



**COASTAL
COMMUNITY**
CREDIT UNION

Consolidated Financial Statements of

Coastal Community Credit Union

YEAR ENDED DECEMBER 31, 2007



BDO Dunwoody LLP
Chartered Accountants

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Auditors' Report

To the Members of Coastal Community Credit Union

We have audited the consolidated Balance Sheet of Coastal Community Credit Union as at December 31, 2007 and the consolidated statements of Earnings, Members' Equity and Retained Earnings, Comprehensive Income and Cash Flows for the year then ended. These consolidated 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 consolidated 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Nanaimo, British Columbia
February 15, 2008

Coastal Community Credit Union

Consolidated Balance Sheet

December 31, 2007, with comparative figures for 2006

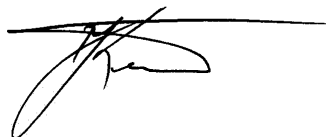
	2007	2006
Assets		
Cash resources (note 5)	\$ 125,588,908	\$ 121,211,705
Loans (note 6)	1,239,170,667	1,206,465,685
Investments (note 7)	40,138,399	48,858,944
Premises and equipment, net of amortization (note 8)	22,544,232	23,481,528
Other assets (note 9)	10,582,910	5,154,088
	\$ 1,438,025,116	\$ 1,405,171,950
Liabilities		
Member deposits (note 10)	\$ 1,350,511,088	\$ 1,300,836,960
Short-term borrowings from Credit Union Central of British Columbia (note 11)	21,002,836	39,014,617
Accounts payable and accrued liabilities	11,037,481	11,894,841
	1,382,551,405	1,351,746,418
Members' equity		
Contributed surplus	755,171	755,171
Retained earnings	55,068,978	52,670,361
Accumulated other comprehensive income (loss)	(350,438)	-
	55,473,711	53,425,532
	\$ 1,438,025,116	\$ 1,405,171,950

See accompanying notes to financial statements.

On behalf of the Board:



John Newall, Chair



Richard Kerton, Director

Coastal Community Credit Union

Consolidated Statement of Earnings

December 31, 2007, with comparative figures for 2006

	2007	2006
Financial income:		
Loans	\$ 76,203,275	\$ 68,982,713
Cash resources and investments	5,479,027	5,980,489
	81,682,302	74,963,202
Financial expenses:		
Deposit	38,352,556	31,342,371
Borrowings	1,298,879	2,456,598
	39,651,435	33,798,969
Financial margin	42,030,867	41,164,233
Other income (expenses):		
Other income (note 13)	23,433,422	22,561,846
Provision for credit losses, net of recoveries (note 6)	(97,017)	700,225
Other expenses (note 14)	(4,356,088)	(4,889,185)
	18,980,317	18,372,886
Operating margin	61,011,184	59,537,119
Operating expenses (note 15)	55,193,985	57,059,161
Earnings from operations	5,817,199	2,477,958
Gain on disposition (note 22)	164,955	-
Non-controlling interest (note 2)	(361,254)	(103,034)
Distribution to members (note 16)	(255,985)	(201,708)
Earnings before income taxes	5,364,915	2,173,216
Income taxes (note 17)	1,421,596	815,863
Net earnings	\$ 3,943,319	\$ 1,357,353

See accompanying notes to financial statements.

Coastal Community Credit Union

Consolidated Statement of Members' Equity and Retained Earnings

December 31, 2007, with comparative figures for 2006

	2007	2006
Retained earnings		
Balance at the beginning of year	\$ 52,670,361	\$ 51,313,008
Cumulative effect of adopting new accounting policy (note 1)	(1,544,702)	-
Net earnings	3,943,319	1,357,353
Balance at end of year	55,068,978	52,670,361
Accumulated other comprehensive income (loss)		
Balance at the beginning of year	-	-
Cumulative effect of adopting new accounting policy (note 1)	(271,745)	-
Other comprehensive income (loss)	(78,693)	-
Balance at end of period	(350,438)	-
Total retained earnings and accumulated other comprehensive income	54,718,540	52,670,361
Contributed surplus	755,171	755,171
Total members' equity	\$ 55,473,711	\$ 53,425,532

Consolidated Statement of Comprehensive Income

For the year ended **December 31, 2007**

	2007	2006
Net earnings	\$ 3,943,319	\$ -
Other comprehensive income (loss):		
Available-for-sale securities:		
Unrealized gains and losses, net of tax	61,912	-
Derivatives designated as cash flow hedges:		
Unrealized gains and losses, net of tax	(140,605)	-
Other comprehensive income (loss)	(78,693)	-
Comprehensive income	\$ 3,864,626	\$ -

See accompanying notes to financial statements.

