

# New Directions... Familiar Faces



2009 Annual Report





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# Valley First at a Glance



## Corporate Profile

On Jan. 1, 2010, Valley First merged with Langley-based Envision Financial to form First West Credit Union. Following the merger, Valley First continues to operate under its own identity as a division of First West.

Before the merger, Valley First had grown to become the eighth largest credit union in British Columbia with 16 branches and nine insurance offices throughout the Okanagan, Similkameen and Thompson valleys.

During 2009, these locations were staffed by 450 employees, served more than 47,000 members and managed nearly \$1.8 billion in assets under administration. Subsidiaries also operating under the Valley First name include Valley First Insurance Services Ltd. and Valley First Financial Services Ltd.

## Our Vision:

To be valued as the best financial services provider.

## Our Purpose:

We are a trusted advisor to our members and clients, providing financial solutions that add value to their lives and the communities we serve.

## Core Values:

- Honesty, fairness, integrity and ethical business practice
- Corporate citizenship with community responsibility
- Respect and opportunity for individual growth and the development of our people
- Continuously seek new opportunities to serve
- The pursuit of excellence in everything we do
- Strength and stability of capital

## Products and Services

**Personal banking:** savings and chequing accounts, high-interest savings accounts, US dollar accounts, special accounts for seniors, youth and junior members, online, telephone and mobile banking, personal loans, lines of credit, mortgages, MasterCard credit cards, safe deposit boxes, foreign currency, term deposits, TFSAs, traveller's cheques.

**Commercial banking:** business savings and chequing account packages, cash management services, lines of credit, letters of credit, business and commercial loans, real estate, construction and development financing, business credit cards, payroll outsourcing, merchant MasterCard and foreign exchange services, night deposits.

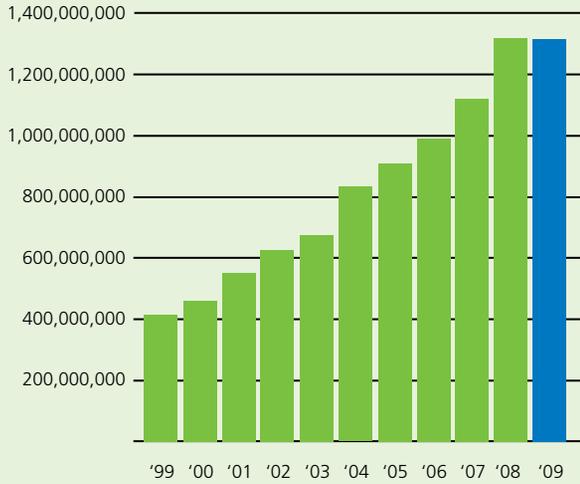
**Wealth management:** term deposits, TFSAs, RRSPs, RESPs, LIFs, RRIFs, GICs, annuities and segregated funds, stocks, bonds, mutual funds.

**Insurance:** home and property, business, automobile, motorcycle, recreational, life and health.

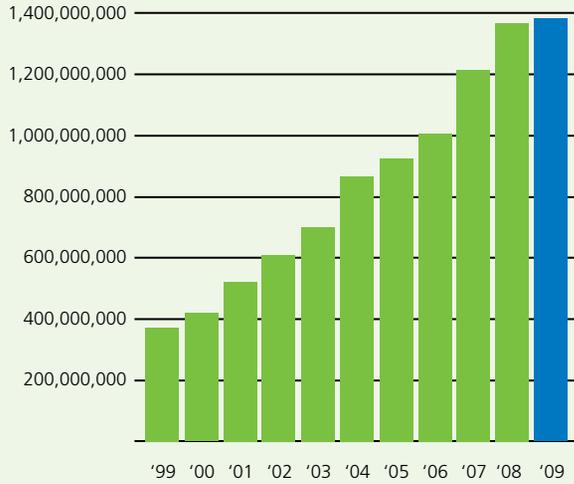


# 2009 Financial Highlights

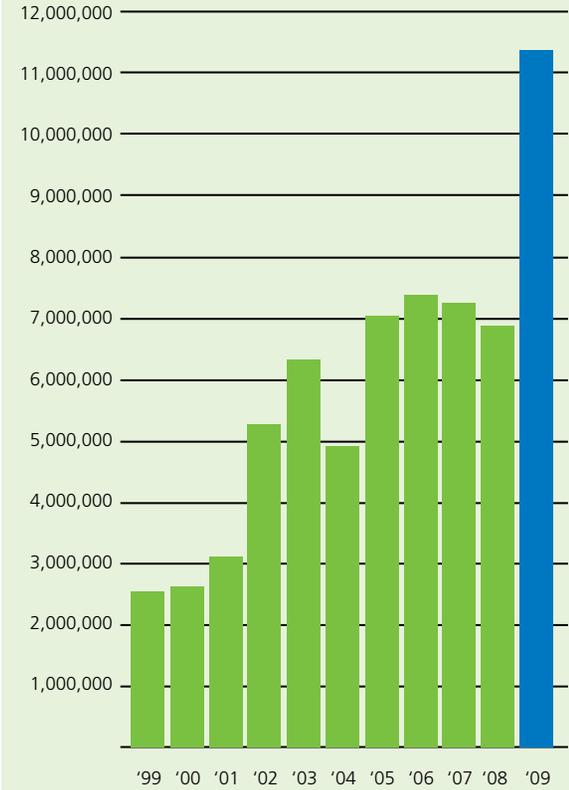
### Total Deposits



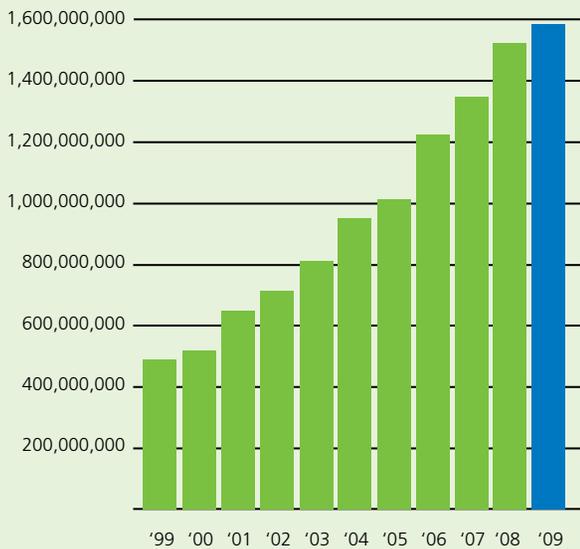
### Total Loans Under Administration



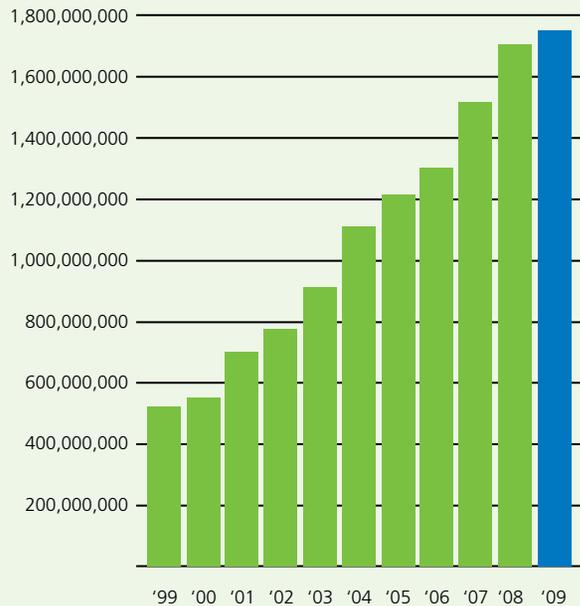
### Operating Income



### Total Deposits and Investments Under Administration



### Total Assets Under Administration



# In Memoriam



## **Harley Biddlecombe, Valley First President and CEO**

Harley Biddlecombe served as Valley First's president and chief executive officer for 31 years. When Harley joined Valley First in 1978, the credit union had two branches, 25 employees and 10,000 members. Under his leadership, the credit union expanded across the Okanagan, Similkameen and Thompson valleys, growing to include 16 branches, nine insurance offices, more than 450 employees and nearly 50,000 members.

Most recently, Harley led Valley First through the ground-breaking merger with Envision Financial that created First West Credit Union. Establishing First West was a passion for Harley; he felt strongly about creating a bold, new model to further strengthen the credit union system.

Despite leading such remarkable growth, Harley always ensured Valley First remembered and preserved what continues to be the heart of the credit union system – the strong relationships between employees, members and the community. In this regard, Harley always led from the front. He was an active and passionate community member, lending his voice and support to numerous charities and those less fortunate. He was also a devoted family man, proud of his three children and six grandchildren and a loving husband to his first wife, Barbara and, after her passing, his second wife, Vickie.

Harley passed away on Oct. 4, 2009. While no longer with us, he remains an inspiration to those who had the pleasure of working with him. His legacy will live on at Valley First and throughout the credit union system.

## **Harold Hoey, Founding Member, Valley First Credit Union**

Harold Hoey moved to Penticton in 1946 after serving in the Royal Canadian Air Force during the Second World War. A year later, as a member of the local Knights of Pythias lodge, he became a founding member of the Penticton and District Credit Union (later renamed Valley First). Harold could recall the early days of the credit union and the series of events that brought it into being, including connecting lodge members with local letter carriers to bolster membership numbers.

Although Harold at times expressed reservations about Valley First's growth, he was impressed that as the organization grew employees retained their friendliness and member-focus. A Valley First member for 62 years, Harold spoke fondly of the staff at the Penticton Main branch and enjoyed the fact everyone knew him by name. Harold passed away on Aug. 4, 2009.





# Chair's Message

Since it was established in 1947, Valley First has been known for innovation, growth and member service. Despite a challenging year that had other financial institutions questioning their futures, Valley First remained true to its roots in 2009 by pushing ahead with its growth strategy and strengthening relationships with its members.

As noted in the acting chief executive officer's message, Valley First recorded another year of strong financial performance. That success was never certain, however, given the difficult economy. Valley First's management had to make a number of tough decisions to ensure the credit union maintained acceptable financial margins. I applaud them for their business acumen and dedication to ensuring the credit union's continued success.

Much of the focus for Valley First's board of directors in 2009 was on the merger with Langley-based Envision Financial to form First West Credit Union.

The board devoted considerable time to working with the regulator to gain approval for the merger, then explaining the merger to credit union members in preparation for an approval vote in September. We saw Envision, which has 120,000 members and more than 800 employees, as a good partner with whom we could grow. We also saw the unique aspects of the merger – most importantly the ability to continue operating under the Valley First identity, to continue making decisions locally and to continue supporting our communities – as strong and compelling grounds for support.

Members agreed. Valley First's Class A, B, and C shareholders voted in favour by a resounding 88.4, 88.6 and 80.1 per cent, respectively, easily meeting the requirement for two-thirds of members casting ballots in each share class to vote positively. Envision's members also voted strongly in favour. The support was heartening, and I would like to thank our members once again.

The board's work on the merger did not end with the positive vote, however. We continued to work in the final months of 2009 to develop a set of governance policies and structures to ensure an orderly transition took place when the merger became final on Jan. 1, 2010.

We also prepared to become part of the much larger First West board. First West was conceived as a merger of equals, and after a short transition period, the board will consist of equal numbers of directors from the Valley First and Envision regions. This offers Valley First's members the assurance that their voices and priorities will continue to be represented at the board table in years to come.

Working with Envision and First Calgary Savings, an Alberta credit union that has partnered with Envision for several years and remains a partner with First West, Valley First's board also took part in a process to select a new, permanent chief executive officer for First West. Launi Skinner, the new First West CEO, was appointed in early 2010.

