

# First West Credit Union 2010 Financial Statements



# Management's responsibility

The accompanying statements of First West Credit Union have been prepared by management, which is responsible for their integrity, objectivity, and reliability as well as for selecting appropriate accounting policies that are consistent with generally accepted accounting principles in Canada. The financial statements necessarily include some amounts that are based on estimates and judgments of management with appropriate consideration to materiality.

The financial information presented elsewhere in this Annual Report is consistent with the information in the financial statements, unless otherwise noted.

The credit union's accounting and internal control systems and supporting procedures are designed and maintained to provide reasonable assurance that financial records are complete, reliable, and accurate and that assets are safeguarded against loss from unauthorized use or disposition. The procedures include training and selection of qualified staff, the establishment of an organizational structure that provides a well-defined division of responsibilities, and accountability for performance. In addition, the systems include policies and standards of business conducted that are communicated throughout the organization to prevent conflicts of interest and unauthorized disclosure of information.

The credit union's Board of Directors, acting through its Audit Committee composed of directors, oversees management's responsibilities for the financial reporting and internal control systems. Our external auditors review our systems and periodically are asked to undertake in-depth system reviews of specific functional operations.

The Provincial Superintendents of Financial Institutions may conduct an examination and make such inquiries into the affairs of the credit union as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that the credit union is in sound financial condition.

KPMG LLP, the independent auditors appointed by the members, have examined our financial statements and issued their report, which follows. The auditors have full and complete access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom.

*Launi Skinner*

Launi Skinner  
Chief Executive Officer

*Thomas Webster*

Thomas Webster  
Chief Financial Officer

# Independent auditors' report

To the members of First West Credit Union:

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

## *Management's Responsibility for the Consolidated Financial Statements*

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

## *Auditors' Responsibility*

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

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

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

## *Opinion*

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

*KPMG LLP*

KPMG LLP  
Chartered Accountants  
March 17, 2011  
Vancouver, Canada



# Consolidated balance sheet

FIRST WEST CREDIT UNION  
December 31 (in thousands of dollars)

	2010	2009
<b>ASSETS:</b>		
Cash resources (Note 7)	\$ 77,304	\$ 70,353
Loans (Note 8)	4,453,898	2,772,030
Investments and other (Note 9)	491,226	329,187
Premises and equipment (Note 10)	50,581	33,394
	<u>\$ 5,073,009</u>	<u>\$ 3,204,964</u>
<b>LIABILITIES AND MEMBERS' EQUITY:</b>		
Deposits (Note 11)	\$ 4,437,820	\$ 2,853,587
Other (Note 12)	57,413	42,373
Borrowings (Note 13)	261,310	125,449
	<u>4,756,543</u>	<u>3,021,409</u>
<b>MEMBERS' EQUITY:</b>		
Equity shares (Note 14)	48,575	9,683
Contributed surplus	57,957	-
Retained earnings	200,251	168,892
Accumulated other comprehensive income	9,683	4,980
	<u>316,466</u>	<u>183,555</u>
	<u>\$ 5,073,009</u>	<u>\$ 3,204,964</u>

Commitments and contingencies (Note 26)

See accompanying notes to the consolidated financial statements.



# Consolidated statement of income

FIRST WEST CREDIT UNION  
Year Ended December 31 *(in thousands of dollars)*

	2010	2009
<b>Interest income</b>		
Loans	\$ 184,734	\$ 113,173
Cash resources and investments	24,757	10,725
	209,491	123,898
<b>Interest expense</b>		
Deposits	76,892	63,058
Borrowings	3,645	2,109
	80,537	65,167
<b>Net interest income</b>	128,954	58,731
Provision for credit losses (Note 8)	3,942	2,500
	125,012	56,231
<b>Non-interest income</b> (Note 20)	83,372	72,503
	208,384	128,734
<b>Non-interest expenses</b> (Note 21)	164,785	102,884
<b>Income before the undernoted</b>	43,599	25,850
Provision for income taxes (Note 22)	10,892	3,838
<b>NET INCOME</b>	\$ 32,707	\$ 22,012

See accompanying notes to the consolidated financial statements.



# Consolidated statement of comprehensive income

**FIRST WEST CREDIT UNION**  
Year Ended December 31 *(in thousands of dollars)*

	<b>2010</b>	<b>2009</b>
Net income	\$ 32,707	\$ 22,012
Other comprehensive income (loss)		
Unrealized gains (losses) on available for sale securities (net of income taxes of \$0, 2009: \$6)	5	(32)
Unrealized net gains on derivatives designated as cash flow hedges (net of income taxes of \$1,542, 2009: \$437)	8,737	2,476
Reclassification to net income of gains on cash flow hedges (net of income taxes of \$714, 2009: \$550)	(4,039)	(3,118)
Total other comprehensive income (loss)	4,703	(674)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 37,410</b>	<b>\$ 21,338</b>

*See accompanying notes to the consolidated financial statements.*



# Consolidated statement of changes in member equity

FIRST WEST CREDIT UNION  
December 31 (in thousands of dollars)

	2010	2009
<b>Equity shares</b>		
Balance, beginning of year	\$ 9,683	\$ 10,561
Impact of business combination (Note 2)	42,685	-
Redemptions	(3,793)	(878)
Balance, end of year	\$ 48,575	\$ 9,683
<b>Contributed Surplus</b>		
Balance, beginning of year	-	-
Impact of business combination (Note 2)	57,957	-
Balance, end of year	57,957	-
<b>Retained earnings</b>		
Balance, beginning of year	168,892	147,212
Net income	32,707	22,012
Dividends net of related tax savings	(1,348)	(332)
Balance, end of year	200,251	168,892
<b>Accumulated other comprehensive income, net of tax</b>		
Balance, beginning of year	4,980	5,654
Other comprehensive income (loss)	4,703	(674)
Balance, end of year	9,683	4,980
<b>TOTAL MEMBERS' EQUITY</b>	<b>\$ 277,574</b>	<b>\$ 184,433</b>

See accompanying notes to the consolidated financial statements.



