | - | 1,824,759 |
| - non-mortgage loans | 337,982 | 46,365 | 291,617 | 316,173 | 39,743 | 276,430 |
| | \$ 46,184,461 | 172,732 | 46,011,729 | 41,347,430 | 78,260 | 41,269,170 |

NOTES TO FINANCIAL STATEMENTS (continued)

(b) Allowance for impaired loans:

The following table analyzes impaired loans and the related allowance for impaired loans:

| | 2009 | | | 2008 | | |
|--------------------------------|--------------|-----------------|-----------|---------|--------------|-------|
| | No. of Loans | Principal Value | Allowance | Net | No. of Loans | Net |
| Personal loans | 17 | \$ 111,106 | 57,647 | 53,459 | 3 | 1,059 |
| Commercial - mortgage loans | 1 | 237,563 | - | 237,563 | - | - |

(c) Continuity of allowance for impaired loans:

The following table analyzes changes in the allowance for impaired loans:

| | 2009 | 2008 |
|---------------------------------|-----------|----------|
| Balance, beginning of year | \$ 78,260 | 83,004 |
| Provision for impaired loans | 124,725 | 24,000 |
| Loans written-off | (35,031) | (37,071) |
| Recoveries of loans written-off | 4,778 | 8,327 |
| Balance, end of year | \$ 72,732 | 78,260 |

(d) Maturity dates of loans:

The following table analyzes the Credit Union's loan portfolio by maturity date:

| | Variable rates | Fixed rates | | 2009 | 2008 |
|-------------------------|----------------|------------------|------------|------------|------------|
| | | Less than 1 year | 1-35 years | Total | Total |
| Total loans | \$ 12,574,244 | 5,057,800 | 28,552,367 | 46,184,411 | 41,257,605 |
| Average effective yield | 7.31% | 5.04% | 5.77% | 6.11% | 6.75% |

NOTES TO FINANCIAL STATEMENTS (continued)

4. INVESTMENTS:

| | 2009 | | | 2008 | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Fair Value | Cost | Carrying value | Fair value | Cost | Carrying Value |
| Available for sale: | | | | | | |
| Central 1 shares | \$ 289,498 | \$ 289,498 | \$ 289,498 | \$ - | \$ - | \$ - |
| Credit Union Central of Ontario shares | 58,201 | 77,501 | 58,201 | 359,683 | 378,984 | 359,683 |
| 2176100 Ontario Ltd. | 203,214 | 171,835 | 171,835 | 219,677 | 283,477 | 219,677 |
| Other | 13,715 | 13,715 | 13,715 | 13,715 | 13,715 | 13,715 |
| | 564,628 | 552,549 | 533,249 | 593,075 | 676,176 | 593,075 |
| Loans and receivables: | | | | | | |
| Liquidity reserve deposit | 3,885,069 | 3,884,906 | 3,884,922 | 3,501,579 | 3,472,934 | 3,472,934 |
| Total investments | \$ 4,449,697 | \$ 4,437,455 | \$ 4,418,171 | \$ 4,094,654 | \$ 4,149,110 | \$ 4,066,009 |

Central 1 Liquidity reserve deposit

As a condition of membership in Central 1, the Credit Union is required to maintain a liquidity reserve deposit at Central 1 equal to 7.00% of total assets adjusted annually at December 31st. The deposits bear interest at varying rates, dependent upon the term of the investment.

Investment in 2176100 Ontario Ltd.

As a pre-condition of the merger to form Central 1, Credit Union Central of Ontario ("CUCO") was required to divest itself of investments in certain third party asset-backed commercial paper ("ABCP"). The resolution approved the creation of a limited partnership ("the Partnership") to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. As a result, on July 1, 2008, immediately prior to the merger of CUCO and Credit Union Central of British Columbia ("CUCBC"), the excluded ABCP with a total par value of \$186,916,000 was acquired by the Partnership at its estimated fair value of \$133,564,000 including accrued interest, net of expenses, and other assets. As there is still no liquid market in these ABCP investments, the fair values used to determine the acquisition price were provided by Edenbrook Hill Capital Ltd., a firm engaged by CUCO to provide an independent valuation of these assets underlying the ABCP investments.

Members of CUCO were required to purchase units in the Partnership based on their proportionate share ownership in CUCO prior to the date of the merger. As a result, the Credit Union was required to purchase 306,418 units in the Partnership. The Credit Union has designated the ABCP investments as Available for Sale. As there is no liquid market in these investments, the investments were recorded at cost instead of fair value net of any provisions. To determine if a provision was required in 2008, valuations were performed on the assets underlying the ABCP investments. The valuations in 2008 were significantly lower than book value due to the impact of deteriorating market conditions. As a result, the Credit Union recorded a write-down of the investment in the Partnership of \$63,800 in 2008. No additional provision was required in 2009.