Coastal Community Credit Union

Consolidated Statement of Cash Flows

Year ended **December 31, 2007**, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Net earnings	\$ 3,943,319	\$ 1,357,353
Items not involving cash:		
Amortization of premises and equipment	3,480,815	2,978,217
Gain on disposition	(164,955)	-
Provision for loan losses	97,017	(700,225)
Future income taxes	150,000	598,158
Non-controlling interest	361,254	103,034
Change in non-cash operating working capital:		
Decrease in accounts receivable	563,415	2,482,514
Decrease in prepaids	509,094	379,367
(Decrease) increase in accounts payable	(1,134,905)	1,978,650
	7,805,054	9,177,068
Financing:		
Deposits	49,674,128	132,656,474
Short-term borrowings	(18,011,781)	13,704,674
	31,662,347	146,361,148
Investments:		
Loans	(34,677,092)	(149,146,678)
Investments	1,965,458	6,342,261
Purchase of premises and equipment	(3,553,564)	(5,519,348)
Proceeds on disposition	1,175,000	-
	(35,090,198)	(148,323,765)
Increase in cash position	4,377,203	7,214,451
Cash resources, beginning of year	121,211,705	113,997,254
Cash resources, end of year	\$ 125,588,908	\$ 121,211,705
Supplemental financial information:		
Interest received	\$ 81,539,769	\$ 74,139,965
Interest and dividends paid	37,719,696	30,131,366
Income taxes paid (recovery)	(261,287)	1,468,778

See accompanying notes to financial statements.

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

Coastal Community Credit Union ("Credit Union") is incorporated under the *British Columbia Credit Union Incorporation Act*. The operation of the Credit Union is subject to the *British Columbia Financial Institutions Act*. The Credit Union predominately serves members on Vancouver Island.

1. Significant accounting changes:

The Credit Union adopted two new financial instruments accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1530, *Comprehensive Income* and Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. In addition, the Credit Union implemented the presentation and disclosure requirements contained in Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*.

Section 1530 introduces Comprehensive Income which consists of Net Earnings and Other Comprehensive Income. Other Comprehensive Income represents the change in net assets during the period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives, to be recognized on the Credit Union's balance sheet when the Credit Union becomes a party to the contractual provisions of a financial instrument or non-derivative contract. Under this new standard, all financial instruments are required to be measured at fair value on initial recognition and measurement in subsequent periods is dependant on their classification as described below.

The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments. The standards require that all financial instruments be classified as either held-for-trading, available for sale, held-to-maturity, loans and receivables or as other financial liabilities.

The following is a summary of the accounting model the Credit Union has elected to apply to each of its significant categories of the financial instruments outstanding at December 31, 2007:

Cash	Held-For-Trading
Cash held at Credit Union Central of British Columbia	Loans and Receivables
Investments	Available-For-Sale
Loans	Loans and Receivables
Short-term borrowings from Credit Union Central of British Columbia	Other Financial Liabilities
Deposits	Other Financial Liabilities
Accounts payable	Other Financial Liabilities

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

1. Significant accounting changes (continued):

Financial assets and financial liabilities held-for-trading are measured at fair value at the balance sheet date. Interest and dividends earned, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in financial income for the period.

Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses, including gains and losses from foreign exchange, being recognized in Other Comprehensive Income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Transition adjustments recorded at January 1, 2007 include:

	Gross	Income Taxes	Net
Retained earnings			
Adjustment to escalator term deposit accruals to the effective rate over the term of the contract	\$ (1,468,762)	\$ 258,795	\$ (1,209,967)
Fair value adjustment for staff mortgage discounts	(406,331)	71,596	(334,735)
	\$ (1,875,093)	\$ 330,391	\$ (1,544,702)
Accumulated other comprehensive income (loss)			
Available-for-sale securities, unrealized gains (losses)	\$ (227,865)	\$ 40,150	\$ (187,715)
Fair value of derivative securities	(102,002)	17,972	(84,030)
	\$ (329,867)	\$ 58,122	\$ (271,745)

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The accounting policies used in the preparation of these financial statements conform, in all material respects, to Canadian GAAP.