# Consolidated statement of cash flows

**FIRST WEST CREDIT UNION**  
Year Ended December 31 *(in thousands of dollars)*

	2010	2009
Cash flows provided by (used in)		
<b>Operating activities</b>		
Net income	\$ 32,707	\$ 22,012
Adjustments to determine net cash from (used in) operating activities		
Provision for credit losses (Note 8)	3,942	2,500
Amortization	14,537	8,993
Gain on sale of securitized loans	–	(226)
Gain on sale of property	(19)	–
Future income taxes (Note 22)	247	102
Change in accrued interest	15,782	(12,608)
Change in receivables and payables	14,793	(20,768)
Other	(5,528)	20,131
Cash flows from operating activities	76,461	20,136
<b>Financing activities</b>		
Net change in deposits	218,400	139,873
Net change in borrowings	106,785	(1,736)
Dividends paid	(1,348)	–
Net change in equity shares	(3,793)	(878)
Cash flows from financing activities	320,044	137,259
<b>Investing activities</b>		
Net change in loans to members	(397,888)	(151,041)
Proceeds from loan securitization	–	56,779
Cash acquired on merger	126,567	–
Net increase in investments	(93,788)	(28,636)
Purchase of premises and equipment	(5,381)	(4,620)
Proceeds from disposal of premises	1,044	–
Purchase of leased vehicles	(26,639)	(19,404)
Proceeds from disposal of leased vehicles	6,531	4,537
Cash flows used in investing activities	(389,554)	(142,385)
Net (decrease) increase in cash resources	6,951	15,010
Cash resources, beginning of year	70,353	55,343
Cash resources, end of year	\$ 77,304	\$ 70,353
<b>Supplementary cash flow information</b>		
Interest paid	\$ 71,518	\$ 77,564
Taxes paid	4,210	6,413

See accompanying notes to the consolidated financial statements.



# Notes to the consolidated financial statements

## FIRST WEST CREDIT UNION

December 31, 2010 (in thousands of dollars)

### 1. GOVERNING LEGISLATION AND OPERATIONS

First West Credit Union (the "credit union") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. The credit union is approved to operate throughout the Province of British Columbia and following the business combination described in Note 2, operates in the Lower Mainland, Fraser Valley, Kitimat, Smithers, Okanagan, Similkameen and Thompson areas of the province.

The credit union is an integrated financial institution that provides a wide range of financial products and services that comprise one operating business segment.

### 2. BUSINESS COMBINATION

On January 1, 2010, the former Envision Credit Union amalgamated with Valley First Credit Union to form First West Credit Union. The results of Valley First have been included in the Consolidated Financial Statements since that date. Valley First offers financial services, wealth management and insurance services throughout the Okanagan, Similkameen and Thompson regions of British Columbia.

The amalgamation took place to achieve economies of scale for the combined credit union, while allowing the pre-existing entities to retain their local identities.

The business combination is accounted for using the acquisition method, with the credit union acquiring 100% of the net assets of Valley First Credit Union for a total estimated consideration of \$100,640 as indicated below. The shares of Valley First Credit Union were exchanged for shares of First West Credit Union as follows:

Valley First Credit Union	# of shares	First West Credit Union	# of shares
Class A membership equity shares	1,379,018	Class A membership equity shares	1,379,018
Class B investment equity shares	27,867,271	Class C investment equity shares	27,867,271
Class C retirement plan equity shares	14,817,828	Class D retirement plan equity shares	14,817,828

Class A membership shares are included in deposits.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Cash	\$ 126,567
Loans	1,284,807
Investments and other	46,504
Premises and equipment	18,776
Total assets acquired	<u>1,476,654</u>
Deposits	1,347,127
Borrowings	28,885
Total liabilities assumed	<u>1,376,012</u>
Estimated net assets acquired	<u>\$ 100,642</u>

The par value of equity shares issued was \$42,685. The credit union has recognized the excess of the estimated fair value of the net assets acquired over the par value of the equity interests of First West Credit Union issued as Contributed Surplus in the amount of \$57,957.



## 2. BUSINESS COMBINATION (continued)

Included within Investments and other are intangible assets of \$5,880 which relate to ICBC licenses acquired and are not subject to amortization as they are expected to contribute cash flows for an indefinite period of time.

Loans have a gross contractual amount of \$1,282,689 with expected losses of \$4,536.

During 2010, Valley First contributed \$71,698 in revenue and \$6,096 in net income to the operations of First West Credit Union.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). In preparing the financial statements, in conformity with Canadian GAAP, management has made estimates and assumptions that affect reported amounts of assets and liabilities, revenues and expenses and contingent assets and liabilities. Actual results may differ from these estimates.

### Principles of consolidation

The consolidated financial statements include the accounts of First West Credit Union and its wholly-owned subsidiaries, Envision Insurance Services Ltd., Valley First Insurance Services Ltd., Envision Investment Services Ltd., Valley First Financial Services Ltd, CU DealerLink Ltd., Envision Leasing Ltd., 619547 B.C. Ltd., 637506 B.C. Ltd. and Western Interior Financial Ltd. In addition, the credit union owns 80% interest in Simmons, Black & Emsland Partnership and 50% interest in inUnison Financial Services Ltd. Through one of its wholly owned subsidiaries, the credit union owns 50% interest in Bulkley Valley Insurance Services Ltd. and 50% interest in McBain Insurance Agency Ltd.

Variable interest entities (VIEs) are entities that have insufficient equity and/or their equity investors at risk lack one or more of the specified essential characteristics of a controlling financial interest. The credit union is required to identify VIEs and determine if the credit union has a significant variable interest and/or is the primary beneficiary of the variable interest. The primary beneficiary is required to consolidate a VIE.

The credit union has identified that it has a significant variable interest and is the primary beneficiary of its 65% owned subsidiary, inUnison Technology Services Ltd. Consequently, the consolidated financial statements include 100% of the financial position of this company.

### Cash

Cash resources consist of cash held as well as short term investments with maturities of less than 90 days from the date of acquisition. Cash resources have been designated as held for trading.

### Financial instruments

All financial instruments are required to be classified as one of the following: held for trading ("HFT"), held to maturity ("HTM"), loans and receivables, available for sale ("AFS") or other financial liabilities. All financial instruments are measured at fair value on initial recognition and subsequently accounted for based on their classification. Fair values are based on quoted market prices where available from active markets; otherwise fair values are estimated using a variety of valuation techniques.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, less principal payments, plus or minus the cumulative amortization of any difference between the initial amount recognized and the maturity amount, less any reduction for impairment.

Measurement in subsequent periods depends on whether the financial instrument has been classified as HFT, HTM, AFS, loans and receivables or other financial liabilities. Management determines the classification of financial assets and liabilities at initial recognition and the designations made for each financial instrument are indicated in the notes. A description of the various designation classifications follows:

### Held for trading

Financial instruments are classified under this category if they are:

- i. acquired principally for the purpose of selling or repurchasing in the near term
- ii. part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- iii. a derivative, except for a derivative that is a financial guarantee contract or a designated effective hedging instrument or
- iv. designated at fair value using the fair value option (FVO)



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments cannot be transferred into or out of this category after inception. For designation using the FVO, fair values must be readily available. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are recorded in the Consolidated Statement of Income.

#### **Held to maturity**

HTM investments are non-derivative financial assets with fixed or determinable payments that the credit union's management has the intention and ability to hold until maturity. The financial assets are accounted for at amortized cost. The credit union has designated certain investments as HFT and others as HTM.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable repayment dates, usually with interest, that are not debt securities quoted in an active market or instruments designated as held for trading at initial recognition. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument, or where appropriate a shorter period, to the net carrying amount of the financial asset or financial liability.