In addition to preparing for and executing the merger, Valley First's board carried out its normal responsibilities, working with management to assess and respond to changes in the general operating environment, to evaluate economic challenges and enterprise risk and to review and approve business goals and detailed financial budgets. We continued to review our corporate governance standards and practices for individual directors, board structure and board processes to ensure we met member, public and regulatory expectations.

The board also continued to oversee the credit union's democratic processes. Three directors' terms – including mine – expire at our annual general meeting in June. I am pleased to report that Terry Flannigan, Peter Foodikoff and I were all re-elected to the First West board by acclamation.

Amidst the merger-vote excitement and economic uncertainty, our credit union was saddened by the unexpected death of our long-time president and CEO, Harley Biddlecombe. Those of us who worked with him as board members know what a great personal and professional asset he was to the credit union, and what a great blow his loss was. Thankfully, Harley had assembled a strong team and that, along with the board's disaster recovery plan for executive governance, allowed the business to move forward. I would like to thank Paulette Rennie, who stepped in as acting CEO after Harley's passing. She did a great job, and I am pleased she will continue to serve Valley First as regional president.

I am also pleased to report that, despite economic uncertainty for most of the year, Valley First continued to support the communities we serve and made arrangements to ensure that support continues in coming years. Beyond our regular sponsorships and donations, Valley First's board established a \$1-million charitable foundation endowment that will provide grants to worthy causes in the Okanagan, Similkameen and Thompson regions. The board also established the \$100,000 Harley Biddlecombe Legacy Awards for Okanagan College and paid out a record \$1.37 million in year-end share dividends to members.

In closing, I would like to thank Valley First's employees for the hard work they do, and for their dedication to ensuring our members remain satisfied and loyal. It's a big job, and even in a challenging year like 2009, no one does it better than Valley First's employees.

We press on as part of a larger, more geographically and financially diverse organization. We embrace this change, knowing the Valley First name survives, decisions continue to be made locally and our community support continues. We are secure in knowing our members will continue to receive the same level of personal service from the same employees they have come to know and trust over the years. And we do so knowing that over time, our members will see even greater benefits, such as enhanced products and services and access to a larger branch network. As with all initiatives, it will take time to realize these benefits, but they will come and they will be substantial.

These are exciting times for Valley First and its board; thank you to our members for your trust and support. Rest assured your interests are foremost in our minds as we continue to serve you.



Colleen Lister, CGA  
Valley First Board Chair 2009  
First West Board Vice-Chair 2010



## 2009 Board of Directors



Wayne Becker, Vice-Chair



Larry Stevens



Kevin Campbell



Stewart Ladyman



Terry Flannigan

Colleen Lister, Chair

Paul Durose

Peter Foodikoff

Ramesh Rikhi



## Acting CEO's Message



There is no denying 2009 was one of the most challenging and economically unpredictable years we have seen in decades. Consumer confidence was weak, interest rates fell to record lows, unemployment rose and markets around the world suffered from the effects of the recession. Valley First's service area was not immune, and several large companies either shut down, scaled back or left the area.

In the face of these and other market challenges, Valley First managed another successful year. We made good progress toward our strategic goals and, with some well-informed and well-timed business decisions, ended 2009 with positive financial results. As fully detailed in the financial section of this report, at year's end our total assets were \$1.47 billion, assets under administration totaled \$1.78 billion and net income was \$9.8 million.

We didn't achieve these results without making some hard choices, however. When the Bank of Canada reduced its benchmark lending rate in March 2009 to stimulate the economy, we made the difficult decision not to lower our prime lending rate immediately. In April, we informed members with variable-rate loans, lines of credit and mortgages that we were changing the reference rates used to determine the interest they pay. As the many other financial institutions forced to make the same sort of change can attest, this re-pricing was not popular with members. It did, however, allow members to continue enjoying historically low interest rates while ensuring the credit union preserved an acceptable financial margin.

Throughout the year we continued to grow our branch network and make infrastructure upgrades to serve members better. In March, after many months of planning and testing, we successfully converted to a new banking system. While for members this system upgrade went on behind the scenes, its benefits will be recognized in coming years as we reduce the development and release time of new products and services and increase the security of member accounts.

In August, we opened Valley First's 16th branch, located on the UBC Okanagan campus in Kelowna. As we are the only financial services provider on campus, grand opening celebrations focused on building

awareness and forging relationships with the next generation of Valley First members. The UBC Okanagan branch is unlike any other in our network: it is designed to appeal to students with a high-tech appearance and a mix of in-person and online services.

During the year we also made two significant decisions to strengthen our insurance subsidiary, Valley First Insurance Services. In July, we repurchased the 50 per cent of VFIS held by CUIS Brokerage Services Ltd. and in October we completed an upgrade of our TAM (The Agency Manager) business management system. These moves will allow us to better control VFIS's strategic direction and boost productivity and sales volumes by combining multiple client and insurance policy databases.

Much attention and effort during 2009 was directed toward our planned merger with Langley-based Envision Financial. While the chair of the board of directors has covered this topic extensively in her message, I would like to acknowledge the hard work our employees did to prepare and the commitment and trust our members showed in approving the merger. I truly believe this is the right way forward for Valley First, and we will all share in the rewards it offers in years to come.

With the official merger now complete, we have turned our attention to the transition activities that will align Valley First and Envision more closely. This is no small task; a dedicated transition team is reviewing many areas to identify and capture the operating efficiencies afforded by being part of a larger organization. At the same time, our branch employees remain committed to ensuring the transition is seamless for our members.

On a personal note, it was with great sadness that we bid farewell to our long-time president and chief executive officer, Harley Biddlecombe, in October. After 31 years at the helm, Harley had become more than just a leader for us. He was a mentor and inspiration to many of us at Valley First. While Harley is no longer with us, his wisdom, knowledge and friendship will never be forgotten.

As Valley First enters 2010, we stand ready to benefit from the hard work of 2009. The recession has been declared over and strong economic growth is forecast for British Columbia and Canada. Against that positive background, we will continue to deliver the same excellent service to our members while capitalizing on the benefits afforded by our recent merger. I'm excited about our future as a division of First West and look forward to leading Valley First as we begin writing a new chapter in its history.



Paulette Rennie  
Valley First Acting CEO 2009  
Valley First President 2010



## 2009 Senior Executive

Ron Smith  
Vice-President, Sales  
Acting COO

Jim Lamond  
Vice-President, Credit

Tom Bijvoet  
Vice-President, Operations  
and Information Technology

Paulette Rennie  
Chief Operating Officer  
Acting CEO

Jackie Baron  
Vice-President,  
Administration and Governance

Robert Mowat, CGA  
Chief Financial Officer

# About Us



## Governance and structure

As a member-owned, democratic co-operative, Valley First is committed to upholding effective governance practices to ensure it meets public, client and member expectations while complying with credit union policies and procedures and regulatory and statutory requirements.

Until the merger with Envision Financial, Valley First's members elected a nine-person board of directors to represent their interests, set policies and oversee the credit union's management. Board members were normally appointed to three-year terms, with elections held annually to replace outgoing directors.

All Valley First directors are independent, have proven business expertise and are knowledgeable, ethical and committed to protecting and upholding the credit union's values. Among its responsibilities, the board defines the credit union's vision and purpose, establishes long-range corporate strategies and plans, approves and monitors corporate goals, business plans, financial statements, major financial decisions and policies, appoints, evaluates and guides the president and CEO and reports annual results to members.

The board reviews its governance practices annually to ensure they meet industry standards and the organization is managing enterprise risk appropriately.

## Member involvement

Valley First, like other credit unions, is a co-operative, whose primary goal is to serve its members. Members own the credit union and have the opportunity to shape and direct its future.

Members are encouraged to take part in the credit union's annual general meeting and to vote on the election of board directors and on special resolutions. Members (unless they are Valley First employees, family of Valley First employees or employees of other financial institutions) may also stand for election as board directors.

## First West Credit Union governance

On Jan. 1, 2010, Valley First merged with Langley-based Envision Financial to form First West Credit Union. Following the merger, Valley First and Envision continue to operate under their own identities as First West divisions.

The First West operating model – unique in Canada's credit union industry – gives Valley First the advantage of retaining its individual brand, local decision making power and community support initiatives while benefiting from the competitive advantage afforded by being part of a larger, more economically and geographically diverse organization.

Following a short transition period, First West's board of directors will include equal representation from both the Valley First and Envision Financial regions. Directors are nominated and elected in their home regions and serve on the board as representatives of those regions.

The First West rules allow for a board of no more than 18 and no less than 12 directors. As of Jan. 1, 2010, First West's board comprises 19 directors – 10 from the Envision region and nine from the Valley First region. The board will include equal numbers of directors from each region by the 2011 annual general meeting.

For more information about the First West board of directors, please visit the First West website at [www.firstwestcu.ca](http://www.firstwestcu.ca).

### Members approve our merger

In September 2009, the members of Valley First and Langley-based Envision Financial approved a merger between the two organizations. The result was First West Credit Union, which was officially formed on Jan. 1, 2010.

Operating as divisions of First West, Valley First and Envision benefit from the economies of scale made possible by being part of a larger financial institution, and have the added advantages of retaining their local identities, making decisions locally and continuing to support the communities they serve.

Members benefit by receiving the same great service from the same employees they have come to know and trust over the years. Over time, the merger will allow us to offer members access to an enhanced range of products and access to a wider branch network.

More information about First West is available at [www.firstwestcu.ca](http://www.firstwestcu.ca).



### Upgrading our systems for better service

The personal service Valley First offers its members and clients is supported behind the scenes by some very sophisticated computer systems.

In 2009, Valley First upgraded two of those systems to improve service, boost security and enable us to more effectively develop and introduce innovative products.

The first upgrade came in March when, after two years of preparation and testing, we converted to a new core banking system. The project was one of the biggest we had ever tackled – it also included upgrades to our ATMs, a new accounting system, a new data warehouse and a new statement provider. With careful planning, however, we completed the conversion on time and as planned. Some members were temporarily inconvenienced during the conversion, but most issues were quickly resolved.

Then, in October, Valley First Insurance Services upgraded its The Agency Manager (TAM) business management system to boost productivity and support increased sales volumes. TAM, which is used by more than 10,000 businesses, streamlines work by offering all policy, customer and prospect information in one place and eliminating the need to re-enter information into multiple databases.



## Serving our Members and Clients

Valley First consistently stands out amongst its competitors because of the personal, caring service it provides members. We pride ourselves on making our members feel valued as people, not just financial opportunities. While we believe we are doing a good job, we strive to improve by creating a positive experience at every opportunity. In person, over the phone or through our website, our goal is to make every member interaction positively memorable.

Our dedication and commitment to providing exceptional member service is not only good business, it is the core of what we do. We serve our members by providing trusted financial products and services and our members express their satisfaction by recommending Valley First to friends and family.

### Positive financial results

Despite the economic uncertainty of 2009 Valley First achieved another successful year by sticking to its business plan and making well-informed business decisions. (Full financial results are available beginning on page 20.)

Net income for 2009 was \$9.8 million and gross return on assets (ROA) was 77 basis points, one of the highest ROAs Valley First has ever achieved. Assets at the end of the year totaled \$1.47 billion, a 1.5 per cent increase over last year's \$1.44 billion year-end total. Total assets under administration rose to \$1.78 billion, and the credit union's financial margin at year-end was 2.41 per cent, a result of favourable market conditions and contributions from the derivative portfolio.

Valley First's results for 2009 reflected some one-time fees and expenses as well as normal year-end activities. For the most part, expenses were on plan, with the exception of salaries and benefits, which were about two per cent below budget. Fee income, at \$2.4 million, was a strong component of Valley First's 2009 results.