NOTES TO FINANCIAL STATEMENTS (continued)**Shares in Credit Union Central of Ontario and Central 1**

As a member of Central 1, the Credit Union is required to maintain an investment in Central 1 shares equal to its proportionate share of the level of capital required by Central 1. The Credit Union's share of Central 1 capital requirements is based on asset size relative to other Class "A" members. Central 1 rebalances the investment annually.

When CUCO and CUCBC merged to form Central 1, CUCO sold substantially all of its asset to Central 1 in exchange for Class A and Class E shares. The final number of shares is subject to future price adjustments. During 2009, CUCO distributed \$126,798 in Class A shares, \$162,700 in Class E shares and \$25,877 in capital to the Credit Union. The balance of the Central 1 shares and remaining cash will be distributed subsequent to December 31, 2009. The capital distributions were recorded as a reduction in the original investment. The Credit Union also retained \$77,501 in CUCO shares, which at the time of the acquisition by CUCBC were impaired.

As a condition of membership in Central 1, the Credit Union is required to maintain an investment in shares of Central 1 equal to 0.9% of total assets adjusted annually at December 31st. The shares of Central 1 may only be surrendered for proceeds equal to the paid-in value in accordance with withdrawal from membership provisions or when the Credit Union's own shares and deposits decline.

The shares have been designated as Available for Sale, but carried at cost, less a write down of \$19,300 in 2008, as no liquid market exists for these shares.

5. PROPERTY, PLANT AND EQUIPMENT:

| | 2009 | | 2008 | |
|-------------------------------|--------------|--------------------------|--------------|--------------------------|
| | Cost | Accumulated depreciation | Cost | Accumulated depreciation |
| Land | \$ 362,413 | \$ - | \$ 362,413 | \$ - |
| Buildings | 1,746,977 | 714,340 | 1,745,306 | 623,760 |
| Parking lot | 42,297 | 40,946 | 38,570 | 37,611 |
| Furniture and equipment | 478,607 | 389,908 | 447,895 | 334,152 |
| | 2,630,294 | 1,145,194 | 2,594,184 | 995,523 |
| Less accumulated amortization | 1,145,194 | | 995,523 | |
| | \$ 1,485,100 | | \$ 1,598,661 | |

NOTES TO FINANCIAL STATEMENTS (continued)

6. MEMBERS' DEPOSITS ACCOUNTS:

| | 2009 | 2008 |
|------------------------------------|---------------|---------------|
| Deposits | \$ 23,984,379 | \$ 20,910,222 |
| Term deposits | 19,878,480 | 18,985,095 |
| Registered retirement savings plan | 6,004,345 | 6,052,909 |
| Registered retirement income funds | 1,820,875 | 1,652,174 |
| Tax free savings accounts | 401,893 | - |
| Accrued interest payable | 291,711 | 387,648 |
| | \$ 40,095,073 | \$ 37,173,620 |

The composite interest rate in force at December 31, 2009 ranged from 0% to 1.0% on demand deposits.

Term deposits are accepted at guaranteed interest rates, payable at maturity and annually on certificates of 30 days to five year terms.

The following table analyzes the Credit Union's term deposits payable by maturity date:

| | Variable rates | Fixed rates | | 2009 | 2008 |
|---------------------------------|----------------|------------------|-----------|------------|------------|
| | | Less than 1 year | 1-5 years | Total | Total |
| Total term deposits | - | \$ 16,666,200 | 3,212,280 | 19,878,480 | 18,985,095 |
| Average effective interest rate | - | 2.28% | 2.59% | 2.33% | 3.38% |

The following table provides an analysis of the Credit Union's RRSP and other registered plans payable by maturity date:

| | Variable rates | Fixed rates | | 2009 | 2008 |
|---------------------------------|----------------|------------------|-----------|-----------|-----------|
| | | Less than 1 year | 1-5 years | Total | Total |
| RRSP and other registered plans | \$ 424,900 | 5,147,400 | 2,654,813 | 8,227,113 | 7,705,083 |
| Average effective interest rate | 0.50% | 2.27% | 2.99% | 2.39% | 3.13% |

NOTES TO FINANCIAL STATEMENTS (continued)**7. LIABILITIES QUALIFYING FOR REGULATORY CAPITAL:**

Share capital:

| | 2009 | 2008 |
|-------------------|------------|------------|
| Membership shares | \$ 191,174 | \$ 187,638 |

The Credit Union is authorized to issue an unlimited number of membership shares at an issue price of \$5 each. Members must hold shares as a requirement of membership. At December 31, 2009, there were 38,235 shares issued and outstanding (2008 - 37,527). The shares are redeemable at the option of the member.