#### **Available for sale**

AFS financial assets are those non-derivative financial assets that are designated as available for sale or are not classified into any of the other classifications described above. AFS instruments are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income until either sale or identification of other than temporary impairment, at which time the cumulative gain or loss is transferred to the Consolidated Statement of Income. AFS equity instruments that do not have quoted values in active markets are carried at cost.

#### **Other financial liabilities**

Other financial liabilities are non-derivative financial liabilities and are recorded at amortized cost, using the effective interest method. The credit union has designated certain financial liabilities and member deposits as HFT.

#### **Loans**

Loans are measured at amortized cost using the effective interest method net of an allowance for credit losses.

Interest income from loans is recorded on the accrual basis, except for loans that are considered to be impaired. A loan is classified as impaired when, in management's opinion, there is reasonable doubt as to the ultimate collectability, either in whole or in part, of principal and interest. Loans where interest or principal is contractually past due 90 days are automatically recognized as impaired, unless management determines there is no reasonable doubt as to the ultimate collectability of principal and interest. All loans are classified as impaired when interest or principal is past due 180 days. When a loan is classified as impaired, recognition of interest in accordance with the term of the original loan agreement ceases and accrued interest is reversed. Subsequent payments (interest or principal) received on an impaired loan are recorded as a reduction in principal. Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

Loan origination fees are considered to be adjustments to loan yield and are deferred and amortized to interest income over the term of the loan. Commitment fees are treated on the same basis if there is a reasonable expectation that the commitment will be called upon and will result in a loan; otherwise, the fees are deferred and amortized to non-interest income over the term of the commitment. Mortgage prepayment fees are recognized in non-interest income, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the remaining term of the original mortgage using the effective interest rate method. Other fees and commissions are recognized as the services are performed.

#### **Allowance for credit losses**

The credit union maintains specific and general allowances for credit losses in its portfolio of both on and off balance sheet items at a level that management considers adequate to provide for credit-related losses. The allowance is increased by a provision for loan impairment charged to income and reduced by write-offs during the year.

A specific allowance is established on an individual loan basis to reduce the carrying value to the loan's estimated net realizable amount. The estimated net realizable amounts are determined by either discounting the expected future cash flows or by reference to market prices for the loans or their underlying security, net of estimated costs of realization.

The credit union also maintains a general allowance to absorb credit losses that management estimates have occurred at the balance sheet date for which specific allowances cannot yet be determined. The credit union applies a methodology that incorporates loan loss history as the basis for estimating probability of default as well as changes in current economic conditions.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Transfers of loan receivables**

Transfers of loan receivables to unrelated parties are treated as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. If these criteria are not satisfied, then the transfers are treated as financing transactions. If treated as sales, the loans are removed from the Consolidated Balance Sheet, and a gain or loss based on the carrying value of the loans transferred, allocated between the assets sold and the retained interests in proportion to their fair values at the date of the transfer is recognized in Non-interest income. The fair values of loans sold and retained interests are determined using valuation models which take into account management's best estimates of key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved.

Where the credit union continues to service the loan receivables sold, a servicing liability is recognized and amortized over the servicing period as servicing fee revenue. These retained interests are recorded at their fair value at the time of sale and are periodically revalued with changes in fair value flowing through other comprehensive income and changes in estimates flowing through net income. The carrying value of the retained interests is reviewed annually for impairment and adjusted as required.

The credit union classifies its retained interests in securitizations as available for sale.

#### **Business combinations, Goodwill and Other intangible assets**

Business combinations are accounted for using the acquisition method. Identifiable intangible assets are recognized separately from Goodwill and are included as Intangible assets in Investments and other.

Goodwill represents the excess of the price paid for acquisition over the fair value of the net assets acquired. Goodwill impairment is assessed on at least an annual basis. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Intangible assets with a finite life are amortized over their estimated useful lives, not exceeding 10 years, and are reviewed for impairment annually.

#### **Derivatives and Hedge Accounting**

Derivative financial instruments are financial contracts that are utilized to manage financial risks such as changes in interest rates and other financial indices. In the ordinary course of business, the credit union uses derivative financial instruments, primarily interest rate swaps, to manage interest rate exposure. Options are used to manage the risks of changes in fair value of equity linked deposit contracts with members.

Derivatives are carried at fair value, and are reported as assets when they have a positive fair value and liabilities when they have a negative fair value. Non-hedging derivative instruments used in trading activities are marked to market and the resulting realized and unrealized gains and losses are recognized in Non-interest income in the Consolidated Statement of Income in the current period.

Interest rate swaps are used economically for hedging activities of groups of on-balance sheet assets or liabilities, and may be designated as either fair value or cash flow hedges. The credit union has designated hedges as cash flow hedges. Each hedge is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the group of assets or liabilities being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured. The credit union formally assesses, at the hedge's inception, retrospectively and prospectively on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of cash flows attributed to hedged risks.

In a cash flow hedging relationship, the effective portion of changes in fair value of the derivative is recognized in Other comprehensive income. The ineffective portion is recognized in the Consolidated Statement of Income. The amounts recognized in Accumulated other comprehensive income are reclassified to Net income in the same period that the hedged cash flows affect net income.

In a fair value hedge, the change in fair value of the hedged item attributable to the hedged risk is recorded on the Consolidated Statement of Income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the hedging derivative.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in accumulated other comprehensive income at that time remains in other comprehensive income and is either amortized into the Consolidated Statement of Income over the remaining term of the original hedge or recognized immediately when the hedged item is derecognized.

#### **Investments and other**

Leased vehicles are recorded at cost less amortization and adjusted for any impairment losses. Amortization is calculated using the straight-line method over the lease term. Lease income is recorded on the accrual basis.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Premises and equipment

Land is carried at cost. Buildings, equipment and furniture, and leasehold improvements are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the useful lives of the assets as follows:

Buildings	25-40 years
Equipment and furniture	3-5 years
Leasehold improvements	Lease term

Gains on disposals are recorded in Non-interest income in the Consolidated Statement of Income in the year of disposal. When premises and equipment are no longer in use or considered impaired, they are written down to their estimated net realizable amount.

#### Dividends

Dividends on equity shares less related income tax deductions are charged against retained earnings in the year that they are declared.

#### Funds under administration

Funds under administration by the credit union comprise loans that have been securitized and treated as sales, funds that are administered in the capacity as custodian and investment portfolios under management including mutual fund accounts managed on behalf of members. Funds under administration are kept separate from credit union assets and are not reflected in the Consolidated Balance Sheet.

#### 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 statements carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Net future income tax assets and liabilities are included in investment and other assets or other liabilities, as applicable.

#### Employee benefit plans

The credit union accrues its obligations and the related costs, net of plan assets under the employee pension plan and sick leave benefit plan and has adopted the following policies:

the costs of pension and sick leave benefits earned by employees are actuarially determined using the projected benefit method prorated on service and management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and expected future health care costs.