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

2. Significant accounting policies (continued):

(b) Basis of consolidation:

The consolidated financial statements include the assets and liabilities and results of operations of the Credit Union and its wholly-owned subsidiaries after the elimination of intercompany transactions and balances. These subsidiaries include wholly-owned Coastal Community Financial Management Inc., Comox Valley Rice Financial Ltd., Comox Valley Financial Services Ltd., Van Isle Insurance Services (1983) Inc. (note 25), Coastal Community Insurance Services (2007) Ltd., as well as 50% owned Coastal Community Insurance Agencies Ltd. ("CCIA").

As of October 12, 2007, CCIA sold its shares in a subsidiary to Alder Insurance Agencies Ltd., thereby increasing the Credit Union's effective ownership from 50% to 100% (note 26).

As of November 11, 2007 former subsidiaries, Tuffrey & Mills Ltd., Alder Insurance Services Ltd., Community First Insurance Services Ltd., 616562 BC Ltd., and Gillstone Enterprises Ltd., were amalgamated into Coastal Community Insurance Services (2007) Ltd. These consolidated financial statements include the results from operations of these former subsidiaries from January 1, 2007 to November 10, 2007.

The Credit Union also has a 60% interest in C.U. Technical and Administrative Services Corporation ("CUTASC"). The interest in CUTASC is accounted for on a proportionate consolidation basis.

(c) Use of estimates:

The preparation of the financial statements of the Credit Union in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on information as of the date of the financial statements that affect the amounts reported in the financial statements and accompanying notes. Significant areas requiring the use of estimates relate to the determination of the fair value of financial instruments, impaired loan provisions, useful lives of premises and equipment for amortization, determination of net recoverable amount from long-lived assets, and future income taxes. Actual results could materially differ from those estimates.

(d) Loans:

Loans are recorded at amortized cost less provision for impairment. Interest income is recorded on an accrual basis except where a loan is considered to be impaired. Interest income on impaired loans is recognized on a cash basis but only after specific provision for impairment or partial write-offs has been recovered and provided that there is no further doubt as to the collectability of the principal amount.

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

2. Significant accounting policies (continued):

(e) Impaired loans:

Loans are generally considered to be impaired at the earlier of when, in the opinion of management, there is reasonable doubt regarding the timely collection of the full amount of the principal and interest, unless the loan is both well-secured and in the process of collection. Impaired loans are carried at the fair value of the underlying security, net of estimated costs of realization.

(f) Allowance for credit losses:

The Credit Union maintains allowances for loans that reduce the carrying value of loans identified as impaired to their estimated realizable amounts.

Specific allowances are established for individual loans identified as impaired. These allowances are supplemented by general allowances for credit losses determined by management based on payment arrears, known risks of the portfolio, historical loan loss experience and current economic conditions and trends.

(g) Investments, goodwill, licenses and customer lists:

Other investments classified as available-for-sale are measured at fair value as at the balance sheet date. Gains and losses realized on disposition and unrealized gains and losses from changes in fair value are reported as income. Business acquisitions are accounted for using the purchase method. Goodwill is the excess of the purchase price paid for the acquisition of a subsidiary over the fair value of the net assets acquired, including identifiable intangible assets. Goodwill and other intangible assets with an indefinite life are not amortized, but are subject to a fair value impairment test at least annually. Intangible assets, other than goodwill, such as licenses and customer lists, which do not have indefinite useful lives are amortized using a straight-line basis over their useful lives, not exceeding 10 years. The amortization of intangible assets is recorded in operating expenses in the Consolidated Statement of Earnings. These intangible assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. Any impairment of goodwill or other intangible assets will be charged to the consolidated statement of earnings in the period of impairment.

(h) Dividends:

Dividends on non-equity shares, equity shares and patronage rebates are charged against earnings.

(i) Premises and equipment:

Premises and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line method over 25 years for buildings, 10 to 15 years on leasehold improvements, 5 years for furniture and equipment, 2 to 5 years for computer equipment and 10 years for the banking system.