At December 31, 2009, the aggregate membership was 3,718 (2008 - 3,642).

8. CAPITAL MANAGEMENT:

The Credit Union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover risks inherent in the business.

The Credit Union's objectives when managing capital are:

- To ensure that the quantity, quality and composition of capital needed reflects the inherent risks of the entity and to support the current and planned operations and portfolio growth.
- To provide a safety net for the variety of risks to which the entity is exposed in the conduct of its business and to overcome the losses from unexpected difficulties either in earnings or in asset values.
- To provide a basis for confidence among members, depositors, creditors and Regulatory agencies.
- To form a solid foundation for business expansion and ongoing reinvestment in business capabilities, including technology and process automation and enhancement.
- To establish a capital management policy for the entity appropriate for current legal and economic conditions, including compliance with regulatory requirements and with DICO's Standards of Sound Business and Financial Practices.

The Credit Union Act requires credit unions to maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets, and of risk-weighted assets. Risk-weighted assets are calculated by applying risk weight percentages, as prescribed by the Act, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent upon the degree of risk inherent in the asset.

The Act requires credit unions to maintain a capital ratio of 4.00% and a risk-weighted capital ratio of 8.00%. The Credit Union has a stated policy that it will maintain at all times capital equal to the minimum required by the Act. The current minimum ratios per board policy are a capital ratio of 4.00% and a risk-weighted capital ratio of 8.00%. As at December 31, 2009, capital as a percentage of assets was 5.98% (2008 - 5.94%) and capital as a percentage of risk weighted assets was 16.61% (2008 - 16.17%).

NOTES TO FINANCIAL STATEMENTS (continued)

9. FINANCIAL RISK MANAGEMENT:

The nature of the Credit Union's holdings of financial instruments exposes the Credit Union to credit, liquidity and market risk.

Credit Risk

Credit risk is the potential for financial loss to the Credit Union if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. Credit risk is one of the most significant and pervasive risks in the business of a credit union. Every loan, extension of credit or transaction that involves settlements between the Credit Union and other parties or financial institutions exposes the Credit Union to some degree of credit risk.

The Credit Union's primary objective is to create a methodological approach to our credit risk assessment in order to better understand, select and manage our exposures to deliver stable ongoing earnings. The strategy is to ensure central oversight of credit risk, fostering a culture of accountability, independence and balance. The responsibility for credit risk management is organization-wide in scope, and is managed through an infrastructure based upon:

- (i) Centralized approval by the Board of Director's, of all credit risk policies reflecting the following six categories:
 - a. Credit risk assessment includes policies related to credit risk analysis, risk rating and risk scoring;
 - b. Credit risk mitigation includes credit structuring, collateral and guarantees;
 - c. Credit risk approval includes credit risk limits and exceptions;
 - d. Credit documentation focuses on documentation and administration;
 - e. Credit review focuses on monitoring for financial performance, covenant compliance and any sign of deterioration;
 - f. Credit portfolio management includes sectoral, geographic, and overall risk concentration limits and risk quantification;
- (ii) Centralized approval by the Chief Executive Officer of the discretionary limits of lending officers throughout the Credit Union;
- (iii) Credit adjudication subject to compliance with established policies, exposure guidelines and discretionary limits, as well as adherence to established standards of credit assessment. Credit approvals are escalated to the Chief Executive Officer and ultimately to the Board of Directors, dependant upon credit exposure level and restricted party transactions;
- (iv) Credit department oversight of the following:
 - a. The establishment of guidelines to monitor and limit concentrations in the portfolios in accordance with Board approved policies governing industry risk and group exposures;
 - b. The development and implementation of credit risk models and policies for establishing borrower risk ratings to quantify and monitor the level of risk and facilitate management of commercial credit business;

NOTES TO FINANCIAL STATEMENTS (continued)

- c. Approval of the scoring techniques and standards used in extending, monitoring and reporting of personal credit business;
- d. Implementation of an ongoing monitoring process of the key risk parameters used in our credit risk models.

The Board has delegated to the Chief Executive Officer the authority to establish a lending hierarchy. As such, a procedure for the delegation of lending authority has been developed and is in active use. The Credit Union employs persons who are competent and qualified to manage its credit granting activities. Staff may be designated individual authorities based on experience and background. Designated staff whose primary job accountabilities are to manage the quality and risk of the Credit Union's portfolio, are granted the authority to use judgement and discretion consistent with policy, in discharging their duties.

