

La Caisse Populaire de Laurier Limitee
Financial Statements

September 30, 2009



Management's Responsibility

To the Members of La Caisse Populaire de Laurier Limitee:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Caisse Populaire. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of the Caisse Populaire's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

November 26, 2009



Shirley Delaurier

Auditors' Report

To the Members of La Caisse Populaire de Laurier Limitee:

We have audited the balance sheet of La Caisse Populaire de Laurier Limitee as at September 30, 2009 and the statements of income and retained surplus, comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Caisse Populaire's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Caisse Populaire as at September 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Comparative figures were reported on by the previous auditors.

Brandon, Manitoba

November 26, 2009

Meyus Norris Penny LLP

Chartered Accountants

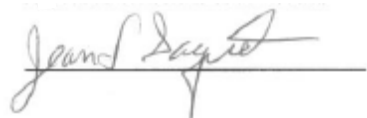
La Caisse Populaire de Laurier Limitee

Balance Sheet

As at September 30, 2009

	2009	2008
Assets		
Funds on hand and on deposit	2,136,709	2,124,142
Investments and accrued interest (Note 3)	1,826,458	1,892,254
Member loans receivable and accrued interest (Note 4)	6,911,700	5,819,463
Other assets	7,860	7,793
Property and equipment (Note 5)	3,465	4,445
Derivative financial instruments	116,203	44,984
	11,002,395	9,893,081
Liabilities		
Member deposits and accrued interest (Note 7)	10,172,489	9,109,549
Accounts payable and accrued liabilities	56,294	77,385
Income taxes payable	893	-
	10,229,676	9,186,934
Retained surplus and members' equity		
Member shares (Note 9)	3,230	14,025
Surplus shares (Note 9)	367,894	338,016
Retained surplus	355,804	339,230
Accumulated other comprehensive income (Note 12)	45,791	14,876
	772,719	706,147
	11,002,395	9,893,081

Approved on behalf of the Board



Director



Director

La Caisse Populaire de Laurier Limitee

Statement of Income and Retained Surplus

For the year ended September 30, 2009

	2009	2008
Financial income		
Member loans	417,032	441,514
Investments	154,441	111,263
Cost of funds		
Deposits	245,876	233,142
Financial margin	325,597	319,635
Operating expenses		
Administration	136,323	117,399
Assessment and bonding insurance	50,138	48,144
Organizational	5,318	3,330
Personnel	126,514	124,819
Premises, furniture, and equipment	16,362	16,182
	334,655	309,874
Other income	66,009	55,716
Income from operations before provision for impaired loans	56,951	65,477
Provision for impaired loans	2,800	9,600
Income from operations before patronage refund	54,151	55,877
Patronage refund	30,000	30,000
Income before provision for income taxes	24,151	25,877
Provision for income taxes		
Current income taxes	3,892	3,289
Future income taxes	3,685	1,898
	7,577	5,187
Net income	16,574	20,690
Retained surplus, beginning of year	339,230	318,540
Retained surplus, end of year	355,804	339,230

The accompanying notes are an integral part of these financial statements

La Caisse Populaire de Laurier Limitee

Statement of Comprehensive Income

For the year ended September 30, 2009

	2009	2008
Net income	16,574	20,690
Other comprehensive income (net of tax):		
Change in gains and losses on derivatives designated as cash flow hedges		
Gains and losses on derivatives designated as cash flow hedges (Note 12)	30,915	24,173
Comprehensive income	47,489	44,863