## Retail banking

Retail banking continues to be a highly competitive and price sensitive market, affected significantly by challenging economic conditions.

As the recession took hold in late 2008 and throughout 2009, deposits slowed as members sought to reduce debt and protect their financial positions. Deposits remained flat throughout the year and year-end figures show very little movement, ending down 0.1 per cent from 2008 total deposits.

The weakening economy also led to lower retail lending volumes as the real estate market adjusted to the recession. Our centralized mortgage broker centre continues to lead the way for retail lending growth and during the year total net consumer loans and mortgages increased by \$37 million, down from growth of \$80 million in 2008. By year's end, our total gross consumer lending portfolio under administration was more than \$861 million, a 2.5 per cent increase from 2008.

As the economy continues to recover from the recent recession, we expect to see a modest increase in lending and investing activity. We will continue to focus on training, sales and people management strategies to improve member service and business results, specifically in loan and deposit growth.

## Commercial banking

In the past few years, Valley First's commercial banking business has grown primarily through real estate lending. Operating in a slowing market was expected to create challenges in the commercial banking sector and we predicted flat growth for 2009.

By year-end, Valley First's commercial loans under administration had declined three per cent, decreasing the net commercial loan portfolio under administration by \$14 million to \$521 million. We collected loan fees of \$2.02 million in 2009 – a strong result, but less than we collected in 2008 because of reduced lending activity.

Commercial loan losses for the year were less than \$8,000, a significant achievement considering the challenging economic environment. Loan delinquency for both our retail and commercial portfolios was well below target and very good in comparison to industry standards, reflecting strong underwriting and controls in our lending practices.

## New website introduction

Today, more and more members do their banking online. Doing so should be easy and convenient.

In October, Valley First unveiled a new website designed to improve the quality of its online banking experience. The website boasts a fresh new look and offers members a number of features not included in Valley First's previous website. The most obvious change is that members are now able to log in to online banking right on the website's home page, with no need to click a link to a separate website.



Moving to the new website also made it possible for us to introduce mobile banking in December, and will make other new services, such as e-statements, possible in coming months.

## Opening UBC Okanagan branch

In August 2009 Valley First opened its 16th credit union branch, the first and only financial-services outlet established on the UBC Okanagan campus in Kelowna.

The new branch is unlike any other Valley First branch. Configured as a "micro branch," it features bright colours, a high-tech appearance and a mix of in-person and online service.

The branch is the latest step in Valley First's long-standing partnership with UBC Okanagan. The credit union was the first organization in the valley to establish a

scholarship for UBC Okanagan and for the past four years has acted as the title sponsor for the UBCO Athletics Scholarship Breakfast, which has been responsible for building a \$250,000 endowment.



Photo courtesy of UBC Okanagan

## Insurance subsidiary repurchase

In July 2009, Valley First regained full ownership of Valley First Insurance Services by buying out a 50 per cent equity interest in the subsidiary held by CUIS Brokerage Services Ltd. (CBSL).

The partnership, originally established in 2004, allowed VFIS to build on CBSL's industry experience and knowledge, opening up new markets, making new products available and increasing economies of scale. It allowed VFIS to be more competitive while improving administration efficiencies.

Dissolving the partnership had no effect on day-to-day operations, but it did allow Valley First to regain full control over its insurance subsidiary's strategic direction and revenues.

## Protecting our members from fraud

Protecting Valley First's members from fraud is a top priority – and one that has become even more important as debit card and cheque fraud becomes more prevalent in our service area and across the country.

Over the past year, we increased our efforts to reduce the threat of fraud by partnering with other organizations to increase member and merchant education, verifying and updating member information, providing information about protecting personal information and finances and further readying ourselves for the introduction of credit and debit chip cards.

In addition, all Valley First employees receive fraud detection training and our computer systems use the most up-to-date security methods. We have a dedicated IT security team that addresses issues before they become threats and we maintain and adhere to strict privacy and security policies to ensure member information remains confidential.



While real estate lending has generated a substantial increase in assets and the merged balance sheet resulting from the creation of First West will create additional lending opportunities, the recent credit crunch has highlighted the need to diversify our commercial portfolio into non-real estate lending activities, such as serving the small and medium-sized enterprise (SME) market.

As part of our SME initiative we created a stronger commercial banking presence on the revamped Valley First website in 2009 and enhanced our merchant services offering by partnering with Moneris Solutions. We will focus on developing our SME program further in 2010.

We expect a modest increase in lending and investment activity in 2010 as the economy continues to improve. During 2010, we will build our commercial loan portfolio and assess and improve the suite of products and services offered to our business members.

## Insurance

Valley First Insurance Services – a brokerage that offers general insurance products including auto, home, travel, recreational and business insurance – faced challenging market conditions in 2009. Property and casualty insurers across Canada experienced low (if any) return on investments and were forced to look inward for underwriting profits. ICBC further decreased optional coverage rates, affecting Autoplan revenue growth.

Despite operating in a market characterized by rising premiums and increased difficulty placing coverage for some risks, VFIS was still able to achieve positive growth. Total revenues for 2009 were \$4.5 million, up one per cent over 2008, while referrals and closing ratios remained steady.

Our retention – a key performance indicator – was consistent with industry best practice at 93 per cent, showing that, in the face of the economic downturn, the subsidiary has maintained strong client relationships and quality service.

During 2009, we moved to consolidate our insurance markets and align with one provider to alleviate some of the effects of the difficult market. While we expect 2010 to be another challenging year, we are confident the work we have done to consolidate providers, along with the strong relationships we have built with clients, will help us grow both our personal and commercial portfolios.

## Wealth Management

Valley First's wealth management subsidiary had another challenging year in 2009, operating in a weak economy generally marked by conservative investing and low investor confidence.

Despite these challenges, wealth management assets under administration were \$208 million by the end of 2009, up \$38 million or 22 per cent compared to 2008. Our performance was better than the industry as a whole, which ended the year with assets under administration of \$595 billion (up \$88 billion or 17 percent over 2008) and net sales of \$1.4 billion (up from \$151 million in 2008).

Valley First's wealth management client roster grew in 2009, driven primarily by investors seeking higher returns compared to low guaranteed investment certificate rates. By the end of the year we had 3,994 wealth management clients, up 415 or 11 per cent over 2008. Our average portfolio size for 2009 was \$52,000, up \$5,000 or 10 per cent compared to 2008.

The competitive environment for wealth management services has become increasingly complex in recent years. Clients are now more involved in their financial affairs, look for guaranteed income solutions and invest their funds more conservatively. It is encouraging to note, however, that clients are more often choosing to consolidate their financial affairs, including investing, with their primary financial institution.

As with 2009, the outlook for 2010 depends largely on the strengthening economy and investor confidence. Given current market conditions, many investors may opt to hold their money on the sidelines until signs of stability build their confidence; however, we will be looking to work more closely with other business units to increase referral opportunities and grow our portfolio.



## Enhancing our facilities

Making sure Valley First's branches and offices offer our members and employees a comfortable experience is important.

To ensure that is the case, we have carried out a program to upgrade many of our facilities over the past few years. In 2009 this included upgrades to the Cherry Lane, Guisachan and Lumby branches and the Valley First regional office in Penticton.

Beyond increasing creature comforts, the upgrades increase our facilities' appeal to current and potential members by presenting a professional, modern appearance. The upgrades also increase site security, and are done with an eye to energy and other resource efficiency.



## Feed the Valley

Valley First supports hundreds of community organizations. That support makes a big difference in the lives of our members and the lives of their friends and families.

Recently, however, we decided to make an even bigger difference – to find a cause we could support in every community we serve, while still helping the hundreds of groups we contribute to each year. The result, launched in early 2010, was Feed the Valley.

Feed the Valley aims to reduce – and, if possible, eliminate – hunger in our area by raising food, funds and awareness for food banks throughout the Okanagan, Similkameen and Thompson valleys. Community members are encouraged to donate non-perishable food items or make cash donations at Valley First branches. Many employees are contributing through regular payroll donations.

Interest in Feed the Valley spread quickly following its introduction and the program now includes other corporate partners committed to reducing hunger in the region. So far, it has succeeded beyond our greatest expectations – and we'll keep pushing to make it even better.

You can learn more at [www.feedthevalley.ca](http://www.feedthevalley.ca).



# Supporting our Communities

Valley First has a longstanding tradition of supporting charities, organizations and events in the communities we serve through gifts-in-kind, sponsorships and donations. Since our establishment more than 60 years ago, we have continued to forge lasting partnerships that allow us to contribute to the strength and sustainability of our local communities and economies. We are pleased that even with the economic uncertainty of 2009, we maintained our commitment to support our communities.

## Sponsorships and donations

In 2009, Valley First's sponsorships and donations totaled more than \$263,000 and supported more than 85 hospitals, schools, food banks, youth sports teams and sporting events, community centres, festivals, local United Way campaigns and other causes and projects.

We added additional value through in-kind donations, allowing organizations to use our corporate tents and contributing promotional items for community events.

## Scholarships and bursaries

In 2009 we provided more than \$27,000 in scholarships and bursaries to graduating secondary, continuing education and university students in the communities we serve.

## 2009 Sponsorships

### North Okanagan, Thompson

- Okanagan Wine Festivals
- Armstrong Boys and Girls Club Golf annual golf tournament
- Armstrong-Spallumcheen Museum and Art Society
- Children's Make a Wish Foundation
- Community Futures, Partner in Action Conference
- Falkland Stampede Association
- Vernon Funtastic
- Kamloops Brain Injury Association – Gur Singh golf tournament
- Kamloops Central Business Association Downtown Merchants Market
- Lumby Chamber of Commerce-Business Excellence Awards
- Lumby Family Festival
- Paddle Against Cancer – Vernon
- Reinin in the Sun, Armstrong

- Wine, Women and Woods "Tee Off for the Cure"
- Vernon and District Performing Arts Centre
- Thompson Rivers University Kick Off BBQ
- PE Stampede
- Vernon Search and Rescue

### Central Okanagan

- Okanagan Wine Festivals
- Intercultural Society, Global Citizens Week
- John Thompson Conference
- Kelowna Real Estate Conference
- Kelowna Ringette Association – Sweetheart Tournament
- Ladies Living Well
- Okanagan Sun Football
- UBCO Athletic Scholarship Breakfast
- UBCO Career Services Platinum Sponsor
- The West Coast Book Prize
- Peachland Centennial
- UBC Okanagan food exchange program

- UBC Okanagan Big Bang Week
- Okanagan Mainline Football Society

### South Okanagan, Similkameen

- Okanagan Wine Festivals
- Communities for Kids
- Community Foundation of the South Okanagan – Friends of the Foundation Program
- Holy Cross School Playground
- Literacy Now Workshop – Penticton Chamber of Commerce
- Oliver Sting Youth Basketball
- OSNS (Okanagan Similkameen Neurological Society) Share-a-Smile telethon
- Penticton Peach Festival
- South Okanagan Youth Soccer Association – Penticton Pinnacles Youth Soccer

- Princess Margaret Secondary School Dry Grad Calendar
- Princeton Rotary Golf Tournament
- Penticton Curling Club – Scotties Tournament of Hearts
- Similkameen Sizzle
- South Okanagan Events Centre
- Princeton Rodeo Club Golf Tournament
- Penticton Vees Junior A Hockey awards banquet
- Adopt-a-Seat program for the Frank Venables Auditorium in Oliver
- South Okanagan Women in Need Society
- Penticton and Friends golf gala
- Summerland Survivorship Dragon Boat team
- Okanagan Archive Trust Society
- Meadowlark Festival
- Hall-of-Fame Summer Classic

Late in the year, the board of directors committed \$100,000 to establish the Harley Biddlecombe Legacy Awards at Okanagan College. Harley was passionate about the college and the pursuit of education. This donation, which will create educational opportunities for students with diverse financial means, is a fitting tribute to his memory.