Management has the responsibility to:

- (i) Systematically identify, quantify, control and report on existing and potential credit risks and environmental risks in the loan portfolio;
- (ii) Prudently manage the exposure to default and loss arising from those risks;
- (iii) Employ and train, as necessary, personnel who can implement risk measurement and credit management techniques as required by policy.

Adequate measuring, monitoring and reporting on risk position and exposure is maintained and compliance and audit responsibilities are in place and adhered to. The Board of Director's receives regular summary measurements of the credit portfolio.

The Credit Union's credit risk portfolio is classified as "retail" and "commercial/agricultural", and a different risk measurement process is employed for each portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

The Credit Union's credit risk policies, processes and methodologies have not changed materially from the prior year with the exception of enhanced industry analysis and amendments to the basis for concentration measurement.

Except as noted, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Credit Union's maximum exposure to credit risk without taking into account the value of any collateral obtained. The Credit Union is also exposed to credit risk through transactions which are not recognized in the balance sheet, such as granting financial guarantees and extending loan commitments. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained.

NOTES TO FINANCIAL STATEMENTS (continued)

Interest Rate Risk

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when we enter into banking transactions with our members, namely deposit taking and lending. When asset and liability principal and interest cash flows have different payment or maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is repriced when interest rates change, when there is cash flow from final maturity, normal amortization, or when members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans or deposits, and how actively members exercise options, such as prepaying a loan before its maturity date.

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. Overall responsibility for asset/liability management rests with the Board. As such, the Board receives regular reports on risk exposures and performance against approved limits.

The key elements of the entity's interest rate risk management framework include:

- (i) Guidelines and limits on the structuring of the maturities, price and mix of deposits, loans, mortgages and investments and the management of asset cash flows in relation to liability cash flows;
- (ii) Guidelines and limits on the use of derivative products to hedge against a risk of loss from interest rate changes;
- (iii) Requirements for comprehensive measuring, monitoring and reporting on risk position and exposure management.

Valuations of all asset and liability positions, as well as off-balance sheet exposures, are performed no less frequently than monthly. The Credit Union's objective is to establish and maintain a balance sheet and off-balance sheet structure that will protect and enhance the Credit Union's net interest income and the value of the Credit Union's capital during all phases of the interest rate cycle and varying economic conditions.

The carrying amounts of interest sensitive assets and liabilities are presented below in the periods in which they next re-price to market rates or mature, and are summed to show the interest rate sensitivity gap. The average rates presented represent the weighted average effective yield based on the earlier of re-pricing or maturity dates.

The management of interest rate risk against internal exposure limits is supplemented by monitoring the sensitivity of the Credit Union's financial assets and liabilities to standard interest rate shock scenarios. See note 17 for Interest Rate sensitivity.

NOTES TO FINANCIAL STATEMENTS (continued)

Liquidity Risk

Liquidity risk arises in the course of managing assets and liabilities. It is the risk that the entity is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund the balance sheet under both normal and stressed market environments. The entity's liquidity risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits.

The key elements of the entity's liquidity risk management framework include:

- (i) Limits on the sources, quality and amount of liquid assets to meet normal operational requirements, regulatory requirements and contingency funding;
- (ii) Methodology to achieve an acceptable yield on the operating liquidity investment portfolio within prudent risk management bounds;
- (iii) Prudence tests of quality and diversity where investments bear credit risk;
- (iv) Parameters to limit term extension risk;
- (v) Implementation of deposit concentration limits in order to ensure diversification and stability of deposit funding;
- (vi) Requirements for adequate measuring, monitoring and reporting on risk position and exposure management.

Under the DICO Regulations, the Credit Union must maintain a regulatory minimum of 8% of gross liquid assets (cash resources and investments) to the sum of members' deposits. The Credit Union targets to maintain operating liquidity within the range of 8.25% to 12%. The low end of the range has been established in order to maintain a comfortable cushion beyond the statutory minimum requirements in order to meet cash needs, even during periods of market volatility. A cap has been placed on the range in recognition of the fact that too much excess liquidity has a negative impact on earnings. As at December 31, 2009 the Credit Union's liquidity ratio was 14.64% (2008 - 15.57%).

The table in note 17 sets out the period in which the Credit Union's monetary assets and liabilities will mature and be eligible for renegotiation or withdrawal. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies as set out in Notes 11 and 14.