La Caisse Populaire de Laurier Limitee

Statement of Cash Flows

For the year ended September 30, 2009

	2009	2008
Cash provided by (used for) the following activities		
Operating		
Interest received from member loans	407,006	340,542
Interest and dividends received from investments	144,526	57,180
Service charges and other income received	66,009	55,716
Income taxes recovered (paid)	(3,289)	2,800
Interest paid to members	(251,157)	(224,239)
Operating expenses paid	(360,557)	(177,255)
	2,538	54,744
Financing		
Net change in member deposits	1,031,690	1,044,188
Issuance of member shares	820	250
Redemption of member shares	(11,737)	(2,707)
	1,020,773	1,041,731
Investing		
Net change in loans receivable	(1,085,011)	(408,574)
Purchase of investments	-	(1,325,206)
Proceeds on disposal of investments	75,711	-
Purchase of property and equipment	(1,444)	(716)
	(1,010,744)	(1,734,496)
Increase in cash resources	12,567	(638,021)
Cash resources, beginning of year	2,124,142	2,762,163
Cash resources, end of year	2,136,709	2,124,142

1. Incorporation and nature of operations

The Caisse Populaire is incorporated under the Credit Unions and Caisse Populaires Act of Manitoba ("the Act") and is affiliated with La Federation des Caisse Populaires du Manitoba Inc. ("Federation"). The Caisse Populaire is a cooperative financial institution belonging to its members and operates a financial service centre in Laurier, Manitoba. The Caisse Populaire offers a wide range of products and services including deposits, loans, lines of credit, demand accounts, savings accounts, registered products, financial planning and automated services.

2. Accounting policies

The Caisse Populaire follows accounting policies appropriate to its activities and legislation, that conform to Canadian generally accepted accounting principles. The significant accounting policies adopted by the Caisse Populaire include:

Investments and accrued interest

Investments in securities are valued at cost or amortized cost, adjusted to recognize other than temporary impairment in the underlying value. They are purchased with the intention to hold them to maturity, or until market conditions cause alternative investments to become more attractive. Gains and losses on disposal of securities are included in income in the year in which they occur.

Member loans receivable and accrued interest

Loans to members are recorded at the lower of principal plus accrued interest and estimated realizable amounts. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amount and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at the fair value of the security underlying the loans, net of expected costs of realization.

Interest income from loans is recorded on the accrual basis for all loans not classified as impaired.

When interest or principal is past due 90 days, the loan is classified as impaired unless there is no reasonable doubt as to the collectibility of all interest and principal. When a loan is classified as impaired, recognition of interest income in accordance with the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the recorded investment in the loan.

Allowance for loan impairment

The Caisse Populaire maintains an allowance for loan impairment that reduces the carrying value of loans to their estimated realizable amount. The allowance is increased by a charge for loan impairment, which is charged to income, and reduced by write-offs, net of recoveries.

A specific allowance is established on an individual loan basis, to reduce the carrying values to estimated realizable amounts. Estimated realizable values are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amount and timing of future cash flows can not be reliably established, estimated realizable values are determined by reference to market prices for the loans or their underlying security value.

In addition, a non-specific allowance may be established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio, for which a specific allowance cannot yet be determined. A non-specific provision is established when evidence of impairment exists within groups of loans but is not sufficient to allow identification of individually impaired loans. Impairment is estimated based on historical credit loss experience, known portfolio risks and current economic conditions and trends.

2. Accounting policies (Continued from previous page)

Property and equipment

Property and equipment are recorded at cost. Amortization is provided using the following methods and rates intended to amortize the cost of the assets over their estimated useful lives.

	Method	Rate
Building	declining balance	5 %
Equipment	declining balance	10-33 %

Long-lived assets

Long-lived assets consist of property and equipment. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Caisse Populaire performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in earnings for the year.

Prices for similar items are used to measure fair value of long-lived assets.

Measurement uncertainty (use of estimates)

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Loans are stated after evaluation as to their collectibility and an appropriate allowance for loan impairment is provided where considered necessary. As the valuation of the underlying security cannot be ascertained with any degree of accuracy, a measurement of uncertainty exists in the valuation of loans and the allowance for loan impairment.

Amortization of property and equipment is provided based on the Caisse Populaire's estimate of useful lives of those assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Financial instruments

Held for trading:

The Caisse Populaire has classified the following financial asset as held for trading: funds on hand and on deposit. This instrument is initially recognized at its fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Available-for-sale:

The Caisse Populaire has classified the following financial assets as available-for-sale: La Federation des caisses populaires du Manitoba Inc. shares. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recognized in income. Transaction costs arising from their disposal are immediately recognized in income.