### Special products

To help sustain our communities and support economic development, we offer low-fee, interest bearing Community First accounts to local associations, organizations, service clubs and other qualifying charitable and non-profit groups.

### Staff volunteerism and donations

Our members and communities also benefit from the hundreds of volunteer hours our employees contribute and the donations they make on their own. For example, every payday Friday employees make a donation for the privilege of dressing casually. In December, each branch donates its collected funds to a local organization of its choice. In 2009, this initiative raised more than \$10,000 for community organizations.

In September, we introduced a new community involvement and volunteer recognition program to encourage staff volunteerism. In the three months this program was active during 2009, employees volunteered almost 1,000 hours in their local areas.



### Valley First endowment fund

When Valley First sought member approval to merge with Envision Financial, we committed to continue our tradition of supporting the communities we serve.

We affirmed that commitment by establishing a \$1-million charitable foundation endowment that will provide grants to worthy causes in the Okanagan, Similkameen and Thompson regions.

The endowment was made shortly before the merger with Envision was finalized on Jan. 1, 2010. Envision has maintained a charitable foundation since 1996 that has provided more than \$1.5 million in grants in the communities the credit union serves. The same foundation will hold the Valley First endowment as an enduring gift and distribute only the interest earned as grants beginning in 2011.

Contributions from credit union members and the broader community are welcome to help grow the Valley First endowment and increase the fund's ability to support worthwhile community projects. Since the credit union provides administrative support for the foundation, 100 per cent of donations go directly to the endowment fund.



## 2009 Donations

### North Okanagan, Thompson

- Relay for Life
- Vernon Fantastic
- Downtown Vernon Christmas Festival
- United Way of the North Okanagan
- United Way of the Thompson Nicola Cariboo
- Salvation Army –Vernon
- Kamloops Food Bank
- Canada Day Celebrations
- Rare Earth Jazz Festival
- Armstrong Food Bank
- Lumby Food Bank

### Central Okanagan

- Relay for Life
- Dancing Barefoot in the Park
- Kelowna Community Food Bank Society
- Peachland Food Bank
- Kelowna Women's Shelter

### South Okanagan, Similkameen

- Relay for Life
- Rotary Okanagan Children's Festival
- Penticton Academy of Music
- Penticton Elvis Festival
- Canada Day Celebrations
- Art Gallery Penticton
- Penticton Peach Festival
- Naramata Fair
- Princeton Music Festival
- Ironman Canada
- Survivorship, Dragon Boat
- Similkameen Sizzle
- Downtown Penticton Business Association
- South Okanagan Similkameen Medical Foundation

- Penticton Salvation Army
- Knights of Columbus food hamper - Oliver
- South Similkameen hamper fund



# Putting our People First

## Offering options for better balance

Employees today face more demands on their time than ever before – family commitments, personal obligations, work deadlines...the list goes on.

Recognizing this reality, we introduced an alternative work options program in 2009 that allows employees to structure their work schedules in ways that allow them to balance their personal and work lives effectively.

With their managers' approval, employees can choose from a number of alternative work options, such as flexible time, compressed work weeks, reduced work weeks, telecommuting or job sharing.

We believe the program is a win-win – employees enjoy better work-life balance and the credit union benefits from employees who are more engaged and motivated to contribute their very best.



As Valley First grows, our continuing success depends on our employees and the experiences they create for our members. To maintain a high-quality, motivated workforce, we build meaningful relationships with all 450 of our employees – paying close attention to their needs and providing the programs they require to remain engaged and committed.

## Listening to our employees

The most positive, engaged employees are those who feel their voices are heard. That's one reason we're committed to listening to our employees – their input helps us design better programs and leads to greater member value and improved profitability.

Throughout 2009, we carried out our retention survey, which was aimed at identifying key retention factors for employees who have been with Valley First for two to five years. This process helps us identify areas of strength and areas that may need more attention. The results of the retention survey will help us develop short-, medium- and long-term action plans in critical areas such as leadership development, creativity and innovation and attraction and retention.

## Enhancing employee programs

In 2009, we continued to review and revise our human resources policies to better reflect the issues faced in today's workplace and to support and recognize our employees.

Two key changes were the introduction of our alternative work options program and our community involvement volunteer recognition program. The alternative work options program allows employees to restructure their work schedules to better meet work and personal obligations. The community involvement volunteer recognition program acknowledges and rewards employees who give back to the community.

These enhancements are aimed at ensuring our people feel good about their contributions, are rewarded for their accomplishments and maintain a positive work/life balance. To date, both have been well-received.

### Training for success

Hiring employees is not enough; we devote considerable energy and resources to building and upgrading employees' quality and skill level, helping them become more comfortable with change and decision making while supporting our business requirements.

In 2009, we introduced a revised employee orientation program that prepares new hires for their career with Valley First by focusing on creating a positive member experience. We also introduced a new service experience course, which is built around delivering superior member service.

In addition, we place great emphasis on leadership development and have launched a new coaching for success course. We believe it is critical that we support our growth and organizational commitment by promoting from within where possible.

### Post-merger opportunities

When Valley First began discussing the possibility of merging with Envision Financial, we made it clear that retaining employees was a crucial part of our growth strategy. Our commitment was that no employee would see a salary reduction or lose his or her job as a result of the merger, and we would work with employees to find new internal opportunities in the event of job duplication.

With the merger complete, some roles and reporting lines have changed as expected. Where necessary we have worked with employees to place them in roles where they can grow professionally and better serve the new organization. Our commitment remains the same, however – no employee will lose his or her job as a result of the merger.

In fact, employees have discovered they have more opportunities as a result of the merger. As part of First West, Valley First employees may apply for internal postings for both the Valley First and Envision Financial divisions, increasing their career and development opportunities.





# Consolidated Financial Statements

Valley First Credit Union  
December 31, 2009

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# Auditors' report



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To the Members of  
Valley First Credit Union

We have audited the consolidated balance sheet of Valley First Credit Union (the "credit union") as at December 31, 2009 and the consolidated statements of earnings, comprehensive income, 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the credit union as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A stylized, handwritten-style signature of "Grant Thornton LLP" in black ink.

Chartered accountants

Vancouver, Canada  
March 11, 2010

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# Valley First Credit Union

## Consolidated Balance Sheet

December 31	2009	2008
	<i>(thousands of dollars)</i>	
<b>Assets</b>		(Restated) (Note 28)
Cash resources (Note 5)	\$ 123,716	\$ 139,784
Loans (Note 6)	1,278,153	1,248,940
Investments and other (Note 7)	39,347	25,866
Derivative instruments (Note 19)	1,319	13,977
Premises and equipment (Note 8)	19,084	16,830
Intangible assets (Notes 9 and 25)	1,851	–
Goodwill (Notes 10 and 25)	4,369	173
	<u>\$ 1,467,839</u>	<u>\$ 1,445,570</u>
<b>Liabilities</b>		
Deposits (Note 11)	\$ 1,340,990	\$ 1,344,420
Payables and accruals	6,011	7,234
Borrowings (Note 12)	20,847	12,616
Derivative instruments (Note 19)	–	62
	<u>1,367,848</u>	<u>1,364,332</u>
<b>Members' Equity</b>		
Equity shares (Note 13)	44,453	29,017
Contributed surplus	3,836	3,836
Retained earnings	50,331	41,680
Accumulated other comprehensive income	1,371	6,705
	<u>99,991</u>	<u>81,238</u>
	<u>\$ 1,467,839</u>	<u>\$ 1,445,570</u>
On behalf of the Board	Commitments and contingencies (Note 21) Subsequent events (Note 27)	
"Terry Enns" Director	"Henry Jansen" Director	

See accompanying notes to the consolidated financial statements.

# Valley First Credit Union

## Consolidated Statement of Earnings

Year Ended December 31	2009	2008
	<i>(thousands of dollars)</i>	
Financial income		
Loans	\$ 61,061	\$ 66,150
Investments and other	10,300	5,566
	<u>71,361</u>	<u>71,716</u>
Financial expense		
Deposits	35,141	37,628
Borrowings	1,055	2,604
	<u>36,196</u>	<u>40,232</u>
Financial margin	35,165	31,484
Provision for loan losses (Note 6)	474	1,048
	<u>34,691</u>	30,436
Other income (Note 15)	17,270	14,019
Operating margin	51,961	44,455
Operating expenses (Note 16)	40,634	37,555
Earnings before income taxes	11,327	6,900
Income taxes (Note 17)		
Current	1,481	758
Future (recovery)	11	(103)
	<u>1,492</u>	<u>655</u>
Net earnings	\$ <u>9,835</u>	\$ <u>6,245</u>

See accompanying notes to the consolidated financial statements.

# Valley First Credit Union

## Consolidated Statement of Comprehensive Income

Year Ended December 31	2009	2008
	<i>(thousands of dollars)</i>	
Net earnings	\$ <u>9,835</u>	\$ <u>6,245</u>
Other comprehensive income		
Net unrealized gains on available-for-sale financial assets, net of tax (Note 17)	147	609
Reclassification to earnings of losses on available-for-sale financial assets, net of tax (Note 17)	(276)	-
Net unrealized gains (losses) on derivatives designated as cash flow hedges, net of tax (Note 17)	(4,992)	7,185
Reclassification to earnings of losses on derivatives designated as cash flow hedges, net of tax (Note 17)	<u>(213)</u>	<u>(46)</u>
Other comprehensive (loss) income	<u>(5,334)</u>	<u>7,748</u>
Comprehensive income	\$ <u>4,501</u>	\$ <u>13,993</u>

See accompanying notes to the consolidated financial statements.

# Valley First Credit Union

## Consolidated Statement of Changes in Members' Equity

Year Ended December 31	2009	2008
		<i>(thousands of dollars)</i>
		(Restated) (Note 28)
<b>Equity shares</b>		
Balance, beginning of year	\$ 29,017	\$ 28,724
Net deposits	15,386	248
Dividends declared and unpaid	50	45
	<hr/>	<hr/>
Balance, end of year	44,453	29,017
<b>Contributed surplus</b>		
Balance, beginning and end of year	3,836	3,836
<b>Retained earnings</b>		
Balance, beginning of year		
As previously reported	41,680	35,358
Adjustment for accounting error (Note 28)	-	1,005
	<hr/>	<hr/>
As restated	41,680	36,363
Net earnings	9,835	6,245
Dividends, net of tax (Note 17)	(1,184)	(928)
	<hr/>	<hr/>
Balance, end of year	50,331	41,680
<b>Accumulated other comprehensive income</b>		
Balance, beginning of year	6,705	(1,043)
Other comprehensive (loss) income, net of tax	(5,334)	7,748
	<hr/>	<hr/>
Balance, end of year	1,371	6,705
	<hr/>	<hr/>
<b>Members' equity, end of year</b>	<b>\$ 99,991</b>	<b>\$ 81,238</b>

See accompanying notes to the consolidated financial statements.