#### Comparative figures

Certain comparative figures for 2009 have been reclassified to conform with the current year's presentation.

### 4. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2010, the credit union adopted the CICA Handbook Section 1582, Business Combinations. This Section is aligned with the related IFRS standard, IFRS 3, Business Combinations and establishes revised standards for the recognition, measurement, presentation and disclosure of business combinations.

### 5. FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The objective is to improve financial reporting by having one single set of accounting standards that are comparable with other entities on an international basis. The credit union will provide consolidated financial statements in accordance with IFRS for the fiscal year ending December 31, 2011, including comparative figures for 2010.



## 6. CAPITAL MANAGEMENT

The credit union is regulated under the Financial Institutions Act of British Columbia ("the Act") and is required to maintain a capital level at a minimum of 8% of risk-weighted assets. The credit union has exceeded its minimum regulatory capital requirement at December 31, 2010.

When determining the sufficiency of capital, the Credit Union includes in its calculation amounts permitted by the Act including:

- Retained earnings and contributed surplus
- Equity shares
- System capital
- Other forms of capital as determined from time to time by the Board of Directors and approved as capital by the regulatory authority

Total value of the figures above are the reduced by:

- Goodwill and other intangible assets
- Investments with banks/trusts and other
- Securitization deferred payment accounts

The credit union management ensures compliance with capital adequacy through the following:

- identifying the capital needed to support the current and planned operations of the credit union, including operations conducted or to be conducted through subsidiaries;
- developing and submitting to the Board of Directors for its consideration and approval appropriate and prudent capital management policies, including policies on the quantity and quality of capital needed to support the current and planned operations that reflect both the risks to which the credit union is exposed and its regulatory capital requirements;
- regularly measuring and monitoring capital requirements and capital position, and ensuring the credit union meets and will continue to meet its capital requirements;
- managing the capital in accordance with the capital management policies;
- establishing appropriate and effective procedures and controls for managing the capital, monitoring adherence to those procedures and controls, and reviewing them on a regular basis to ensure that they remain effective;
- providing the Board of Directors with appropriate reports on the capital position and on the procedures and controls for managing the capital; and
- providing the Board of Directors with appropriate reports that will enable it to assess whether the institution has an ongoing effective capital management process.

Stress testing of the capital level is performed at minimum on an annual basis. The tests include a variety of scenarios that vary the growth and income assumptions. They include a test for the current year as well as for the plan period. A sufficient number of scenarios are performed to ensure that sensitivity levels can be reasonably assessed and planned for.

A three year capital plan is reviewed and approved by the Board annually.

Distributions of capital, such as share dividends, are only made after targets in the capital plan have been met. Each distribution must be approved by the Board of Directors.

The Investment & Loan Committee ("ILC") is responsible for developing and conducting an annual review of capital management procedures in place relative to the policy requirements established. The ILC reports its findings and recommends any corrective actions to the Board of Directors. The Board of Directors, which may be assisted by the ILC, reviews any written correspondence from the Financial Institutions Commission ("FICOM") regarding capital management matters, and investigates and responds as appropriate.

Total capital has been calculated as follows:

		2010		2009
Membership and investment shares, including dividends	\$	55,973	\$	16,239
Retained earnings and contributed surplus		258,208		175,772
System capital		32,734		19,642
Other		2,873		979
Goodwill and other intangible assets		(11,932)		(11,037)
Investments with banks/trusts and other		(305)		(305)
Securitization deferred payment accounts		(1,523)		(1,894)
<b>TOTAL CAPITAL</b>	<b>\$</b>	<b>336,028</b>	<b>\$</b>	<b>199,396</b>



## 7. CASH RESOURCES

	2010		2009	
Cash and current accounts	\$	38,862	\$	24,824
Term deposits and accrued interest		38,442		45,529
	\$	77,304	\$	70,353

## 8. LOANS

	2010		2009	
Residential mortgages	\$	2,252,362	\$	1,656,592
Personal loans		194,345		188,667
Personal lines of credit		805,481		252,255
Commercial mortgages		1,069,804		584,546
Commercial loans		55,845		54,322
Commercial lines of credit		81,537		43,487
Accrued interest		7,160		4,044
		4,466,534		2,783,913
Allowance for credit losses				
Specific		(1,729)		(1,593)
General		(10,907)		(10,290)
		(12,636)		(11,883)
	\$	4,453,898	\$	2,772,030

Allowance for credit losses				2010	2009
	Beginning balance	Provision	Write-offs	Ending balance	Ending balance
Residential mortgages	\$ 2,756	\$ –	\$ (75)	\$ 2,681	\$ 2,756
Personal loans	1,454	2,442	(1,962)	1,934	1,454
Personal lines of credit	1,911	1,250	(925)	2,236	1,911
Commercial mortgages	3,084	–	–	3,084	3,084
Commercial loans	1,513	50	(31)	1,532	1,513
Commercial lines of credit	1,165	200	(196)	1,169	1,165
	\$ 11,883	\$ 3,942	\$ (3,189)	\$ 12,636	\$ 11,883

Percentage of total loans and accrued interest 0.28% 0.43%

### Impaired loans and related allowances

	Loan balances		Specific allowances		2010 Carrying amount	2009 Carrying amount
Personal loans						
Residential mortgages	\$	3,440	\$	–	\$ 3,440	\$ 1,984
Loans and lines of credit		2,768		564	2,204	878
Commercial loans						
Commercial mortgages		9,724		619	9,105	77
Commercial loans and lines of credit		721		546	175	67
	\$	16,653	\$	1,729	\$ 14,924	\$ 3,006



### Concentrations of credit risk

Concentrations of credit risk exist if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the credit union's performance to developments affecting a particular segment of borrowers or geographic region.

Geographic credit risk exists for the credit union due to its primary service area being the Lower Mainland, Fraser Valley, Kitimat, Smithers, Okanagan, Similkameen and Thompson areas of British Columbia. To reduce the impact of the geographic credit risk the credit union has 21% of its residential mortgages insured against credit loss.

## 9. INVESTMENTS AND OTHER

	2010		2009	
<b>Investments</b>				
Shares				
Central 1 Credit Union	\$	11,178	\$	7,634
Other		27,507		3,176
Term deposits callable or maturing in three months or more		336,299		229,938
Leased vehicles (net of accumulated amortization of \$13,727 (2009: \$9,408))		46,456		34,945
Accounts receivable and prepaid expenses		38,941		35,525
Derivative instruments		10,041		3,219
Intangible assets		9,335		3,455
Goodwill		11,469		11,295
	\$	491,226	\$	329,187

Investment in shares of Central 1 Credit Union is required by governing legislation and as a condition of membership in Central 1 Credit Union, are classified as available for sale and recorded at cost as there is no active market for these shares.