Available-for-sale financial assets that are investments in equity instruments that do not have a quoted market price in an active market are measured at cost. Gains and losses arising from changes in fair value, except for impairment losses and foreign exchange translation adjustments, are recognized in other comprehensive income, until the financial asset is sold or otherwise derecognized. Upon derecognition, the cumulative gain or loss previously recognized in accumulated other comprehensive income is transferred to net income.

2. Accounting policies (Continued from previous page)

Loans and receivables:

The Caisse Populaire has classified the following financial assets as loans and receivables: term deposits and accrued interest, accounts receivable and member loans receivable and accrued interest. These assets are initially recognized at their fair value, determined by recent arm's-length market transactions for the same instrument. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs directly attributable to their acquisition are included in the fair value cost of these assets, while transaction costs arising from their disposal are immediately recognized in income. Total interest income, calculated using the effective interest rate method, is recognized in net income.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Other financial liabilities:

The Caisse Populaire has classified the following financial liabilities as other financial liabilities: Accounts payable and accruals, members deposits. These liabilities are initially recognized at their fair value. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs directly attributable to their issue are included in the fair value cost of these liabilities, while transaction costs arising from their disposal are immediately recognized in income. Total interest expense, calculated using the effective interest rate method, is recognized in net income.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Liabilities and equity:

The Caisse Populaire classifies financial instruments based on the substance of the instrument. The corresponding interest, dividends, losses and gains relating to a financial instrument or component that is classified as a financial liability is recorded as expense. The distributions that have been given to holders of the instruments classified as equity instruments have been recorded by the Caisse Populaire directly in equity.

Financial asset impairment:

The Caisse Populaire assesses impairment of all its financial assets, except those classified as held for trading. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment, which is not considered temporary, is included in current year earnings.

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity of the Caisse Populaire, except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that, in accordance with Canadian generally accepted accounting principles, require recognition, but are excluded from net income (loss). The Caisse Populaire's other comprehensive income (loss) represents changes in the fair value of the effective portion of cash flow hedging instruments.

2. Accounting policies (Continued from previous page)

Revenue recognition

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of the interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. A loan is classified as impaired when there is reasonable doubt as to collectibility or payments of interest or principal are past due 90 days. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Investment income is recognized as interest is earned on interest-bearing investments.

Other revenue is recognized as services are provided to the members.

Foreign currency translation

Cash resources and deposits denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the balance sheet date. Realized gains and losses are recorded at the rates prevailing at the time of the transaction. Unrealized gains and losses are recorded at the rates prevailing on the balance sheet date.

Derivative Financial instruments and hedging activities

Derivative financial instruments are financial contracts whose value changes in response to a change in an underlying variable, such as specified interest rate, financial instrument or commodity price, or foreign exchange rate. The Caisse Populaire enters into interest rate swap agreements to preserve the value of its term deposits and to manage exposure to interest rate risk. Swaps that have been designed to preserve the value of term deposits have been designated as fair value hedges while those designed to manage exposure related to interest rate risk have been designated as cash flow hedges.

Derivatives arising from the interest rate swap agreements are recorded on the balance sheet at fair value as derivative financial instrument. For a cash flow hedge, the gains and losses arising from changes in the fair value of the effective portion of the derivative will be recognized in other comprehensive income while, the ineffective portion will be recognized in income.

Recent accounting pronouncements

Adoption of International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises, such as investment funds and other reporting issuers. From this date forward, the financial statements, including comparative information, will be reported in accordance with IFRS. The Credit Union Deposit Guarantee Corporation requires management to provide progress updates on the entity's IFRS changeover plan quarterly until the changeover date.

The Caisse Populaire is developing a changeover plan to adopt IFRS on October 1, 2012. The key elements of the plan include assessing the impact of adopting IFRS on:

- Accounting policies;
- IT and data systems;
- Internal controls over financial reporting;
- Disclosure controls and procedures.