# Valley First Credit Union

## Consolidated Statement of Cash Flows

Year Ended December 31	2009	2008
	<i>(thousands of dollars)</i>	
Increase (decrease) in cash and cash equivalents		
<b>Operating activities</b>		
Net earnings	\$ 9,835	\$ 6,245
Adjustments to determine cash flows		
Loss on sale of premises and equipment	36	2
Provision for loan losses	474	1,048
Amortization	2,202	1,906
Change in interest accruals	(2,810)	2,747
Future income taxes (recovery)	11	(103)
Gain on sale of subsidiary	-	(3,330)
Unrealized gain (loss) on derivatives	7,261	(7,604)
Other	(3,136)	(3,222)
	<u>13,873</u>	<u>(2,311)</u>
<b>Financing activities</b>		
Deposits, net of withdrawals	916	209,730
Borrowings	8,231	(6,950)
Equity shares	15,436	293
Dividends on equity shares, net	(1,184)	(928)
	<u>23,399</u>	<u>202,145</u>
<b>Investing activities</b>		
Loans, net of repayments	(29,481)	(173,573)
Deposits on account with Central 1 maturing in more than three months	(2,710)	(14,510)
Investments and other	(14,972)	9,546
Proceeds from sale of subsidiary	-	3,330
Purchase of subsidiary (Note 25)	(4,562)	-
Purchase of premises and equipment	(4,346)	(1,608)
Proceeds from the sale of premises and equipment	21	-
	<u>(56,050)</u>	<u>(176,815)</u>
Net (decrease) increase in cash and cash equivalents	(18,778)	23,019
Cash and cash equivalents, beginning of year	39,919	16,900
Cash and cash equivalents, end of year	\$ <u>21,141</u>	\$ <u>39,919</u>
<b>Supplementary cash flow information</b>		
Interest paid	\$ 38,390	\$ 36,477
Income taxes paid	2,629	998

See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 1. Governing legislation and operations

The credit union is incorporated under the credit union Incorporation Act of British Columbia; the operation of the credit union is subject to the Financial Institutions Act of British Columbia. The credit union serves members principally in the interior of British Columbia.

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### 2. Summary of significant accounting policies

#### Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). In preparing these financial statements, management has made estimates and assumptions that could affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those reported.

#### Principles of consolidation

The consolidated financial statements include the accounts of the credit union and its wholly-owned subsidiaries, Valley First Insurance Services Ltd., Valley First Financial Services Ltd. and Western Interior Financial Ltd. All significant intercompany transactions and accounts have been eliminated.

#### Cash resources

Cash resources are comprised of cash held as well as deposits with Central 1 Credit Union (Central 1).

Deposits held for liquidity purposes with Central 1 are recorded at amortized cost. Interest income is recorded on an accrual basis.

#### Loans

Loans are initially recognized at fair value plus fees and direct transaction costs. Subsequently, they are measured at amortized cost, net of allowance for loan losses, using the effective interest rate method.

Interest income is recorded on an accrual basis except where a loan is impaired. Interest received on an impaired loan is recognized in earnings only after recovery of the specific provision for impairment or partial write-off, and provided there is no doubt as to the collectibility of the principal amount.

#### *Impaired loans*

Loans are generally considered to be impaired at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectibility of principal and interest; when interest or principal is 90 days past due or; financial reporting is significantly in arrears. Loans considered uncollectible are written-off. Impaired loans are carried at their estimated net realizable value, determined by discounting the expected future cash flows. When the amounts of future cash flows cannot be estimated with reasonable reliability, impaired loans are carried at the fair value of the underlying security, net of estimated costs of realization.

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 2. Summary of significant accounting policies (Continued)

#### Loans (Continued)

##### *Allowance for loan losses*

The allowance for loan losses is maintained at a level considered adequate to absorb identified credit related losses in the portfolio as well as losses that may be incurred but are not yet identifiable. Specific allowances are provided for individually identified loans that have become impaired, in order to write-down the loan to its estimated realizable amount.

The general allowance represents the best estimate of probable losses within the portion of the portfolio that has not been specifically identified as impaired. The amount is established through the application of expected loss factors to outstanding balances and is reviewed throughout the reporting period, at a minimum, quarterly.

The balance in the allowance for loan losses account is deducted from the related asset category. The amount of the provision for loan losses that is charged to the consolidated statement of earnings is the estimated net credit loss experience for the year. The provision for the year establishes the amount needed in the allowance for loan losses account that management considers adequate to absorb all credit related losses in its portfolio after charging loans written-off during the year, net of recoveries, to the allowance for loan losses account.

##### *Loan fees*

Net fees earned and costs incurred in connection with lending activity are capitalized and amortized over the term of the underlying loans using the effective interest rate method.

Mortgage prepayment fees are recognized in other income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized over the average remaining term of the original mortgage.

##### *Loan securitizations and sales*

The credit union periodically sells loans to special purpose entities or other unrelated third parties. These transactions are accounted for as sales and the related loans are removed from the balance sheet when control over the loans is surrendered and consideration other than beneficial interests in the transferred loans is received in exchange.

The fair values of loans sold and retained interests are determined using pricing models based on key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved. Gains or losses on these transactions are recorded in other interest income and are 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 transfer. The carrying value of retained interests is reviewed annually for impairment and adjusted as required.

The credit union may retain interests in the transferred loans, such as servicing rights and cash reserve accounts. The credit union classifies its retained interests in securitizations as available-for-sale securities. These retained interests are recorded at their fair value at the time of the sale and are periodically re-evaluated with changes in fair value flowing through other comprehensive income (OCI) and interest income flowing through net earnings.

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 2. Summary of significant accounting policies (Continued)

#### Commissions

Commissions paid in connection with deposit taking and lending activities are considered transaction costs to their related products. These commission costs are adjustments to the yield of the loan or deposit and therefore are recognized using the effective interest rate method as interest expense over the average term of the portfolio. Commission costs are included with the related loan or deposit balances on the consolidated balance sheet.

#### Investments and other

Investments in shares, bonds and mortgage securities are carried at quoted prices, when quoted prices are readily obtainable, or at cost, when quoted prices are not readily obtainable. Any impairment other than temporary is classified in other income.

#### Shares

Shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the credit union's board of directors, the shares are classified as equity. Dividends on equity shares less related income tax reductions are charged against retained earnings in the year they are declared.

#### Premises and equipment

Premises and equipment are stated at cost. Amortization is computed on the straight line method at rates varying between 2% and 50%. Leasehold improvements are written-off over the term of the lease and the first renewal period or ten years whichever is the lesser.

#### Intangible assets

Intangible assets represent finite and indefinite life intangible assets. Finite life intangible assets consist of customer lists and are amortized over their estimated useful lives. Finite lived intangible assets are tested for impairment by management whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Indefinite lived intangible assets consist of insurance licenses and are tested by management annually for impairment and between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of the intangible assets below their carrying value.

#### Goodwill

Goodwill represents the excess purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is reviewed by management on at least an annual basis to determine whether there is an impairment in value. Goodwill is tested between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of the goodwill below its carrying value. Any loss on impairment during the year is charged to earnings.

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 2. Summary of significant accounting policies (Continued)

#### Income taxes

The credit union follows the asset and liability method of accounting for income taxes. Future tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the consolidated balance sheet and their respective tax bases using the enacted or substantially enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. Future income taxes also result from the carry forward of unused tax losses and other deductions.

The valuation of future income tax assets is reviewed annually and adjusted, if necessary, to reflect the estimated realizable amount. Net future income tax assets or liabilities are reflected in other assets or other liabilities, as appropriate.

#### Derivative financial instruments

Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. Derivatives are utilized to manage exposure to financial risks such as changes in interest rates and foreign exchange rates. Derivatives are carried at fair value and are reported as assets where they have a positive value and as liabilities where they have a negative value. In both cases they are classified as derivative instruments on the consolidated balance sheet. For derivatives that do not qualify for hedge accounting, the changes in fair value are recorded in other income.

When a derivative qualifies for hedge accounting the hedging relationship is designated and formally documented at inception. The documentation involves outlining the particular risk management objective and strategy for the hedging relationship, the specific asset, liability or cash flow being hedged, and how effectiveness is assessed and measured. Hedging relationships, between the hedged and hedging items, are designated as a fair value hedge or a cash flow hedge. This process includes linking the derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. Effectiveness is assessed and measured by determining whether derivatives used in hedging relationships are highly effective in offsetting changes in fair values or cash flows attributable to the risk being hedged. Effectiveness testing is performed both at inception and over the term of the hedging relationship.

In a fair value hedge, the change in fair value of the hedging derivative is offset on the consolidated statement of earnings against the change in the fair value of the hedged item relating to the hedged risk.

In a cash flow hedge, the effective portion of the change in fair value of the derivative is recognized in other comprehensive income (OCI). The amount in OCI is reclassified and included on the consolidated statement of earnings in the same period that the hedged cash flows affect earnings. The credit union utilizes cash flow hedges to convert floating rate assets to fixed rate.

Any hedge ineffectiveness is measured and recorded in other income on the consolidated statement of earnings.

Hedge accounting is discontinued prospectively if the hedging relationship no longer qualifies as an effective hedge or if the hedging item is settled. Amounts previously recorded as cumulative adjustments to the effective portion of gains and losses attributable to the hedged risk are amortized using the effective interest rate method and recognized on the consolidated statement of earnings over the remaining useful life of the hedged item. Hedge accounting is also discontinued if the hedged item is sold or terminated prior to maturity. In this situation, the cumulative adjustments with respect to the effective portion of gains and losses attributable to the hedged risk are immediately recorded on the consolidated statement of earnings.

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 2. Summary of significant accounting policies (Continued)

#### Employee future benefits

For defined benefit plans, the credit union accrues the benefit obligations using the accumulated benefit method, net of the fair value of plan assets and unamortized items on the balance sheet. The accrued benefit liabilities are included in payables and accruals.

For defined contribution plans, contributions are expensed as incurred, with accrued benefit liabilities included in payables and accruals.

#### Comparative figures

Certain comparative figures are reclassified, where appropriate, to conform to the current year's presentation.

---

### 3. Changes in accounting standards

#### (a) Current year changes

##### *Credit risk and the fair value of financial assets and financial liabilities*

In January 2009, the EIC issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counter party when determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. EIC-173 is applicable to the credit union's annual financial statements for its fiscal year ending December 31, 2009. The adoption of the EIC did not result in a material impact to the valuation of the credit union's financial assets and financial liabilities as disclosed in Note 18.

##### *Fair value and liquidity risk disclosure – amendments to: financial instruments - disclosures, section 3862*

##### *Financial instrument disclosures*

In June 2009, the CICA amended Handbook section 3862, Financial Instruments – Disclosures, to enhance the disclosure requirements including the relative reliability of inputs used in fair value measurements and the liability of risk of financial instruments. The amendments are effective for the 2009 consolidated financial statements and impact the disclosures contained in Note 18.

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 3. Changes in accounting standards (Continued)

#### (b) Future changes

On February 13, 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 audited consolidated financial statements in accordance with IFRS for the fiscal year ending December 31, 2011, including comparative figures for 2010.

In order to meet the transition requirements, management has developed a project plan that is arranged according to the following phases:

- Impact assessment of IFRS
- Requirements gathering, detailed review of IFRS and adoption planning
- Development of IFRS policies
- Training and communication

The credit union is on schedule with its IFRS transition plan, having completed the requirements gathering and detailed planning phase of the project. Preliminary accounting policy choices and elections based on current standards issued by the International Accounting Standards Board (IASB) have been made, and work is underway to develop the related accounting policies. At this point in the project, the credit union is not able to reasonably estimate the financial reporting impact of the transition to IFRS.

Significant changes to IFRS accounting standards are expected to be issued by the AcSB during 2010 and as a result, there is uncertainty regarding the expected accounting standards that will be in place in 2011. As a result of changing circumstances during transition, the credit union may change accounting policy choices or elections initially selected.