NOTES TO FINANCIAL STATEMENTS (continued)**Foreign Currency Risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The entity is exposed to foreign currency risk as a result of its members' activities in foreign currency denominated deposits and cash transactions. All foreign currency risk comes from U.S. dollar transactions. The entity's foreign currency risk is subject to extensive risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and variance from approved limits. The aforementioned activities that expose the entity to foreign currency risk are measured, monitored and controlled daily to minimize the adverse impact of sudden changes in foreign currency values with respect to the Canadian dollar. As at December 31, 2009 the entity's exposure to a 10% reasonably possible change in the foreign exchange rate is insignificant.

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The Credit Union is exposed to other price risk in its own investment portfolio. The Credit Union adheres to the principles of quality and risk diversification in its investment practices. The entity's other price risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits. As at December 31, 2009 the entity has limited investments subject to other price risk and this exposure is insignificant.

10. INCOME TAXES:

Income tax differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 33.00% (2008 - 33.50%). The reasons for the differences are as follows:

| | 2009 | 2008 |
|---|------------|------------|
| Computed tax expense | \$ 141,038 | \$ 123,943 |
| Increase (decrease) resulting from: | | |
| Non-deductible costs | 2,650 | 1,273 |
| Preferred rate and small business deductions for Credit Unions | (90,853) | (61,816) |
| Other | 10,840 | - |
| Change in valuation allowance | - | 2,000 |
| Tax Provision | \$ 63,675 | \$ 65,400 |

NOTES TO FINANCIAL STATEMENTS (continued)

The tax effects of temporary differences that give rise to significant portions of future income taxes assets and future income taxes liabilities at December 31, 2009 are presented below:

| | 2009 | 2008 |
|---|-----------|-----------|
| Future income tax assets: | | |
| Provisions for credit losses | \$ 12,800 | \$ 9,470 |
| Capital assets - difference between net book value and undepreciated capital cost | 43,000 | 34,530 |
| Investments | 7,200 | 2,000 |
| | 63,000 | 46,000 |
| Less valuation allowance | (2,000) | (2,000) |
| Net future income tax asset | \$ 61,000 | \$ 44,000 |

11. COMMITMENTS:

(a) Lines of credit:

As at December 31, 2009 the total approved lines of credit to members was \$3,467,048 of which \$1,941,991 has been disbursed.

(b) Loans to members:

As at December 31, 2009 loans amounting to \$1,475,019 had been approved but not yet disbursed.

(c) Banking system services:

The Credit Union has contracts for banking system services that require annual payments of approximately \$116,000 for the years 2009 to 2013 inclusive.

12. RELATED PARTY TRANSACTIONS:

(a) At December 31, 2009, mortgage and non-mortgage loans amounting to approximately \$1,575,955 (2008 - \$1,776,300) were due from officers, directors and employees of the Credit Union. All loans issued to officers, directors and employees of the Credit Union conform to the Credit Union policies for terms, interest rates, limits and credit.

(b) The aggregate remuneration paid to directors was \$6,200 (2008 - \$6,420).

13. CENTRAL 1 DEMAND LOAN:

The Credit Union has access to a line of credit facility totaling \$1,901,000 at the Central 1 prime rate. The line of credit is secured by an assignment of loans to members and a general security agreement covering all assets of the Credit Union. At year end, the Credit Union has not drawn on any of its credit facilities (2008 - NIL).

NOTES TO FINANCIAL STATEMENTS (continued)

14. CONTINGENCIES:

In the normal course of business, the Credit Union may be subject to a number of lawsuits and other legal proceedings. The outcome of these lawsuits is uncertain.

In the opinion of management, these lawsuits will not have a material effect upon the financial position of the Credit Union. Any settlement in respect of these claims will be reflected as a charge to income in the year of settlement.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS:

(a) Estimated fair value of on-balance sheet financial instruments:

The amounts set out below represent the fair value of the Credit Union's financial instruments using the valuation methods and assumptions described below.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

| | | | 2009 | 2008 |
|---------------------------|---------------|------------|------------------------------------|------------------------------------|
| | Fair Value | Book Value | Fair Value Over (under) Book Value | Fair Value Over (under) Book value |
| Financial assets: | | | | |
| Loans to members | \$ 46,458,738 | 46,011,729 | 447,009 | (235,215) |
| Investments | 4,449,697 | 4,418,171 | 31,526 | 28,645 |
| Financial liabilities: | | | | |
| Members' deposit accounts | \$ 51,736,135 | 52,381,683 | (645,548) | (940,327) |

The following methods and assumptions were used to estimate the fair value of financial instruments:

- (i) The fair values of cash and liabilities to non-members are assumed to approximate their carrying values, due to their short-term nature.
- (ii) The fair value of investments is based on quoted market values where available. Carrying values are used when no quoted market prices are available.
- (ii) The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to book value as the interest rate on these loans and deposits reprice to market on a periodic basis.