The changeover plan is still in the early stages and, as such, the impact of adopting IFRS on the Caisse Populaire's financial reporting is not reasonably determinable.

La Caisse Populaire de Laurier Limitee

Notes to the Financial Statements

For the year ended September 30, 2009

3. Investments and accrued interest

	2009	2008
La Federation des caisses populaires du Manitoba Inc.		
Investments	1,600,000	1,700,000
Capital fund	162,460	138,171
	1,762,460	1,838,171
Accrued interest	63,998	54,083
	1,826,458	1,892,254

Term and contract deposits consist of twenty-three term deposits bearing interest between 3.15 % and 5.20% maturing between 2009 and 2014.

4. Member loans receivable and accrued interest

Principal and allowance by loan type

	Principal Performing	Principal Impaired	Allowance Specific	Allowance Non-specific	2009 Net carrying value	2008 Net carrying value
Personal	1,246,649	120,378	90,479	5,677	1,270,871	1,150,493
Real estate	1,682,214	31,510	-	-	1,713,724	1,243,495
Commercial	146,587	16,891	16,891	130	146,457	132,950
Agricultural	3,784,601	20,537	20,537	3,953	3,780,648	3,292,525
Total	6,860,051	189,316	127,907	9,760	6,911,700	5,819,463
Total allowance			137,667			

Loan allowance details

	2009	2008
Balance, beginning of year	134,867	129,471
Provision for impaired loans	2,800	9,600
	137,667	139,071
Less: accounts written off	-	(4,204)
Balance, end of year	137,667	134,867

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Notes to the Financial Statements
For the year ended September 30, 2009

5. Property and equipment

	2009		2008	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	1,086	-	1,086	1,086
Building	73,719	73,719	-	506
Equipment	98,278	95,899	2,379	2,853
	173,083	169,618	3,465	4,445

Amortization expense recorded for the year ended September 30, 2009 totalled \$2,423 (2008 - \$4,445).

6. Line of credit

The Caisse Populaire has an approved borrowing limit of 10% of member deposits. Borrowings are secured by an assignment, hypothecation, charge and pledge of all book debts and accounts to La Federation des caisses populaires du Manitoba Inc. and bear an annual interest rate based on the Chartered Banks overnight funds rate, with no fixed repayment date.

7. Member deposits and accrued interest

	2009	2008
Chequing	3,490,529	2,736,322
Savings	170,654	176,683
Term deposits	3,790,452	3,840,409
Registered retirement plan	2,237,244	2,116,617
Registered income fund plan	130,294	106,712
Tax free savings account	225,791	-
Accrued interest	127,525	132,806
	10,172,489	9,109,549

8. Members' equity and capital requirements

Section 21(1) of the Regulations of the Credit Unions and Caisses Populaires Act requires that the Caisse Populaire establish and maintain a level of capital as follows:

	2009	2008
Equity less than 5% of assets	7.06 %	7.14 %
Retained surplus not less than 3% of assets	3.67 %	4.19 %
Capital not less than 8% of the risk-weighted value of assets	13.81 %	10.14 %

The Caisse Populaire provides financial services to its members and is subject to the capital requirements set out in the Credit Union and Caisses Populaires Act of Manitoba ("the Act"). The Caisse Populaire complied with these capital requirements for the year.

Capital management: The Caisse Populaire's objectives when managing capital are:

- To ensure the long-term viability of the Caisse Populaire and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses.
- To comply at all times with the capital requirements set out in the Act.

La Caisse Populaire de Laurier Limitee
Notes to the Financial Statements
For the year ended September 30, 2009

8. Members' equity and capital requirements (Continued from previous page)

The Caisse Populaire measures the adequacy of capital using two methods:

- Total capital as a percent of total assets;
- Total capital as a percent of risk-weighted assets. Under this method the Caisse Populaire reviews its loan portfolio and other assets and assigns a risk-weighting using definitions and formulas set out in the Act. The more risk associated with an asset, a higher weighting is assigned. This method allows the Caisse Populaire to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

The Caisse Populaire management ensures compliance with capital adequacy through the following:

- Establishing policies for capital management, monitoring and reporting;
- Establishing policies for related areas such as asset liability management;
- Reporting to the Board of Directors regarding financial results and capital adequacy; and
- Establishing budgets and reporting variances to those budgets.