Amortization in respect to leased vehicles amounted to \$8,617 (2009: \$5,963).

## 10. PREMISES AND EQUIPMENT

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Land	\$ 7,792	\$ –	\$ 7,792	\$ 4,388
Buildings	29,452	6,742	22,710	13,836
Leasehold improvements	16,560	7,247	9,313	8,366
Equipment and furniture	47,839	37,073	10,766	6,804
	\$ 101,643	\$ 51,062	\$ 50,581	\$ 33,394

Amortization in respect of the above, buildings, leasehold improvements and furniture and equipment amounted to \$5,920 (2009: \$3,030).

## 11. DEPOSITS

	2010		2009	
Demand	\$	1,202,024	\$	696,297
Term		2,541,308		1,753,333
Registered savings plans		648,019		377,134
Class "A" shares		7,116		6,175
Accrued interest and dividends		39,353		20,648
	\$	4,437,820	\$	2,853,587



## 11. DEPOSITS (continued)

Credit Union Deposit Insurance Corporation (CUDIC) guarantees all credit union deposits.

Under agreements with trustees of the registered savings plans, members' contributions to the plans are deposited with the credit union at rates of interest determined by the credit union.

Class "A" shares are membership preferred and redeemable, and accordingly classified as deposits. An unlimited number of Class "A" voting shares are authorized with a par value of \$1.

## 12. OTHER LIABILITIES

	2010		2009	
Accounts payable and accrued liabilities	\$	44,716	\$	31,549
Derivative instruments		–		6,187
Deferred revenue		8,601		2,445
Non-controlling interest in subsidiary		1,222		1,222
Future income taxes (Note 22)		2,874		970
	\$	57,413	\$	42,373

## 13. BORROWINGS

	2010		2009	
Money market loan	\$	185,758	\$	125,000
Other revolving facilities		74,912		–
		260,670		125,000
Accrued interest		640		449
	\$	261,310	\$	125,449

Maturity Date	Interest rate	2010		2009	
January 4, 2010	4.875%	–		25,000	
June 30, 2010	0.800%	–		100,000	
January 1, 2011	1.750%	35,758		–	
January 18, 2011	1.623%	25,000		–	
January 18, 2011	1.948%	49,912		–	
January 31, 2011	1.440%	25,000		–	
April 19, 2012	2.279%	125,000		–	
		\$	260,670	\$	125,000

Security provided on the money market loan is an assignment of loans to members, and accounts receivable, and a demand debenture to the lender.

The credit union has three approved lines of credit totaling \$759 million. Security for the first line of credit is as noted above. For the second line of credit, security is provided by a first charge against specific CMHC insured realty mortgages to a maximum of 110% of the approved credit facility. For the third line of credit, security is provided by a first charge against specific insured realty mortgages to a maximum of 110% of the outstanding balance.



#### 14. EQUITY SHARES

The credit union has authorized Class "B", "C" and "D" equity shares, which have a par value and redemption value of \$1 each.

The rules of the credit union state that the annual redemption of class "B", "C" and "D" shares may, at the discretion of the Board of Directors, be limited to 10% of the total issued and outstanding shares.

Class "B", "C" and "D" shares shall be entitled to dividends at such rate, payable at such time or times and either cumulative or non-cumulative, as the Board of Directors, in their discretion may determine before the first issue of the class of shares.

Class "B", "C" and "D" equity shares are not guaranteed by CUDIC.

The credit union has issued:

	2010		2009	
Class "B" non-voting investment equity shares, unlimited number authorized	\$	9,165	\$	9,683
Class "C" non-voting investment equity shares, unlimited number authorized		25,444		–
Class "D" non-voting investment equity shares, unlimited number authorized		13,966		–
	\$	48,575	\$	9,683

#### 15. INTEREST RATE SENSITIVITY

Interest rate risk is the sensitivity of First West's financial position to movements in interest rates. The carrying amounts of interest sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented below in the periods in which they next reprice to market rates and are summed to show the interest rate sensitivity gap (mismatch).

##### December 31, 2010

	Within 3 months		4-12 months		Over 1 year		Not interest sensitive	Total
	Principal	Rate	Principal	Rate	Principal	Rate		
<b>Assets</b>								
Cash resources	\$ 38,441	0.54%	\$ –	–%	\$ –	–%	\$ 38,863	\$ 77,304
Loans	2,089,204	4.03%	395,043	4.90%	1,974,716	4.64%	(5,065)	4,453,898
Other	41,197	2.54%	86,239	3.68%	222,623	3.50%	191,748	541,807
	2,168,842	3.88%	481,282	4.69%	2,197,339	4.50%	225,546	5,073,009
<b>Liabilities</b>								
Member deposits	1,362,999	1.87%	1,262,890	2.40%	1,007,596	2.94%	804,335	4,437,820
Borrowings and other	261,310	2.00%	–	–%	–	–%	57,413	318,723
	1,624,309	1.85%	1,262,890	2.40%	1,007,596	2.94%	861,748	4,756,543
Balance sheet mismatch	544,533		(781,608)		1,189,743		(636,202)	316,466
<b>Derivatives, notional value</b>								
Asset	–	–%	–	–%	725,000	2.41%	–	725,000
Liability	(725,000)	1.28%	–	–%	–	–%	–	(725,000)
Net mismatch	\$ (180,467)		\$ (781,608)		\$ 1,914,743		\$ (636,202)	\$ 316,466



## 15. INTEREST RATE SENSITIVITY (continued)

December 31, 2009

	Within 3 months		4-12 months		Over 1 year		Not interest sensitive	Total
	Principal	Rate	Principal	Rate	Principal	Rate		
<b>Assets</b>								
Cash resources	\$ 45,500	0.68%	\$ -	-%	\$ -	-%	\$ 24,853	\$ 70,353
Loans	1,410,726	3.17%	223,939	4.67%	1,133,322	5.29%	4,043	2,772,030
Other	-	-%	65,198	1.28%	169,023	3.86%	128,360	362,581
	1,456,226	3.09%	289,137	3.91%	1,302,345	5.11%	157,256	3,204,964
<b>Liabilities</b>								
Member deposits	1,005,638	1.02%	615,327	1.62%	970,889	4.08%	261,733	2,853,587
Borrowings and other	125,000	0.80%	-	-%	-	-%	42,822	167,822
	1,130,638	0.99%	615,327	1.62%	970,889	4.08%	304,555	3,021,409
Balance sheet mismatch	325,588		(326,190)		331,456		(147,299)	183,555
<b>Derivatives, notional value</b>								
Asset	550,000	0.43%	25,000	4.88%	170,000	2.37%	-	745,000
Liability	(195,000)	0.43%	-	-%	(550,000)	2.24%	-	(745,000)
Net mismatch	\$ 680,588		\$ (301,190)		\$ (48,544)		\$ (147,299)	\$ 183,555

## 16. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The carrying values of financial instruments by classification is as follows:

	2010	2009
Loans and receivables	\$ 4,476,995	\$ 2,784,335
Held-to-maturity	374,742	275,464
Available-for-sale	18,772	9,920
Held-for-trading	48,902	21,856
Other financial liabilities	4,742,069	3,006,373

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table presents approximate fair values of the credit union's financial instruments, including derivatives. The fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the balance sheet date. Fair values of other financial assets and liabilities are assumed to approximate their carrying value, principally due to their short term nature. Fair values of derivative financial instruments have been based on market price quotations.