NOTES TO FINANCIAL STATEMENTS (continued)

(iv) The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposit accounts at current market rates for products with similar terms and credit risks.

(b) Equity swap agreements:

Included in term deposits and RRSP's is a total of \$567,759 (2008 - \$363,307) of index linked deposits. The fair value of the index linked swap contracts at year-end is approximately \$83,587 (2008 - \$28,196).

16. COMPARATIVE FIGURES

Certain of the 2008 figures have been reclassified to conform with the 2009 presentation.

17. INTEREST RATE SENSITIVITY

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

| | Variable Rate | Fixed rates | | | Non-Interest Sensitive | 2009 Total | 2008 Total |
|--|----------------|------------------|--------------|--------------|------------------------|------------|------------|
| | | Less than 1 year | 1 to 5 Years | Over 5 Years | | | |
| Assets: | | | | | | | |
| Cash resources | \$ 3,070,660 | - | - | - | 687,888 | 3,758,548 | 1,000,209 |
| Investments | - | 3,884,906 | - | - | 533,265 | 4,418,171 | 4,066,009 |
| Member loans | 12,476,300 | 5,057,800 | 28,405,300 | 147,400 | 75,071 | 46,011,729 | 41,269,170 |
| Other | | | | | 1,699,373 | 1,699,373 | 1,729,998 |
| | 15,546,960 | 8,942,706 | 28,405,300 | 147,400 | 2,845,455 | 55,887,821 | 51,065,386 |
| Liabilities & Members' Equity | | | | | | | |
| Member deposits | 18,419,382 | 21,813,600 | 5,950,910 | - | 6,197,791 | 52,381,683 | 47,996,456 |
| Other | - | - | - | - | 3,506,138 | 3,506,138 | 3,068,930 |
| | 18,419,382 | 21,813,600 | 5,950,910 | - | 9,703,929 | 55,887,821 | 51,065,386 |
| On balance sheet mismatch | (2,872,422) | (12,870,894) | 22,454,390 | 147,400 | (6,858,474) | - | - |
| Cumulative mismatch | \$ (2,872,422) | (15,743,316) | 6,711,074 | 6,858,474 | - | - | - |

NOTES TO FINANCIAL STATEMENTS (continued)

It is estimated that an immediate and sustained parallel increase in interest rates of 1% sources all maturities and currencies would decrease net interest income by approximately \$8,500 and a decrease in interest rates of 1% across all maturities and currencies would decrease net interest income by approximately \$70,800 over the next twelve months using the following assumptions:

- (i) accrued interest receivable and payable as at December 31, 2009 are excluded from the calculation;
- (ii) no hedging of interest rate exposures are made;
- (iii) instruments repriced evenly within their respective time bands;
- (iv) existing credit commitments will not be drawn upon; and
- (v) no prepayments of fixed term loans or early redemption of redeemable fixed term deposits will be made.

Northridge Savings & Credit Union Limited SCHEDULE OF EXPENSES

Year ended December 31, 2009, with comparative figures for 2008

| | 2009 | 2008 |
|--|-------------------|-------------------|
| Salaries and benefits: | | |
| Salaries | \$ 719,700 | \$ 737,097 |
| Benefits | 168,127 | 161,671 |
| Travel | 7,200 | 7,200 |
| | \$ 895,027 | \$ 905,968 |
| General: | | |
| Outsource services | \$ 69,458 | \$ 72,350 |
| CUCO | 28,381 | 53,757 |
| Administration | 57,623 | 47,353 |
| Professional fees | 53,000 | 40,000 |
| Network | 47,402 | 38,688 |
| Supplies | 32,802 | 27,174 |
| Training and conferences | 23,571 | 23,166 |
| Board and committee | 32,478 | 22,145 |
| Loans miscellaneous | 21,299 | 13,053 |
| Miscellaneous | 10,418 | 6,448 |
| Joint venture | 4,797 | - |
| | \$ 381,229 | \$ 344,134 |
| Computer, office and other equipment: | | |
| Computer | \$ 130,107 | \$ 118,807 |
| Depreciation | 55,755 | 58,363 |
| Maintenance | 37,810 | 39,990 |
| | \$ 223,672 | \$ 217,160 |
| Occupancy: | | |
| Depreciation | \$ 93,915 | \$ 92,759 |
| Property taxes and insurance | 59,376 | 56,854 |
| Building repairs and maintenance | 57,868 | 46,993 |
| | \$ 211,159 | \$ 196,606 |
| Advertising and communications: | | |
| Advertising | \$ 39,600 | \$ 40,300 |
| Telephone | 26,113 | 28,041 |
| Postage | 23,943 | 20,794 |
| | \$ 89,656 | \$ 89,135 |
| Member security: | | |
| Insurance | \$ 43,770 | \$ 39,096 |
| Bonding | 32,380 | 27,113 |
| | \$ 76,150 | \$ 66,209 |