The Caisse Populaire is required under the Act to hold capital equal to or exceeding the greater of:

- 5% of total assets; and
- 8% of risk-weighted assets.

9. Member shares

Authorized:

Unlimited number of Common shares, at an issue price of \$5.
 Unlimited number of Surplus shares, at an issue price of \$1

Issued:

	2009	<i>2008</i>
646 Member shares (2008 - 2,805 shares)	3,230	14,025
337,894 Surplus shares (2008 - 308,016 shares)	337,894	308,016
Provision for issuance of surplus shares	30,000	30,000
	371,124	352,041

Each member of the Caisse Populaire has one vote regardless of the number of shares held. No member may hold more than 10% of the total number of Common shares. Surplus shares are established as a means of returning excess earnings to the members and at the same time increasing the Caisse Populaire's equity base.

During the year, the Caisse Populaire issued 164 Common shares and redeemed 2,323 Common shares, and issued 30,000 Surplus shares and redeemed 122 Surplus shares.

10. Loan commitments

The Caisse Populaire has authorized \$2,105,300 for line of credit loans, of which \$821,581 has not been advanced as of year end. In addition, \$318,280 in member loans have been authorized but have not been advanced as of the year end.

11. Patronage refund

The Board of Directors have authorized a \$30,000 patronage refund, which will be allocated to purchase Surplus shares based on participation for the year ended September 30, 2009.

The patronage refund of \$30,000 has been reflected in the current year's income statement with the related tax saving of \$3,000 reflected in the current year's provision for income taxes.

La Caisse Populaire de Laurier Limitee
Notes to the Financial Statements
For the year ended September 30, 2009

12. Accumulated other comprehensive income

The Caisse Populaire's accumulated other comprehensive income consists of:

	2009	2008
Balance, beginning of year	14,876	(9,297)
Change in gains and losses on derivatives designated as cash flow hedges	30,915	24,173
Total accumulated other comprehensive income	45,791	14,876

13. Related party transactions

Directors, management and staff

Transactions with directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Caisse Populaire.

Payments made for honoraria and per diems amounted to \$1,675 (2008 - \$1,750), reimbursement of expenses and meeting, training and conference costs amounted to \$1,493 (2008 - \$530) for the year ended September 30, 2009.

Loans to directors and staff as at September 30, 2009 amounted to 1.81% of assets of the Caisse Populaire.

La Federation des caisses populaires du Manitoba Inc.

Transactions with La Federation des caisses populaires du Manitoba Inc. represent investments and interest received on investments, loans and interest paid on the loans and also clearing and assessment fees paid to La Federation des caisses populaires du Manitoba Inc. The Caisse Populaire is a member of the Credit Union Central of Manitoba, which acts as a depository for surplus funds from, and makes loans to caisse populaires.

Interest earned on investments during the year ended September 30, 2009 amounted to \$154,441 (2008 - \$111,263).

Interest and charges paid on borrowings during the year ended September 30, 2009 was \$NIL (2008 - \$NIL).

Payments made for cheque clearing for the year ended September 30, 2009 amounted to \$24,492 (2008 - \$25,929).

La Societe d'assurance-depots des caisses populaires

La Societe d'assurance-depots des caisses populaires is a deposit insurance company which protects the savings and deposits of all credit union members in every credit union within Manitoba.

The payments made to the Corporation during the year ended September 30, 2009 represent the net statutory annual assessment in the amount of \$9,640 (2008 - \$8,450).

Tele-Pop Inc.