# Notes to the Consolidated Financial Statements

December 31, 2009

## 4. Classification of financial instruments

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

	<b>Held for Trading (HFT)</b>	<b>Held to Maturity (HTM)</b>	<b>Available for Sale (AFS)</b>	<b>Loans &amp; Receivables (LR)</b>	<b>Other Liabilities (OL)</b>	<b>2009 Total</b>	<b>2008 Total</b>
			<i>(thousands of dollars)</i>				
<b>Financial assets</b>							
<b>Cash resources</b>							
Current	\$ 7,764	\$ -	\$ -	\$ -	\$ -	<b>\$ 7,764</b>	\$ 18,130
Central 1 < 3 months	-	13,377	-	-	-	<b>13,377</b>	21,789
Central 1 > 3 months	-	102,575	-	-	-	<b>102,575</b>	99,865
	<u>7,764</u>	<u>115,952</u>	<u>-</u>	<u>-</u>	<u>-</u>	<b><u>123,716</u></b>	<u>139,784</u>
<b>Loans</b>							
Retail loans	-	-	-	853,061	-	<b>853,061</b>	816,237
Commercial loans	-	-	-	425,092	-	<b>425,092</b>	432,703
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,278,153</u>	<u>-</u>	<b><u>1,278,153</u></b>	<u>1,248,940</u>
<b>Investments</b>							
Bonds, mortgage securities	-	-	30,696	-	-	<b>30,696</b>	15,653
Shares Central 1	-	-	3,986	-	-	<b>3,986</b>	3,325
Shares, other	-	-	374	-	-	<b>374</b>	301
Receivables	-	-	-	2,481	-	<b>2,481</b>	3,221
	<u>-</u>	<u>-</u>	<u>35,056</u>	<u>2,481</u>	<u>-</u>	<b><u>37,537</u></b>	<u>22,500</u>
<b>Derivatives</b>							
Cross currency swap	1,319	-	-	-	-	<b>1,319</b>	6,718
Interest rate swaps	-	-	-	-	-	<b>-</b>	7,259
	<u>1,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<b><u>1,319</u></b>	<u>13,977</u>
	<u>\$ 9,083</u>	<u>\$ 115,952</u>	<u>\$ 35,056</u>	<u>\$ 1,280,634</u>	<u>\$ -</u>	<b><u>\$ 1,440,725</u></b>	<u>\$ 1,425,201</u>
<b>Financial liabilities</b>							
Deposits	\$ -	\$ -	\$ -	\$ -	\$ 1,340,990	<b>\$ 1,340,990</b>	\$ 1,344,420
Payables	-	-	-	-	6,011	<b>6,011</b>	7,234
Borrowings	-	-	-	-	20,847	<b>20,847</b>	12,616
<b>Derivatives</b>							
Forward rate agreements	-	-	-	-	-	<b>-</b>	45
Interest rate swaps	-	-	-	-	-	<b>-</b>	17
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<b><u>-</u></b>	<u>62</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,367,848</u>	<b><u>\$ 1,367,848</u></b>	<u>\$ 1,364,332</u>

## Notes to the Consolidated Financial Statements

December 31, 2009

### 4. Classification of financial instruments (Continued)

Held-for-trading (HFT) financial assets and financial liabilities are acquired or incurred principally for resale, generally within a short period of time, or are designated as such upon initial recognition. They are measured at fair value at each balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are reported in earnings as trading revenue. Interest earned and interest incurred is included in interest income and expense, respectively. The credit union has classified cash and current accounts and derivative instruments as HFT.

Held-to-maturity (HTM) financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables (LR), which an entity has the intention and ability to hold to maturity. These financial assets are accounted for at amortized cost. The credit union has designated deposits on account with Central 1 as HTM.

Available-for-sale (AFS) financial assets are non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM investments or HFT. AFS assets are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income (AOCI) until sale or other than temporary impairment, at which time the cumulative gain or loss is transferred to the consolidated statement of earnings. Income from these assets is recorded in interest income on an effective interest basis. The credit union has classified bonds and mortgage securities, shares and retained interests as AFS.

Loans and receivables (LR) are recorded at amortized cost. The credit union has classified all loans and accounts receivable as LR.

Other financial liabilities (OFL) are recorded at amortized cost and include all liabilities, other than derivatives and liabilities designated as HFT. The credit union has classified all financial liabilities as OFL.

### 5. Cash resources

	2009	2008
	<i>(thousands of dollars)</i>	
Cash and current accounts	\$ 7,764	\$ 18,130
Deposits on account with Central 1 callable or maturing in less than three months	<u>13,377</u>	<u>21,789</u>
	<b>21,141</b>	<b>39,919</b>
Deposits on account with Central 1 maturing in more than three months	<u>102,575</u>	<u>99,865</u>
	<b>\$ 123,716</b>	<b>\$ 139,784</b>

Provincial legislation requires the credit union to maintain, for liquidity purposes, deposits with Central 1 of at least 8% (2008: 8%) of deposits and borrowings.

# Notes to the Consolidated Financial Statements

December 31, 2009

## 6. Loans

	2009	2008
	<i>(thousands of dollars)</i>	
Personal loans	\$ 854,003	\$ 817,018
Commercial loans	425,722	433,226
Accrued interest	<u>2,964</u>	<u>2,934</u>
	<b>1,282,689</b>	<b>1,253,178</b>
Allowance for loan losses		
Specific	<u>361</u>	63
General	<u>4,175</u>	<u>4,175</u>
	<b>4,536</b>	<b>4,238</b>
	<b>\$ 1,278,153</b>	<b>\$ 1,248,940</b>

### Allowance for loan losses

	Balance December 31, 2008	Provision	Write-offs	Balance December 31, 2009
	<i>(thousands of dollars)</i>			
Personal loans	\$ 2,068	\$ 430	\$ 168	\$ 2,330
Commercial loans	<u>2,170</u>	<u>44</u>	<u>8</u>	<u>2,206</u>
	<u>\$ 4,238</u>	<u>\$ 474</u>	<u>\$ 176</u>	<u>\$ 4,536</u>

### Impaired loans and related allowances

	2009			2008
	Loan Balance	Specific Allowance	Carrying Amount	Carrying Amount
	<i>(thousands of dollars)</i>			
Personal loans	\$ 5,250	\$ 317	\$ 4,933	\$ 3,020
Commercial loans	<u>14,396</u>	<u>44</u>	<u>14,352</u>	<u>12,665</u>
	<u>\$ 19,646</u>	<u>\$ 361</u>	<u>\$ 19,285</u>	<u>\$ 15,685</u>

# Valley First Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2009

<b>7. Investments and other</b>	<b>2009</b>	2008
		<i>(thousands of dollars)</i>
		(Restated) (Note 28)
Shares		
Central 1	\$ 3,593	\$ 3,257
Other	374	301
Accrued dividends on Central 1 shares	394	68
Equity interest in Valley First Insurance Services Ltd.	-	2,307
Receivables and prepaids	2,752	3,864
Bonds and mortgage securities	30,394	15,456
Accrued interest on investments	302	197
Future income tax assets	230	416
Current income tax receivable	<u>1,308</u>	<u>-</u>
	<b>\$ 39,347</b>	<b>\$ 25,866</b>

Investment in the shares of Central 1 is required by governing legislation and as a condition of membership in Central 1.

<b>8. Premises and equipment</b>			<b>2009</b>	2008
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
				<i>(thousands of dollars)</i>
Land	\$ 1,551	\$ -	\$ 1,551	\$ 1,551
Buildings	15,005	3,061	11,944	10,489
Equipment	<u>20,100</u>	<u>14,511</u>	<u>5,589</u>	<u>4,790</u>
	<u>\$ 36,656</u>	<u>\$ 17,572</u>	<u>\$ 19,084</u>	<u>\$ 16,830</u>

<b>9. Intangible assets</b>	<u>Insurance Licences</u> (thousands of dollars)
Net book value, beginning of year	\$ -
Additions	1,851
Impairment	<u>-</u>
Net book value, end of year	<u>\$ 1,851</u>

## Notes to the Consolidated Financial Statements

December 31, 2009

### 8. Goodwill

	<u>Opening Balance</u>	<u>Additions</u>	<u>Impairment</u>	<i>(thousands of dollars)</i> <u>Ending Balance</u>
Goodwill	\$ <u>173</u>	\$ <u>4,196</u>	\$ <u>-</u>	\$ <u>4,369</u>

### 11. Deposits

	<b>2009</b>	<b>2008</b>
	<i>(thousands of dollars)</i>	
Demand	\$ <b>462,874</b>	\$ 418,124
Municipal deposits	<b>44,783</b>	49,945
Term	<b>623,746</b>	665,011
Registered savings plans	<b>196,185</b>	195,158
Accrued interest	<b>13,402</b>	16,182
	<b>\$ <u>1,340,990</u></b>	<b>\$ <u>1,344,420</u></b>

### 12. Borrowings

	<b>2009</b>	<b>2008</b>
	<i>(thousands of dollars)</i>	
Central 1	\$ <b>20,847</b>	\$ 3,000
Other	<u>-</u>	<u>9,616</u>
	<b>\$ <u>20,847</u></b>	<b>\$ <u>12,616</u></b>

The credit union has available to it, through Central 1, an operating line and term loan facility of \$120 million secured by a general security agreement and the general assignment of book debts. The loans mature within six months and bear interest at an effective interest rate of 0.75% (2008: 2.27%).

During the year, the credit union did not renew its \$40 million credit facility. At December 31, 2008, outstanding loans had maturity dates within three months of year end and interest at banker's acceptance rates.

## Notes to the Consolidated Financial Statements

December 31, 2009

### 13. Equity shares

Capital of the credit union is divided into three classes of equity shares, all having a par value of \$1. Funds invested in these shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia. Redemption of equity shares may be subject to certain restrictions.

	2009	2008
	<i>(thousands of dollars)</i>	
Class "A" membership equity shares		
Under the credit union rules, members are required to hold at least five membership equity shares.		
Membership equity shares pay dividends at the discretion of the directors in the form of cash or additional shares. These shares are redeemable under certain conditions at the discretion of the directors to a maximum of 10% of the issued and outstanding shares in any one year	\$ 1,379	\$ 1,545
Class "B" investment equity shares		
Investment equity shares pay dividends at the discretion of the directors in the form of cash or additional shares. These shares are redeemable under certain conditions at the discretion of the directors to a maximum of 10% of the issued and outstanding shares in any one year. Members may invest up to \$50	27,867	17,312
Class "C" retirement plan equity shares		
Retirement plan equity shares pay dividends in the form of additional shares or cash credited to an RRSP of the same class. These shares are redeemable, subject to the discretion of the board of directors.		
There is no limit on the number of shares which may be held by a member	14,818	9,821
Dividends on equity shares	389	339
	<u>\$ 44,453</u>	<u>\$ 29,017</u>

### 14. Capital management

The credit union is required under governing legislation to maintain a minimum level of capital based on prescribed risk weighted values applied to non-consolidated balance sheet assets.

The credit union's capital base by regulation consists of both primary and secondary capital, net of prescribed deductions.

	2009	2008
	<i>(thousands of dollars)</i>	
Primary capital (non-consolidated)		
Member equity shares	\$ 44,453	\$ 29,017
Retained earnings	50,863	40,902
Contributed surplus	3,836	3,836
Future income tax assets	(361)	(356)
Deductions from capital	(6,030)	(5,184)

The credit union's secondary capital comprises a proportion of system retained earnings, which is calculated and provided by the regulator subsequent to year end. Deductions from capital include items such as goodwill, intangible assets and securitization-related balances.