Report of the Audit Committee

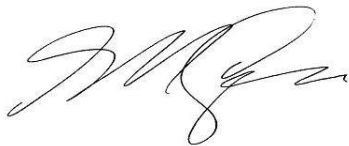
The Audit Committee is responsible for reviewing the annual audited statements and making such recommendations to the Board as the Committee considers appropriate. The Committee is also charged with the responsibility of reviewing the Credit Union's policies and procedures governing its meeting requirements under the Act for liquidity, capital adequacy, lending and interest rate risk management. We also monitor the adherence of the Credit Union's directors, officers, and employees to its code of conduct. The Committee reviews and makes recommendations to the Board about the terms of the engagement letter and remuneration of the external auditor.

Our Internal Auditor, Doug Hamilton, reports directly to the committee, attends all meetings and provides written reports on any matters to be reviewed. During the past fiscal year, the Committee met five times to review findings and make recommendations to the Board of Directors.

In June 2009, Northridge had a Deposit Insurance Corporation of Ontario (DICO) On-Site Verification audit. The final report was presented to the Board of Directors along with an action plan developed by management to address the findings of the audit. There were no major issues outlined in the report by DICO.

The Audit Committee is satisfied that Credit Union management is complying with the regulatory requirements of the Credit Union Act and other applicable regulations and that adequate and properly managed financial controls and safeguards are in place.

My thanks are extended to Management and our Internal Auditor, and to the other committee members for their dedication and assistance in the past year.



Robert Unger
Audit Committee Chair

Committee Members:

Lisa La Croix
Pat McNally
Leo Racette
Gerry Labelle



Some of the Northridge staff volunteering at the Sudbury Food Bank during the 12 Days of Christmas.

Loan Report

A total of 463 loans for a value of \$18,007,813 were issued during the year 2009.

The following is a breakdown of the loans granted during the year.

| | 2009 | | 2008 | |
|--------------------------|--------------|-------------------|--------------|-------------------|
| | No. of Loans | Loan Value | No. of Loans | Loan Value |
| Automobiles | 86 | 1,770,536 | 81 | 1,473,896 |
| Auto Repairs & Insurance | 5 | 22,385 | 8 | 22,942 |
| Vacation | 3 | 9,060 | 2 | 10,367 |
| Investments | 6 | 85,363 | 9 | 110,967 |
| Consolidations | 98 | 1,612,246 | 97 | 1,670,680 |
| Home Improvements | 17 | 266,214 | 19 | 189,656 |
| Household Goods | 2 | 4,921 | 3 | 9,947 |
| Education | 1 | 2,278 | 1 | 5,852 |
| Operating Expense | - | NIL | 2 | 17,080 |
| Recreational Vehicles | 16 | 281,445 | 34 | 548,974 |
| Line of Credit | 114 | 845,081 | 128 | 964,625 |
| Business Loans | 4 | 792,556 | - | NIL |
| Other | 37 | 579,364 | 22 | 277,730 |
| Sub Total | 389 | 6,271,449 | 406 | 5,302,716 |
| Merit Line | 10 | 1,234,750 | 18 | 1,938,500 |
| Mortgages | 64 | 10,501,614 | 80 | 12,858,855 |
| Total Loans | 463 | 18,007,813 | 504 | 20,100,071 |
| Denied Loans | 84 | | 94 | |

At year-end, there were 2 loans in arrears for more than 90 days for a total of \$17,034.

Marketing Report

As Chair of the Marketing Committee of yet another eventful year, I am pleased to present the 2009 Marketing Report. Throughout 2009, Northridge participated in many fundraising events and contributed to various local projects. The following are highlights of some of our rewarding activities:

- Held the Tenth Annual Camp Quality Charity BBQ and raised \$6,800 for the charity;
- Hosted the Camp Quality Bake Sale which raised over \$2,700 with proceeds going to Camp Quality;
- Finished contributing to the Northern Ontario School of Medicine Bursary. Our bursary is now \$10,000;
- Partnered with MySudbury to create the logo MySudbury, My Credit Union;
- Shot a commercial for CTV on how valuable our members are to our Credit Union which aired in the spring and fall;
- Purchased passes to Science North for local area schools;
- Partnered with the five area Credit Unions to organize the Northern Ontario Golf Tournament and raised \$5,000 for Big Brothers, Big Sisters;
- Provided numerous donations, sponsorships and scholarships for community based organizations and schools.