Tele-Pop Inc. is a subsidiary of La Federation des caisses populaires du Manitoba Inc. The payments made to Tele-Pop Inc. during the year ended September 30, 2009 represents computer services in the amount of \$41,379 (2008 - \$33,828).

14. Interest rate sensitivity reporting

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. In seeking to minimize the risks from interest rate fluctuations, the Caisse Populaire manages exposure through matching of financial assets and liabilities. The Caisse Populaire is exposed to interest rate risk primarily relating to the following financial assets and liabilities. The table summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual maturity dates.

Risk measurement

The Caisse Populaire's position is measured monthly. Measurement of risk is based on rates charged to members as well as funds transfer pricing rates.

Objectives, Policies and Procedures

The Caisse Populaire's major source of income is financial margin, the difference between the interest earned on member loans and investments and interest paid on member deposits. The objective of asset/ liability management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term of their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

To decrease the exposure of wide fluctuations of income during periods of changing interest rates, the Caisse Populaire has policies to maintain the best possible matching of maturity of its loans and deposits. The Caisse Populaire also enters into interest rate swap contracts to reduce the Caisse Populaire's exposures to changing interest rates.

As at year-end, the notional principal amount of swaps totalled \$2,800,000. These amounts however are not indicative of the underlying credit risk. The credit risk is represented by the cost to replace the swap agreements which is estimated to be \$116,203 (2008 - \$44,984). This cost would be incurred only in the event of failure by the counterparty, restricted to major chartered banks, to honour its contractual obligations and it is management's assessment that an event of failure is remote and that the associated credit risk is minimal. The Caisse Populaire has redeemed all swap contracts on October 1, 2009. Gains or losses from this transaction are expected to result in a reclassification from other comprehensive income at October 1, 2009.

Financial instruments exposed to interest rate risk:

	Assets	Average yield %	Liabilities & members' equity	Average yield %	2009 Differential
Interest sensitive:					
Variable to 6 months	2,826,650	4.12%	1,655,460	2.47%	(1,171,190)
6 months to 1 year	761,802	5.60%	1,304,043	2.25%	542,241
1 to 2 years	1,938,197	4.50%	1,200,865	4.10%	(737,332)
2 to 3 years	1,510,246	5.20%	1,065,434	4.80%	(444,812)
3 to 4 years	1,731,894	4.90%	719,430	4.70%	(1,012,464)
Over 4 years	1,850,554	4.90%	574,085	3.80%	(1,276,469)
Non-interest bearing items	383,052		4,483,078		(4,100,026)
	11,002,395		11,002,395		

The information from the prior year is as follows:

Variable rate assets totalled \$4,322,185 while liabilities totalled \$3,158,110 producing a differential of \$1,164,075. Assets maturing in less than one year totalled \$1,175,542 while liabilities totalled \$2,583,962, a differential of \$(1,408,420). Assets maturing in more than one year totalled \$7,178,260 while liabilities totalled \$3,448,565 producing a differential of \$3,729,695. Non-interest rate sensitive assets totalled \$217,531 while liabilities totalled \$3,702,881 producing a differential of \$(3,485,350).

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15. Fair value of financial instruments

Fair value is the consideration that would be agreed to in an arm's-length transaction between knowledgeable and willing parties with no compulsion to act. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

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

- a) the stated value for cash, short term investments, other assets, other liabilities, accrued income or expense and certain other assets and liabilities approximate their fair value.
- b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments.
- c) for variable interest rate loans that are frequently re-priced, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates.
- d) fair value of deposits with no specified maturity term is its stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.