# Valley First Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2009

### 14. Capital management (Continued)

Balance sheet assets are weighted by prescribed risk factors and then divided by the capital base to arrive at the capital adequacy ratio. The minimum ratio by regulation is 8%; at December 31, the credit union exceeded this level.

The credit union's policy requires the calculated capital ratio, excluding system capital, to be maintained at no less than 10%, unless approved by the credit union board of directors. Management measures and monitors internal capital levels and ratios on a monthly basis, taking corrective actions when appropriate to ensure compliance with both internal policy and external requirements. Summarized reports on the credit union's capital and its components are presented to the board of directors monthly, with more detailed risk analysis and capital stress testing provided at a minimum, quarterly.

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15. Other income	2009	2008
		<i>(thousands of dollars)</i>
Chequing services and commissions	\$ 7,362	\$ 5,998
Commissions	3,428	1,241
Gain on sale of subsidiary	-	3,330
Gain on wind up of derivative instruments	2,657	299
Income from equity investment	144	266
Insurance proceeds	1,300	-
Loan fees and other	2,379	2,885
	<u>\$ 17,270</u>	<u>\$ 14,019</u>

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16. Operating expenses (thousands of dollars)	2009	2008
		<i>(thousands of dollars)</i>
Advertising and promotion	\$ 1,942	\$ 1,057
Amortization	2,202	1,906
Capital taxes	457	571
Data processing	1,998	4,252
Office	10,411	8,460
Salaries and employee benefits	23,624	21,309
	<u>40,634</u>	<u>\$ 37,555</u>

During the year, the credit union donated \$1,000 to establish a Valley First Endowment Fund through the Envision Foundation, subsequently known as First West Foundation.

## Notes to the Consolidated Financial Statements

December 31, 2009

### 17. Income taxes

#### Reconciliation to statutory rate

The total provision for income taxes on the consolidated statement of earnings is at a rate less than the combined federal and provincial statutory income tax rates of the applicable year for the following reasons:

	2009	2008
	%	%
Combined federal and provincial statutory income tax rate	30.50	31.92
Decrease in rate due to:		
Rate reduction applicable to credit unions	(17.00)	(17.00)
Capital gain	-	(3.60)
Other, net	(0.28)	(1.83)
Effective income tax rate	<u>13.22</u>	<u>9.49</u>

#### Components of income tax provision

	2009	2008
	<i>(thousands of dollars)</i>	
Income tax expense (recovery) on consolidated statement of earnings:		
Current income taxes	\$ 1,481	\$ 758
Future income taxes	<u>11</u>	<u>(103)</u>
	<u>1,492</u>	<u>655</u>
Income tax expenses (recoveries) on consolidated statements of comprehensive income and changes in members' equity:		
Net unrealized gains on AFS investments	23	107
Reclassification to earnings of losses on AFS investments	(43)	-
Net unrealized (losses) gains on derivatives designated as cash flow hedges	(779)	1,260
Reclassification to earnings of losses on derivatives designated as cash flow hedges	(33)	(8)
Dividends on member equity shares	(185)	(163)
	<u>(1,017)</u>	<u>1,196</u>
Total income taxes	<u>\$ 475</u>	<u>\$ 1,851</u>

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 17. Income taxes (Continued)

#### Components of future income tax balances

The components of future income tax balances included in payables and accruals are as follows:

	2009	2008
	(thousands of dollars)	
Future income tax assets (liabilities)		
Allowance for credit losses	\$ 568	\$ 565
Deferred items	131	65
Other	<u>(469)</u>	<u>(214)</u>
Net future income tax assets	\$ <u>230</u>	\$ <u>416</u>

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### 18. Fair values of financial instruments

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates. Fair values are determined by discounting current cash flows based on rates available on the date of valuation, incorporating credit risk.

Fair value estimates of derivative financial instruments are determined using pricing models that take into account current market and contractual prices of the underlying instruments, and time value as well as yield curve or volatility factors underlying the positions.

Financial instruments recognized at fair value on the consolidated balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

## Notes to the Consolidated Financial Statements

December 31, 2009

### 18. Fair values of financial instruments (Continued)

The credit union's financial assets measured at fair value on the consolidated balance sheet are determined based on the following fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
	(thousands of dollars)			
Financial assets				
Cash	\$ 7,764	\$ -	\$ -	\$ 7,764
Government and government related securities	-	8,566	-	8,566
Other debt securities	-	13,401	8,728	22,129
Derivative financial instruments	-	1,319	-	1,319

The estimated fair value of financial assets and financial liabilities recorded at values other than estimated fair value on the consolidated balance sheet are as follows:

	<u>Book Value</u>	<u>Estimated Fair Value</u>	<u>2009 Favourable (Unfavourable) Variance</u>	<u>2008 Favourable (Unfavourable) Variance</u>
	(thousands of dollars)			
Assets				
Cash resources	\$ 123,716	\$ 126,567	\$ 2,851	\$ 7,170
Loans	1,278,153	1,284,808	6,655	8,088
Investments and other	39,347	39,347	-	-
Derivative instruments	1,319	1,319	-	-
Liabilities				
Deposits	1,340,990	1,345,357	(4,367)	(6,290)
Payables and accruals	6,011	6,011	-	-
Borrowings	20,847	20,838	9	-
			<u>\$ 5,148</u>	<u>\$ 8,968</u>

# Valley First Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2009

### 19. Derivative instruments (thousands of dollars)

As at December 31, 2009 the credit union has entered into the following derivative contracts:

	Notional Amounts			Fair Values		
	Maturities of Derivatives			Total 2008	2009	2008
	Within 1 Year	1 to 5 Years	Total 2009			
	<i>(thousands of dollars)</i>					
Interest rate swaps	\$ -	\$ -	\$ -	\$ 180,000	\$ -	\$ 7,243
Forward rate agreements	-	-	-	20,000	-	(45)
Cross currency swap	<u>30,060</u>	-	<u>30,060</u>	<u>30,060</u>	<u>1,319</u>	<u>6,717</u>
Total derivative contracts	\$ <u>30,060</u>	\$ -	\$ <u>30,060</u>	\$ <u>230,060</u>	\$ <u>1,319</u>	\$ <u>13,915</u>

The credit union recorded losses of \$88 (2008: earnings of \$208) from the assessment and measurement of ineffectiveness on cash flow hedges.

### 20. Loan securitization and sales (thousands of dollars)

#### Transfers of loans

	2009	2008
	<i>(thousands of dollars)</i>	
Residential mortgages		
Pre-tax gain on sale	\$ -	\$ -
Commercial mortgages	-	-
		1,172

The credit union did not sell or securitize any loans during the year (2008: \$1,172).

On April 24, 2009, the credit union repurchased its outstanding pools of securitized residential mortgages from SMART Trust at fair value. The principal outstanding on the repurchase date was \$10,528.

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 21. Commitments and contingencies (thousands of dollars)

#### Letters of credit

In the normal course of business, the credit union enters into various off balance sheet commitments such as letters of credit. Letters of credit are not reflected on the consolidated balance sheet. At December 31, 2009, the credit union has outstanding letters of credit on behalf of members in the amount of \$15,930 (2008: \$18,523).

#### Loans

As at December 31, 2009 the credit union had committed to certain loans which, if they had been fully advanced, would amount to \$193,952 (2008: \$212,525).

#### Commitments

Certain branch premises are leased for terms extending through 2014. Total rentals under these leases for the next five years are \$5,790 (2008: \$4,808).

For banking system support and maintenance, the credit union is committed to system support fees of \$2,593 (2008: \$2,593) for the next five years.

#### Contingencies

In the ordinary course of business, the credit union has legal proceedings brought against it and provisions have been included in liabilities where appropriate. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or earnings of the credit union.

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### 22. Related party transactions (thousands of dollars)

At December 31, 2009 loans to directors, officers and related parties amounted to \$7,581 (2008: \$12,861).

During the year, directors received in their capacity as directors, remuneration totalling \$90 in aggregate (2008: \$87).

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### 23. Nature and extent of risks arising from financial instruments (thousands of dollars)

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 risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligation. Credit risk arises in the credit union's lending operations and investment activities.

## Notes to the Consolidated Financial Statements

December 31, 2009

### 23. Nature and extent of risks arising from financial instruments (thousands of dollars) (Continued)

#### Credit risk (Continued)

Investment credit risk is managed by setting appropriate requirements on the credit quality of each issuer of securities and on derivative counterparties, as well as prudent diversification levels to limit concentration of credit risk. These requirements are contained within the Investment Policy approved by the board of directors, and reviewed at least annually by the Investment and Loan Committee (ILC). Management monitors the credit standings of investment counterparties on an ongoing basis to ensure the quality of its investment portfolio has not become impaired.

Lending credit risk is managed in accordance with the credit union's Lending Policy, approved by the board of directors, and reviewed at least annually by the ILC. Management reports to the board on a regular basis, on portfolio credit quality and product and industry concentrations.

Historically, the credit union's credit loss experience as a percentage of assets has been low in relation to that of the credit union's peers.

The following presents the maximum exposure to credit risk of balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements. For financial assets recognized on the consolidated balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the credit union would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	2009	2008
	<i>(thousands of dollars)</i>	
On balance sheet exposure		
Deposits with other financial institutions	\$ 113,899	\$ 129,711
Securities investments	30,394	15,456
Loans	1,278,153	1,248,940
Derivatives	1,319	13,977
Accrued interest	2,395	2,934
	<u>1,426,160</u>	<u>1,411,018</u>
Off balance sheet exposure		
Letters of credit	15,930	18,523
Commitments to extend credit	193,952	212,525
	<u>209,882</u>	<u>231,048</u>
Maximum exposure	\$ <u>1,636,042</u>	\$ <u>1,642,066</u>

## Notes to the Consolidated Financial Statements

December 31, 2009

### 23. Nature and extent of risks arising from financial instruments (thousands of dollars) (Continued)

#### Liquidity risk

Liquidity risk is the risk that an entity does not have sufficient financial resources to meet obligations as they fall due, or can only obtain such resources at excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk, a form of liquidity risk, arises when the necessary liquidity to fund asset growth cannot be obtained at the expected terms when required.

The credit union's liquidity and funding strategy objective is to ensure that all foreseeable funding commitments can be met when due, and that access to readily available funds through a variety of sources is coordinated and cost-effective. The credit union's primary sources of funding include member deposits, borrowing facilities, sale, securitization and syndication of assets and wholesale funding agreements.

The management of liquidity and funding is carried out by the Treasury function in accordance with policy approved by the board and reviewed at least annually by the ILC. Management activities include monitoring and managing cash flows, maintaining availability of credit facilities, wholesale funding, and coordinating sale and securitization conduits according to approved policies. Management reports on liquidity and funding activities on a monthly basis to the Asset and Liability Committee (ALCO), comprised of executive management, and quarterly to the board.

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	<b>On Demand and Due within 3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>2009 Total</b>	<b>2008 Total</b>
			<i>(thousands of dollars)</i>		
Member deposits	\$ 672,682	\$ 278,714	\$ 389,594	\$ 1,340,990	\$ 1,344,420
Borrowings	847	20,000	-	20,847	12,616
Other liabilities	6,011	-	-	6,011	7,234
Off balance sheet loan maturities	53,501	2,801	46,440	102,742	128,113
Lease and other commitments	526	1,591	6,265	8,382	7,305
	<b>\$ 733,567</b>	<b>\$ 303,106</b>	<b>\$ 442,299</b>	<b>\$ 1,478,972</b>	<b>\$ 1,499,688</b>
2008	<b>\$ 716,337</b>	<b>\$ 348,484</b>	<b>\$ 434,867</b>	<b>\$ 1,499,688</b>	

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 23. Nature and extent of risks arising from financial instruments (thousands of dollars) (Continued)

#### **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 market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The credit union's objective is to earn an acceptable return without taking unreasonable risk and is not exposed to other price risk.