The Marketing Committee is already moving forward in full force with initiatives for 2010. It is important for Northridge to be proactive and to continue to communicate what we are doing to stimulate growth. In July 2010, Northridge Savings & Credit Union will be the main sponsor for the popular and long-standing community event, the Sudbury Blueberry Festival. The committee members realize that we have our work cut out for us, but we look forward to the challenge and we are happy to being involved in this valuable endeavour.

I am honoured to be a part of this committee and I take great pride in the implementation of our numerous marketing initiatives. These activities enable us to keep our promise that Northridge Credit Union is committed to being a distinguished partner with our members and our community.

Respectfully submitted,



Anna Frattini, MBA, H.B.Comm.
Chair, Marketing Committee

Committee Members:

Vally LaFlamme
Ron Abreu
Lisa La Croix
Gerry Labelle



Another beautiful day for the 10th
Annual Camp Quality BBQ.

Privacy and Compliance Report

PRIVACY

Northridge is a member-owned and controlled financial institution and, as such, has an inherent responsibility to be open and accessible while, at the same time, demonstrating the greatest respect for protection of the member's personal privacy. The Privacy Act was passed to support and promote electronic commerce by protecting personal information that is collected, used or disclosed in certain circumstances, by providing for the use of electronic means to communicate or record information.

The purpose of this Act is to extend the present laws of Canada that protect the privacy of individuals with respect to personal information about themselves and provide individuals with a right of access to that information.

10 Interdependent Privacy Principles:

- | | |
|---|----------------------------|
| 1. Accountability | 6. Accuracy |
| 2. Purpose Identification | 7. Safeguards |
| 3. Consent | 8. Openness |
| 4. Limiting Collection | 9. Individual Access |
| 5. Limiting Use, Disclosure and Retention | 10. Challenging Compliance |

COMPLIANCE

It is the policy of Northridge Savings to prevent, as much as possible, the laundering of proceeds of criminal activity, defined as: "The process through which criminals use legitimate businesses and institutions to conceal the criminal origin of their profits." It is also the policy of this credit union to deter terrorist activity financing transactions and to freeze properties owned or controlled by terrorist groups where it is within our capacity to do so.

Northridge will comply with the obligations under the new Act by reporting suspicious and prescribed transactions to the government agency FINTRAC as required and by implementing a compliance regime including:

- * The appointment of a compliance officer;
- * Developing and applying compliance policies and procedures;
- * An on-going review of compliance policies and procedures; and
- * Providing employees with training on a continual basis.

While complying with the Act, Northridge Savings will evaluate each reportable situation and will strive to protect our members' privacy and rights to the utmost lengths.

Respectfully submitted,



David Lepage
Branch Manager

Board of Directors

| | <u>Term Expires</u> |
|---------------------------------|---------------------|
| Gerry Labelle, President | 2011 |
| Patrick McNally, Vice-President | 2011 |
| Bette Choquette, Secretary | 2010 |
| Ron Abreu | 2012 |
| Vally LaFlamme | 2012 |
| E. Robert Unger | 2012 |
| Lisa La Croix | 2010 |
| Anna Frattini | 2011 |
| Leo Racette | 2010 |

| | | | |
|-------------------------|----------------------------------|-------------|---------------|
| Audit Committee: | E. Robert Unger | Pat McNally | Gerry Labelle |
| | Lisa La Croix | Leo Racette | |
| | Doug Hamilton - Internal Auditor | | |

Staff

9 SECOND AVENUE

| | |
|------------------|--------------------------------|
| Erik Jokinen | Chief Executive Officer |
| Tess McLaughlin | Chief Financial Officer |
| David Lepage | Branch Manager |
| Joanne Lamirande | Loan Officer |
| Megan Hadner | Accounting Clerk |
| Wendy Geden | Member Service Representative |
| Carla Harrison | Member Service Representative |
| June Ward | Joint Venture Officer |
| Nadine Sauter | Training & Development Officer |

1250 LASALLE BLVD.

| | |
|-----------------|-------------------------------|
| Patrick Brady | Branch Manager |
| Kelly Mihaichuk | Loan Officer |
| Kim Goegan | Loan Officer |
| Marlene Teskey | Accounting Clerk |
| Carol Tyreman | Member Service Representative |
| Terry Kohls | Member Service Representative |
| Christine Funk | Member Service Representative |

Legal Counsel
Weaver, Simmons

Internet - www.northridgesavings.com