These fair values, presented for information only, reflect conditions that existed only at the balance sheet date.



17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	2010			2009		
	Book value	Fair value	Difference	Book value	Fair value	Difference
<b>Assets</b>						
Cash resources	\$ 77,000	\$ 77,000	\$ -	\$ 70,000	\$ 71,000	\$ 1,000
Loans	4,454,000	4,506,000	52,000	2,772,000	2,810,000	38,000
Investments	363,000	371,000	8,000	234,000	243,000	9,000
Other	128,000	128,000	-	95,000	95,000	-
			60,000			48,000
<b>Liabilities</b>						
Deposits	4,438,000	4,462,000	(24,000)	2,854,000	2,869,000	(15,000)
Borrowing	261,000	261,000	-	125,000	125,000	-
Other	58,000	58,000	-	41,000	41,000	-
			(24,000)			(15,000)
Derivative contracts	10,000	10,000	-	(3,000)	(3,000)	-
Fair value difference			\$ 36,000			\$ 33,000

The fair value measurements are analyzed according to a fair value hierarchy with three levels as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices in Level 1 that are observable for the asset or liability either directly or indirectly;

Level 3: Inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

No transfer has been made into or out of Level 1 and Level 2 during the year.

Financial assets at fair value December 31, 2010	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
<b>Derivative Financial Instruments</b>				
Interest Rate Swaps	-	9,716	-	9,716
Equity linked options	-	325	-	325
<b>Financial investments available for sale</b>				
Retained interests in securitizations	-	-	4,072	4,072
Government bonds	16,385	-	-	16,385
Mortgage investments	-	-	6,895	6,895
<b>Financial Liabilities</b>	-	-	-	-
<b>Financial assets at fair value December 31, 2009</b>				
<b>Financial Assets</b>	-	1,211	9,573	10,784
<b>Financial Liabilities</b>	-	4,235	-	-

The following table reconciles the credit union's Level 3 fair value measurements from December 31, 2009 to December 31, 2010:

**Fair value measurements using Level 3 inputs**

Balance as at December 31, 2009	\$ 9,573
Gain (loss) included in net income or OCI	(389)
Purchases	8,688
Settlements	(6,905)
Transfers in (out)	-
Balance as at December 31, 2010	\$ 10,967



## 18. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

The credit union is exposed to the following risks as a result of holding financial instruments: credit risk, market risk, and liquidity risk. The following is a description of those risks and how the credit union manages them.

### Credit risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the credit union. Credit risk arises principally in lending activities that result in loans to members as described in Note 8; but also from interest rate swaps (derivatives).

Concentration of credit risk may arise when the ability of a number of borrowers or counterparties to meet their contractual obligations are similarly affected by external factors. Examples of concentration risk would include geographic and industry factors.

### Risk measurement

Credit risk is managed in accordance with our lending policy approved by the Board of Directors. Risk limits and credit authorities are delegated to the Credit Risk Committee, comprised of executive and senior credit management staff, which in turn delegate appropriate limits to lending staff. Credit exposures in excess of certain levels require approval from the Credit Risk Committee.

The credit union's Credit Department reviews and adjudicates credit risk outside of branch managers' delegated lending limits and reviews branch credit decisions to ensure compliance to policy. The Credit Department may approve credits not meeting our lending guidelines on an exception basis with appropriate risk mitigation and reward considerations.

Loan exposures are managed and monitored through facility limits for individual borrowers, credit type, industry exposure and a credit review process. These reviews ensure the borrower complies with internal policy and underwriting standards. The credit union relies on collateral security typically in the form of a fixed and floating charge over the assets of its borrowers. Credit risk is also managed through regular analysis of the ability of members to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Credit risk for our counterparties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

### Maximum exposure to credit risk

The credit union's exposure to credit risk is comprised of loans and derivatives. For these financial assets recognized on the balance sheet, the maximum exposure to credit risk without taking account of any collateral held, equals their carrying amount. For loan commitments and other credit-related commitments that are irrevocable, the maximum exposure to credit risk without taking account of any collateral held, is the full amount of the committed facilities.

	2010		2009	
<b>On balance sheet exposure</b>				
Loans and accrued interest	\$	4,466,534	\$	2,783,913
Derivatives (net)		10,041		–
		4,476,575		2,783,913
<b>Off balance sheet exposure</b>				
Letters of credit		32,173		18,697
Commitments to extend credit		14,450		9,005
Unadvanced loans		756,621		467,133
		803,244		494,835
<b>MAXIMUM EXPOSURE</b>	\$	5,279,819	\$	3,278,748

### Collateral and other credit enhancements

It is our lending policy to assess the customer's capacity to repay, rather than rely excessively on the underlying collateral security. Depending on the customer's standing and the type of product, facilities may be unsecured. Nevertheless, collateral can be an important mitigant of credit risk.

The credit union does not disclose the fair value of collateral held as security or other credit enhancements on either loans past due but not impaired or individually impaired loans, as it is not practical to do so.

### Credit quality of financial assets neither past due nor impaired

The credit quality of the portfolio of loans that were neither past due nor impaired can be assessed by reference to the categories below, on which the following information is based:



18. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)

	2010		2009	
Satisfactory risk	\$	4,317,315	\$	2,687,215
Special mention		70,602		29,924
	\$	4,387,917	\$	2,717,139

Satisfactory risk includes commercial facilities demonstrating financial conditions, risk factors and the capacity to repay ranging from satisfactory to excellent and retail facilities that are maintained within and outside of generally applicable product parameters without being impaired.

Special mention includes facilities that require varying degrees of special attention due to terms and conditions of credit that are not met.

Information in respect of geographic concentrations is included in Note 8.

*Loans past due but not impaired*

Examples of exposures considered past due but not impaired include loans that have missed the most recent payment date but on which there is no evidence of impairment; and loans fully secured by cash collateral. Loans past due greater than 60 days are included on the watch list.

The aging analysis below includes past due loans on which a general allowance has been assessed, though at their early stage of arrears, there is normally no identifiable impairment.

	2010		2009	
Past due up to 29 days	\$	40,471	\$	47,809
Past due 30-59 days		9,025		7,234
Past due greater than 60 days		12,468		7,132
	\$	61,964	\$	62,175

*Impaired financial assets*

When impairment losses occur, we reduce the carrying amount of the loan by the loss amount through the use of a specific allowance account.