#### *Currency risk*

Currency risk arises on financial instruments that are denominated in a foreign currency, and is the exposure to fluctuations in fair value or future cash flows due to changes in foreign exchange rates. The credit union is exposed to currency risk on its portfolio of US dollar-denominated member deposits, and the partially offsetting book of like-denominated assets, including deposits with Central 1 and securities investments.

Currency risk is managed according to policies and risk limits within the Investment Policy, approved by the board and reviewed at least annually by the ILC. Limits to the unhedged foreign currency exposure are prescribed by policy, and levels are monitored on a day to day basis. The credit union uses derivative instruments in the management of currency risk, such as cross currency swap or forward exchange contracts.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The credit union is exposed to interest rate risk as a consequence of the mismatch between the assets, liabilities and off balance sheet instruments scheduled to reprice on particular dates.

Interest rate risk management (IRRM) policy is prescribed in the Investment Policy, approved by the board and reviewed by the ILC at least annually. The credit union continuously monitors its exposure to interest rate changes and their potential effects on financial margin by modeling its assets, liabilities and equity against the impact of various possible rate increases or decreases. The credit union uses derivative products, such as interest rate swap contracts, forward rate contracts and similar instruments to hedge its exposure to fluctuations in market interest rates.

## Notes to the Consolidated Financial Statements

December 31, 2009

### 23. Nature and extent of risks arising from financial instruments (thousands of dollars) (Continued)

#### Market risk (Continued)

##### Interest rate risk (Continued)

The following table details the credit union's exposure to interest rate risk:

	Interest Sensitive Balances				Non-Interest Sensitive	2009 Total	2008 Total
	Average Rates	Within 3 Months	4 Months to 1 Year	Greater than 1 Year			
							(Restated) (Note 28)
<b>Assets</b>							
Cash resources	3.48%	\$ 12,945	\$ 22,550	\$ 78,363	\$ 9,858	\$ 123,716	\$ 139,784
Loans	4.72%	557,703	78,860	637,852	3,738	1,278,153	1,248,940
Other assets	3.76%	-	5,048	25,346	35,576	65,970	56,846
		<u>570,648</u>	<u>106,458</u>	<u>741,561</u>	<u>49,172</u>	<u>1,467,839</u>	<u>1,445,570</u>
<b>Liabilities and members' equity</b>							
Deposits	2.30%	476,802	278,714	389,594	195,880	1,340,990	1,344,420
Other	0.75%	847	20,000	-	106,002	126,849	101,150
		<u>477,649</u>	<u>298,714</u>	<u>389,594</u>	<u>301,882</u>	<u>1,467,839</u>	<u>1,445,570</u>
Balance sheet mismatch		92,999	(192,256)	351,967	(252,710)	-	-
Derivative instruments		-	-	-	-	-	-
Net mismatch 2009		\$ <u>92,999</u>	\$ <u>(192,256)</u>	\$ <u>351,967</u>	\$ <u>(252,710)</u>	\$ <u>-</u>	\$ <u>-</u>
Net mismatch 2008		\$ <u>88,816</u>	\$ <u>(211,735)</u>	\$ <u>341,939</u>	\$ <u>(219,020)</u>	\$ <u>-</u>	\$ <u>-</u>

Based on the current financial instruments, it is estimated that a 100 basis point increase in the prime rate would increase financial margin, before tax, by \$292 (2008: \$1,127). A 100 basis point decrease in the prime rate would decrease financial margin, before tax, by \$305 (2008: increase \$332).

# Valley First Credit Union

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 24. Other information

Off balance sheet funds under administration by the credit union are comprised of loans that have been sold, securitized or syndicated and are administered in the capacity as an agent, and investment portfolios including mutual fund accounts managed on behalf of the members.

	2009		2008
		<i>(thousands of dollars)</i>	
Sold loans	\$ 20,143		\$ 37,360
Securitized loans	-		12,661
Syndicated loans	82,600		78,091
Mutual funds	207,663		171,195

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### 25. Business combination (thousands of dollars)

On June 30, 2009, the credit union purchased 50% of the outstanding shares of Valley First Insurance Services Ltd. (VFIS) from CUMIS Business Services Ltd. (CBSL). The share purchase resulted in the credit union regaining control of the subsidiary. The acquisition has been accounted for using the purchase method.

The following table summarizes the allocation of the purchase price based on the estimated fair value of the tangible assets and intangible assets acquired and liabilities assumed at the date of acquisition:

	<i>(thousands of dollars)</i>
Cash consideration paid	\$ 4,562
Cash	802
Receivables	379
Capital assets	83
Insurance licenses	1,851
Goodwill	2,328
Total assets acquired	5,443
Current liabilities	791
Other liabilities	90
Total liabilities assumed	881
Net assets acquired	\$ 4,562

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 26. Employee future benefits (thousands of dollars)

#### Individual supplemental executive retirement plan (SERP)

During 2009, the credit union established a defined benefit SERP. The plan supplements retirement benefits provided under other arrangements, and is based on years of service, contributions and average earnings at retirement. The plan is not pre-funded and will be paid from general revenues of the credit union as payments come due.

The SERP uses actuarial valuation reports prepared by an independent actuary as at December 31, 2009. As the plan was established during the year, this is the first actuarial valuation performed and there are no comparative amounts. Discount rate used in the valuation was 5.00%. The entire liability is established as the past-service benefit granted at inception, plus interest from inception to valuation date.

	<i>(thousands of dollars)</i>
Pension cost incurred, interest on accrued benefit obligation	\$ <u>4</u>
Pension cost recognized	
Pension cost incurred	\$ 4
Recognition of past service benefits granted	<u>321</u>
Pension cost recognized	\$ <u>325</u>
Accrued benefit liability	\$ <u>(325)</u>

#### Group supplemental executive retirement plan (SERP)

The credit union provides a defined contribution SERP for eligible members of the executive management group. Employer's contributions to the plan are based on a percentage of the employee's annual earnings. The plan is not pre-funded and benefits will be paid from general revenues of the credit union as payments come due. Contributions made by the credit union during the year were \$136 (2008: \$147).

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### 27. Subsequent event

On January 1, 2010, Valley First Credit Union amalgamated with Envision Credit Union ("Envision") to form First West Credit Union.

The business combination will be accounted for using the acquisition method, with Envision acquiring the net assets of Valley First Credit Union.

## Notes to the Consolidated Financial Statements

December 31, 2009

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### 28. Restatement of prior year balances (thousands of dollars)

During the year, the credit union determined that the gain from the sale of its 50% interest in a subsidiary in 2005 did not reflect the appropriate cost base of the investment. The effect of the error was an understatement of the gain on disposal of the interest in the subsidiary, an understatement of investments and other and retained earnings in the amount of \$1,005 as at and for the year ended December 31, 2005.

The credit union's financial statements for the comparative year ended December 31, 2008 have been restated to adjust for this error.

The following is a summary of the effect of the restatement on the comparative financial statements as at December 31, 2008:

	<u>As Previously Reported</u>	<u>Increase</u>	<u>As Restated</u>
		(thousands of dollars)	
Balance sheet			
Investments and other	\$ 24,861	\$ 1,005	\$ 25,866
Retained earnings	40,675	1,005	41,680
Statement of changes in members' equity			
Retained earnings, beginning of year	35,358	1,005	36,363

## Branches

ARMSTRONG  
2575 Patterson Avenue

KAMLOOPS  
180 Seymour Street

KELOWNA  
Downtown Kelowna  
507 Bernard Avenue

Glenmore  
401 Glenmore Road

Guisachan Village  
101 - 2395 Gordon Drive

Mortgage Broker Centre  
401 Glenmore Road

Orchard Plaza  
1860 Cooper Road

UBC Okanagan  
3333 University Way

KEREMEOS  
704 7th Avenue

LUMBY  
2109 Shuswap Avenue

OLIVER  
Oliver Place Mall

PEACHLAND  
24 - 5500 Clements Crescent

PENTICTON  
Cherry Lane  
135 - 2111 Main Street

Main Branch  
184 Main Street

Peachtree Square  
2897 Skaha Lake Road

PRINCETON  
114 Tipton Avenue

VERNON  
3322 - 31st Avenue

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## Commercial Banking Centres

KAMLOOPS  
180 Seymour Street

KELOWNA  
507 Bernard Avenue

PENTICTON  
184 Main Street

PRINCETON  
114 Tipton Avenue

VERNON  
3322 - 31st Avenue

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## Insurance Offices

ARMSTRONG  
2575 Patterson Avenue

KELOWNA  
Guisachan Village  
103 - 2395 Gordon Drive

LUMBY  
1965 Shuswap Avenue

PEACHLAND  
26 - 5500 Clements Crescent

PENTICTON  
Administration Office  
184 Main Street

Cherry Lane  
135B - 2111 Main Street

Peachtree Square  
2897 Skaha Lake Road

PRINCETON  
114 Tipton Avenue

VERNON  
Downtown Vernon  
3009 34th Street

Village Green Mall  
90 - 4900 27th Street

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## Wealth Management Offices

ARMSTRONG  
2575 Patterson Avenue

KAMLOOPS  
180 Seymour Street

KELOWNA  
Downtown Kelowna  
507 Bernard Avenue

Glenmore  
401 Glenmore Road

Guisachan Village  
103 - 2395 Gordon Drive

Orchard Plaza  
1860 Cooper Road

KEREMEOS  
704 7th Avenue

LUMBY  
1965 Shuswap Avenue

OLIVER  
Oliver Place Mall

PEACHLAND  
26 - 5500 Clements Crescent

PENTICTON  
Cherry Lane  
135 - 2111 Main Street

Main Branch  
184 Main Street

Peachtree Square  
2897 Skaha Lake Road

PRINCETON  
114 Tipton Avenue

VERNON  
3009 - 34th Street



**Valley First Regional Office**  
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Penticton BC V2A 8G7  
250-490-2720

# New Directions... Familiar Faces



For more information on our locations and the services we offer, visit [www.valleyfirst.com](http://www.valleyfirst.com).

## 2009 Senior Executive

**Harley Biddlecombe**  
President  
and Chief Executive Officer

**Paulette Rennie**  
Chief Operating Officer  
(Acting Chief Executive Officer  
as of Sept. 21, 2009)

**Robert Mowat**  
Chief Financial Officer

**Tom Bijvoet**  
Vice-President, Operations  
and Information Technology

**Jackie Baron**  
Vice-President,  
Administration and Governance

**Jim Lamond**  
Vice-President, Credit

**Ron Smith**  
Vice-President, Sales  
(Acting Chief Operating Officer  
as of Sept. 21, 2009)

## Assistant Vice-Presidents

**Susan Archambault**  
Acting Assistant Vice-President,  
Operations Development  
and Support

**Kathy Boxall**  
Assistant Vice-President,  
Development and Support

**Angela Brown**  
Assistant Vice-President,  
Marketing

**David Bushby**  
Assistant Vice-President,  
Commercial Banking

**Cheryl Croeze**  
Assistant Vice-President,  
Retail Banking

**Susan Esson**  
Assistant Vice-President,  
Treasury

**Roberta Fidalgo**  
Assistant Vice-President,  
Human Resources

**Paul Skelhorne**  
Assistant Vice-President,  
Communications  
and Public Relations

**Kevin Tom**  
Assistant Vice-President,  
Wealth Management

**Rick Yew**  
Assistant Vice-President,  
IT Infrastructure



## Regional Office

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