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

2. Significant accounting policies (continued):

(j) Revenue recognition:

Interest income on loans is recorded using the accrual method. Unless included in the effective interest calculation, fees are recognized on an accrual basis as the service is provided and reported on the Statement of Earnings as Other Income.

(k) Income taxes:

The Credit Union follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in the tax rates is recognized in earnings in the period that includes the date of enactment or substantive enactment.

(l) Foreign currency translation:

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

3. Future accounting changes:

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures*, Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863, *Financial Instruments – Presentation*. These new standards become effective for the Credit Union as of January 1, 2008.

Section 1535 required disclosure of the Credit Union's objectives, policies and processes managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with capital requirements and, if not complied, the consequences of such non-compliance. The Credit Union is currently assessing the impact on its financial reporting.

Section 3862 and Section 3863 replace Handbook Section 3861 – *Financial Instruments – Disclosure and Presentation*. Section 3862 increases the disclosure required regarding the nature and extent of risks arising from financial instruments and how the Credit Union manages those risks. Section 3863 has carried forward the existing presentation requirements unchanged. The Credit Union is currently assessing the impact on its financial reporting.

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

3. Future accounting changes (continued):

In addition, Handbook Section 1540, *Cash Flow Statements*, has been amended to require additional disclosure where cash distributions are made in accordance with a contractual obligation for cash distributions. The Credit Union is currently assessing the impact on its financial reporting.

4. Capital requirements:

The *Financial Institutions Act* requires the Credit Union to maintain, at all times, a capital base adequate in relation to its level of business activities. The level of capital required is based on a prescribed percentage of the total value of its risk weighted assets. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may be incurred on the ultimate realization of that asset.

Effective January 1, 1994, the *Financial Institutions Act* regulations prescribed a minimum required capital ratio of 8% of the risk-weighted value of assets. At December 31, 2007, the Credit Union had a capital ratio in excess of 10%.

5. Cash resources:

	2007	2006
Cash on hand	\$ 20,515,384	\$ 17,156,838
Demand and short-term investments held at Credit Union Central of British Columbia	103,240,031	102,276,762
Accrued interest on cash resources	1,833,493	1,778,105
	\$ 125,588,908	\$ 121,211,705

In accordance with provincial legislation and the terms of arrangements with Credit Union Central of British Columbia, credit unions are required to maintain deposits with Credit Union Central of British Columbia totaling 8% of their deposits (net of equity and non-equity shares) and debt liabilities. Deposits with Credit Union Central of British Columbia earn interest at short-term money market rates.

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

6. Loans:

An analysis of the Credit Union's loan portfolio, (net of allowance for credit losses by category), is as follows:

	2007			2006
	Gross amount	Allowance	Carrying amount	Carrying amount
Residential mortgages	\$ 797,614,408	\$ 1,950,000	\$ 795,664,408	\$ 773,772,900
Commercial mortgages	215,470,741	510,000	214,960,741	210,457,544
Personal and other loans	226,686,125	1,924,928	224,761,197	218,537,455
Accrued interest	3,784,321	–	3,784,321	3,697,786
Net loans	\$ 1,243,555,595	\$ 4,384,928	\$ 1,239,170,667	\$ 1,206,465,685

Analysis of allowance for credit losses	Residential mortgages	Commercial mortgages	Personal and other	Total 2007	Total 2006
Allowance, beginning	\$ 1,033,500	\$ 1,008,000	\$ 2,846,396	\$ 4,887,896	\$ 7,204,979
Provision, net of recoveries	916,500	(488,917)	(330,566)	97,017	(700,225)
	1,950,000	519,083	2,515,830	4,984,913	6,504,754
Write-offs, less recoveries	–	(9,083)	(590,902)	(599,985)	(1,616,858)
Allowance, ending	\$ 1,950,000	\$ 510,000	\$ 1,924,928	\$ 4,384,928	\$ 4,887,896
Allowance as a percentage of total loans				0.35%	0.41%