Individual accounts are treated as impaired when they are past due 90 days, unless management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest, or earlier if there is objective evidence that an impairment loss has been incurred.

Loans that were impaired amounted to \$16,653 as at December 31, 2010 (\$4,599 as at December 31, 2009).

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

Interest rate risk arises when the values of assets and liabilities do not change by the same amount when interest rates change. Where portfolios are matched in terms of maturities, interest rate risk is reduced. This category also includes yield curve risk, basis risk, optionality risk and interest rate path risk.

The primary objectives of the credit union's market risk management process include: maximize earnings and return on capital within acceptable and controllable levels of the above risks; provide for growth that is sound, profitable and balanced without sacrificing the quality of service; and manage and maintain a policy and procedures that are consistent with the short and long term strategic goals of the Board of Directors.

**Interest rate risk**

*Risk measurement*

The credit union's risk position is measured based upon the potential impact of changes in market conditions. The Asset Liability Committee (ALCO) is a committee composed of senior management that meets at least quarterly and ad-hoc as required. Responsibilities include:

- Approval and review of pricing, investment, liquidity, derivative, foreign exchange and asset-liability policies
- Review of deviations between actual performance and projected plans
- Review of the management of interest rate sensitivity and financial margin including investing, liquidity management, hedging and



**18. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS** (continued)

- securitization activities
- Approval of Asset-Liability and hedging strategies to manage interest rate risk in order to achieve policies
- Evaluation of the current interest rate risk position and the potential effect on its Asset Liability Management (ALM) strategy
- Review and monitoring of key risk modeling assumptions

The credit union utilizes earnings tests to produce monthly forecasts of net interest income for the upcoming 12 months based on:

- (a) the current balance sheet structure
- (b) scheduled maturity and re-pricing of the balance sheet
- (c) several hundred randomly generated interest rate paths composed around a base rate(s) forecast
- (d) a volatility % of randomly generated key rates and
- (e) assumptions regarding customer behaviour and balance sheet growth

Growth assumptions are based on business plans. Customer behaviour assumptions to assess embedded options in deposit and loan portfolios are based on analysis of trend information and management judgment.

The credit union will assess the results of the monthly forecast simulations. The maximum allowable risk exposure will be as follows:

**Earnings at risk**

A reduction in financial margin over the next 12 months of an amount not to exceed 10% of the next 12 months' financial margin resulting from a 2 standard deviation change in current interest rates held constant.

**Duration of equity**

The effective duration of equity is defined as the percentage change in the market value of equity (including retained earnings, equity shares and derivatives) given a 1% range change in interest rates. The 1% change will consist of a 50 bp shock up and a 50 bp shock down. Given this 1% change, the effective duration of equity will not exceed a maximum of 10%.

The following table shows the results of these forecast simulations as at December 31, 2010:

	Policy Limit	2010	Impact
1. Earnings at risk	10%	4.1%	\$ 5,351
2. Duration of equity	+/-10%	4.1%	

As at December 31, 2010, the credit union was within policy limits.

**Liquidity risk**

Liquidity risk is the risk of being unable to fund assets with the appropriate duration and cost, as well as the risk of not being able to meet unexpected cash needs.

The liquidity risk policy of the credit union is that liquidity is managed on both an operational and strategic level on a total company basis. The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. Contingency liquidity is managed by having a plan in place that can be invoked very quickly, as well as having a diversity of funding sources arranged that can be accessed when needed. The credit union will at all times maintain statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The liquidity deposits must be held on deposit with the Central 1 Credit Union as per the credit union's Deposit-Loan Agreement. The statutory liquidity ratio is 8.0% of deposits and borrowings as at the reporting date. Based on total deposits and borrowings as at December 31, 2010 the statutory liquidity requirement exceeds minimum requirements by \$59.6 million.



## 19. FUNDS UNDER ADMINISTRATION

	2010		2009	
Sold loans	\$	252,733	\$	407,428
Mutual funds		923,512		582,465
Self-directed investments		111,812		98,907
	\$	1,288,057	\$	1,088,800

The credit union at times securitizes mortgages through the creation of mortgage pools. No securitization transactions occurred in 2010. The net gain on sale of the mortgages resulting from securitizations was recognized in the Statement of Income. The weighted average assumptions used to measure fair value of the retained rights to excess interest were as follows:

	2010		2009	
	Residential	Commercial	Residential	Commercial
Prepayment rate (average)	19.1%	N/A	20.0%	N/A
Excess spread (average)	1.53%	N/A	0.48%	N/A
Discount rate (average)	2.20%	N/A	4.15%	N/A
Average life (years)	1.6	N/A	2.6	N/A

The following table summarizes the credit union's sales during the year.

	2010		2009	
	Residential		Residential	
Net cash proceeds	\$	–	\$	56,566
Retained rights to cash reserves		–		–
Retained rights to excess interest		–		775
Retained servicing liability		–		(383)
Accrued interest		–		(179)
		–		56,779
Mortgages securitized		–		56,553
Net gain on sale	\$	–	\$	226

## 20. NON-INTEREST INCOME

	2010		2009	
Insurance commissions and fees	\$	20,684	\$	15,736
Securitization		2,335		11,423
Leasing revenue		12,490		8,682
Account service fees		12,275		8,556
IT services		8,884		8,695
Loan administration fees		11,881		6,910
Fees from fiduciary activities and mutual funds		7,698		6,003
Other		4,984		4,878
Foreign exchange		2,141		1,620
	\$	83,372	\$	72,503



## 21. NON-INTEREST EXPENSES

	2010		2009	
Salaries and benefits (Note 23)	\$	89,678	\$	56,903
Administration		35,016		19,208
Data processing		13,997		10,468
Amortization		14,537		8,993
Occupancy		11,557		7,312
	\$	164,785	\$	102,884

## 22. PROVISION FOR INCOME TAXES

	2010		2009	
Current income taxes	\$	11,139	\$	3,940
Future income taxes		(247)		(102)
	\$	10,892	\$	3,838

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before provision for income taxes. The reasons for the differences are as follows:

	2010		2009			
Combined federal and provincial income taxes	\$	12,426	28.5%	\$	7,641	30%
Income taxes adjusted for the effect of:						
Reduction for credit unions		(4,712)	(11%)		(3,695)	(14%)
Other		3,178	7.5%		(108)	(1%)
	\$	10,892	25%	\$	3,838	15%

The tax effects of temporary differences that give rise to significant portions of future income tax liabilities reported in other liabilities are as follows:

	2010		2009	
Future income tax assets:				
Allowance for impairment of loans	\$	2,049	\$	2,168
Other accrued expenses		472		21
Other		143		229
		2,664		2,418
Future income tax liabilities:				
Intangible assets		2,368		898
Other accrued expenses		2,120		2,418
Premises, equipment		1,050		72
		5,538		3,388
NET FUTURE INCOME TAX LIABILITY	\$	(2,874)	\$	(970)



### 23. RETIREMENT PROGRAMS

#### Supplemental Executive Retirement Program (SERP)

Effective January 1, 2006, the credit union adopted a SERP, an unregistered defined benefit retirement program. The SERP is only available to executives selected by the Board of Directors to participate in it. The SERP supplements the retirement benefits provided under the defined benefit registered pension plan by providing for the value of lifetime retirement benefits based on the executive's highest five-year average earnings and employment service after January 1, 2006 offset by the value of the retirement benefits provided, or deemed to be provided, under the registered pension plan.