Estimated fair values of financial instruments are summarized as follows:

	<i>(In thousands)</i>					
	2009			<i>2008</i>		
	<i>Fair value</i>	<i>Book value</i>	<i>Fair value over book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value over book value</i>
Financial assets						
Funds on hand and on deposit	2,172	2,137	35	2,135	2,124	11
Investments and accrued interest	2,003	1,826	177	1,933	1,892	41
Member loans receivable and accrued interest	6,976	6,912	64	5,823	5,819	4
Derivative financial instruments	116	116	-	45	45	-
	11,267	10,991	276	9,936	9,880	56
Financial liabilities						
Member deposits and accrued interest	10,368	10,172	196	9,151	9,110	41
Accounts payable and accrued liabilities	56	56	-	77	77	-
	10,424	10,228	196	9,228	9,187	41
	843	763	80	708	693	15

16. Nature and extent of risk arising from financial instruments

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

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counter party to discharge its contractual commitment or obligation to the Caisse Populaire. Credit risk arises principally as a result of the Caisse Populaire's lending activities with members.

Risk measurement

The Caisse Populaire employs a risk measurement process for its loan portfolio which is designed to assess and quantify the level of risk inherent in credit granting activities. Risk is measured by reviewing qualitative and quantitative factors that impact the loan portfolio.

Credit quality performance

Refer to Note 2 for additional information on the potential loss exposure related to the Caisse Populaire's loan portfolio.

Objectives, policies and processes

The Caisse Populaire is committed to the following principles in managing credit risk exposure:

- Credit risk assessment includes the establishment of policies and processes related to credit risk management and risk rating;
- Credit risk mitigation includes credit structuring, collateral, and guarantees;
- Credit risk approval limits includes establishing credit risk limits and reporting exceptions thereto;
- Credit risk documentation focuses on documentation and administration; and Credit risk monitoring and review.

The Caisse Populaire's credit risk policies, processes and methodologies are reviewed annually to ensure they remain relevant and effective in managing credit risk.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of doubtful loans and allowance for impaired loans quarterly.

Market Risk

Market risk arises from changes in interest rates that affect the Caisse Populaire's net interest income. Exposure to this risk directly impacts the Caisse Populaire's income from its loan and deposit portfolios. The Caisse Populaire's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting member-owner needs.

Risk Measurement

The Caisse Populaire's risk position is measured and monitored each month to ensure compliance with policy. Management provides monthly reports on these matters to the Caisse Populaire's Board of Directors.

The following table provides the potential before tax impact of an immediate and sustained 1% increase or decrease in interest rates on the net interest income of the Caisse Populaire. All interest rate measures are based on interest rate exposures at a specific time and continuously change as a result of business activities and the risk management initiatives of the Caisse Populaire.

Before tax impact of:	1% increase in interest rates: \$ 3,100
	1% decrease in interest rates: \$(3,100)

Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Caisse Populaire's cash and funding requirements, statutory liquidity requirements, or both.

Risk measurement

- The assessment of the Caisse Populaire's liquidity position reflects management's estimates, assumptions and judgment pertaining to current and prospective market conditions and the related investing and borrowing activities of members.

16. Nature and extent of risk arising from financial instruments *(Continued from previous page)*

Objectives, policies and processes

The acceptable amount of risk is defined by policies that are approved by the Board of Directors.

The Caisse Populaire manages liquidity by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. Management provides monthly reports on these matters to the Board of Directors.

Key features of liquidity management include:

- Daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position; and
- Consideration of the term structure of loans and deposits, with emphasis on deposit maturities, as well as expected loan funding and other commitments to ensure the Caisse Populaire can maintain required levels of liquidity while meeting its obligations.

17. Comparative figures

Certain comparative figures have been reclassified to conform with the current year presentation. The prior year figures were audited by another accountant.

18. Subsequent events

Ste. Rose Credit Union Ltd. ("Ste. Rose") and La Caisse Populaire de Laurier Limitee ("Laurier") signed an amalgamation agreement and will carry on operations as Prairie Mountain Credit Union ("Prairie Mountain") as of October 1, 2009. Upon amalgamation each issued and outstanding common and surplus share, of Ste. Rose and Laurier, will be converted into an equivalent share of Prairie Mountain. The shares of Prairie Mountain carry substantially the same rights and restrictions as the shares of the former Ste. Rose and Laurier credit unions.

The transactions will be accounted for by the pooling of interest method as prescribed by CICA 1580, "Business Combinations".