The SERP benefits will be paid from the general revenue of the credit union as payments come due. Security will be provided for the SERP benefits through a letter of credit within a Retirement Compensation Arrangement Trust account still to be established.

The SERP uses actuarial valuation reports prepared by an independent actuary. The cost of retirement benefits earned is determined using the projected benefit method pro-rated on employment service and using management's best estimate of investment returns, salary escalation and retirement date. The excess of the net actuarial gain (or loss) over 10 percent of the accrued benefit obligation at the beginning of the period is amortized over the expected average remaining service period of the active employees ("EARSL"). Past service costs are also amortized over EARSL.

The following significant actuarial assumptions were used to determine the periodic pension cost:

	2010	2009
Discount rate - January 1	6.50%	7.25%
Discount rate - December 31	5.50%	6.50%
Expected long term rate of return	6.00%	6.00%
Rate of compensation increase	3.50%	3.50%
EARSL - January 1	9.85 years	10.23 years

The determination of the pension cost for the SERP is as follows:

	2010	2009
Current service cost	\$ 134	\$ 123
Interest cost on accrued benefit obligation	61	32
Actuarial losses (gains)	220	17
Pension cost incurred during year, before adjustments	\$ 415	\$ 172

	2010	2009
<b>Pension costs recognized</b>		
Pension cost incurred	\$ 415	\$ 172
Difference between actuarial gain (loss) recognized for year and actual actuarial gain (loss) on accrued benefit obligation	(231)	(17)
Pension cost recognized during year	\$ 184	\$ 155



23. RETIREMENT PROGRAMS (continued)

	2010		2009	
<b>Components of pension cost</b>				
Current service cost	\$	134	\$	123
Interest cost on accrued benefit obligation		61		32
Amortization of net actuarial (gains) losses		(11)		-
Pension cost recognized during year	\$	184	\$	155

	2010		2009	
<b>Reconciliation of accrued benefit obligation</b>				
Accrued benefit obligation, beginning of year	\$	546	\$	387
Balance acquired on merger (Note 2)		478		-
Current service cost (including employee contributions)		133		123
Interest on accrued benefit obligation		62		32
Actuarial loss (gain) during year *		220		17
Benefits paid during year		(49)		(13)
Accrued benefit obligation, end of year	\$	1,390	\$	546

\* Actuarial loss predominately relates to retirement experience being other than assumed.

The SERP does not have assets. Contributions are deemed to be made as entitlements are paid.

	2010		2009	
<b>Determination of accrued benefit liability as at December 31</b>				
Accrued benefit liability, beginning of year	\$	(627)	\$	(492)
Balance acquired on merger (Note 2)		(481)		-
Plus contributions during period		49		13
Less pension cost for year		(184)		(148)
Accrued benefit liability, end of year	\$	(1,243)	\$	(627)

	2010		2009	
<b>Funded status as at December 31 and reconciliation of accrued benefit liability:</b>				
Accrued benefit obligation, end of year	\$	(1,390)	\$	(544)
Fair value of plan assets, end of year		-		-
Unfunded status		(1,390)		(544)
Unamortized net actuarial loss (gain)		147		(83)
Accrued benefit liability, end of year	\$	(1,243)	\$	(627)



## 24. PENSION OBLIGATIONS

The credit union participates in a multi-employer pension plan through Central 1 Credit Union.

As at December 31, 2009 the plan actuary reported that the plan had assets that are less than actuarial liabilities for accrued pension benefits. Since this is a multi-employer plan, the impact to the credit union is limited to increasing future contributions or modifying future benefits. The next actuarial review is scheduled for the period ending December 31, 2012.

The credit union's total pension benefits expense included in the Consolidated Statement of Income is \$4,518 (2009: \$2,832).

## 25. DERIVATIVE CONTRACTS

Derivative instruments are purchased for interest rate risk management purpose. Instruments such as interest rate swaps and forward rate agreements and caps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of loans and deposits. Equity-linked swaps are used to fix costs on products which are based on movements in equity market indexes.

The following table summarizes the notional value of outstanding instruments.

	Notional amount			Total 2010	Net Fair Value	
	Within 3 months	4 to 12 months	Over 1 year		2010	2009
Interest rate swaps	\$ -	\$ -	\$ 725,000	\$ 725,000	\$ 9,300	\$ (3,300)
Interest rate caps	-	7,000	44,200	51,200	400	-
Equity linked options	-	623	5,795	6,418	300	300
	\$ -	\$ 7,623	\$ 774,995	\$ 782,618	\$ 10,000	\$ (3,000)

## 26. COMMITMENTS AND CONTINGENCIES

### Legal proceedings

The credit union has claims and legal proceedings brought against it that arise from usual business activities. The credit union contests the validity of these claims and proceedings. While the outcome of outstanding actions cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material effect on the credit union's financial position.

### Credit commitments

The following balances represent the additional credit that the credit union may be obligated to extend:

	2010	2009
Letters of credit	\$ 32,173	\$ 18,697
Commitments to extend credit	14,450	9,005
Unadvanced loans	756,621	467,133
	\$ 803,244	\$ 494,835

### Premises, computer services and equipment

The credit union has branch lease commitments for its premises extending through to 2015 and thereafter.

For computer services and equipment, the credit union has computer services and hardware leases through to 2015 .



26. COMMITMENTS AND CONTINGENCIES (continued)

The following table summarizes the approximate lease payments over the next 5 years:

	Premises	Computer services and equipment
2011	5,931	2,102
2012	4,499	1,695
2013	3,820	1,014
2014	3,242	431
2015	2,330	181
thereafter	3,678	–

27. RELATED PARTY TRANSACTIONS

At December 31, 2010, outstanding loans to directors, officers and employees of the credit union amounted to \$169,575 (2009: \$129,973). All such loans were granted in accordance with normal lending terms.

The aggregate remuneration earned by directors of the credit union during 2010 was \$592 (2009: \$411).

The credit union has included in accounts payable a donation of \$694 (2009: \$629) to the credit union's charitable foundation, First West Foundation ("Foundation"). Certain directors of the credit union are directors of the Foundation.





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