7. Investments:

	2007	2006
Statutory investments:		
Credit Union Central of British Columbia shares	\$ 4,437,623	\$ 4,277,445
Non-statutory investments:		
Mortgage packages purchased	13,886,113	22,648,902
Communities First Investment Fund	1,042,764	1,000,000
Federal and provincial government bonds	14,391,334	14,457,045
Other investments	602,646	589,773
Goodwill	5,777,919	5,885,779
	\$ 40,138,399	\$ 48,858,944

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

7. Investments (continued):

- (a) Shares in Credit Union Central of British Columbia are a required investment as a condition of membership in Credit Union Central of British Columbia and provincial legislation. This investment is determined based on the Credit Union's assets and is realizable only on withdrawal from membership.
- (b) Mortgages purchased have maturities in the range from 1 to 2 years with an average anticipated yield of 4.41% to 5.70%.

8. Premises and equipment:

	2007			2006
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 2,618,514	\$ –	\$ 2,618,514	\$ 2,712,329
Buildings	10,071,830	3,345,629	6,726,201	7,327,769
Leasehold improvements	7,532,889	4,636,658	2,896,231	2,450,036
Furniture and equipment	13,116,532	9,566,676	3,549,856	3,226,556
Computer equipment	8,723,934	7,655,609	1,068,325	1,462,324
Banking system	6,374,565	689,460	5,685,105	6,302,514
	\$ 48,438,264	\$ 25,894,032	\$ 22,544,232	\$ 23,481,528

The Credit Union implemented a new banking system in November 2006. Cost for the new system related to new computer software, equipment and implementation costs are included as "Banking System" above. Capitalized implementation costs included only third-party costs directly related to the implementation.

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

9. Other assets:

	2007	2006
Accounts receivable	\$ 3,636,896	\$ 3,643,964
Prepaid expenses	815,379	1,324,473
Licenses and customer lists	5,544,818	–
Receivable – land sale	–	160,000
Property acquired in settlement of loans	–	13,303
Future income taxes	668,153	530,074
Non-controlling interest	(143,687)	(579,077)
Other	61,351	61,351
	\$ 10,582,910	\$ 5,154,088

10. Member deposits:

	2007	2006
Demand	\$ 388,648,409	\$ 373,860,892
Term	707,018,007	665,957,244
Registered savings plans	230,376,886	237,672,868
Accrued interest on member deposits	16,239,698	14,292,547
	1,342,283,000	1,291,783,551
Non-equity shares:		
Non-voting, \$1 par value, unlimited number authorized	133,233	151,394
Equity shares:		
Membership equity shares, voting, \$1 par value, unlimited number authorized	5,199,080	5,744,476
Investment equity shares, non-voting, \$1 par value, unlimited number authorized	2,895,775	3,157,539
	\$ 1,350,511,088	\$ 1,300,836,960

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

10. Member deposits (continued):

Non-equity shares:

Amounts contributed by members for non-equity shares can be withdrawn on demand or redeemed by the Credit Union. The holders of these shares may be entitled to a life insurance policy of up to \$2,000 in accordance with the original purchase terms. The Credit Union has ceased issuance of these shares.

Equity shares:

The equity shares of the Credit Union are divided into two classes designated as membership equity shares and investment equity shares having the following rights and restrictions:

- Each member shall purchase not less than 5 and may purchase not more than 1,000 membership equity shares.
- Redemption of membership equity and investment shares is subject to certain conditions and approval of the directors, subject to an overall restriction that the Credit Union may not be required to redeem in any financial year more than 10% of the total amount of such shares issued and outstanding on the last day of the preceding financial year.
- Dividends declared may, at the discretion of the directors, be different for each class of shares, and such dividends may be paid as an allocation of membership equity shares.
- Equity shares are not insured by the Credit Union Deposit Insurance Corporation of British Columbia.

Deposit insurance protection:

The Credit Union Deposit Insurance Corporation of British Columbia, a government corporation, protects the deposits of all British Columbia credit union members up to a maximum of \$100,000 per "separate deposit" (as defined by Regulation) per credit union.

11. Operating line of credit:

The Credit Union has an approved line of credit of \$100,000,000 secured by a demand debenture in favor of Credit Union Central of British Columbia. The debenture creates a floating charge on certain assets and undertakings of the Credit Union.

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

12. Commitments:

Computer services:

The agreement for the use of the new banking system continues for 5 years from November 2006, the date put in use, with an automatic renewal for a further 5 years. The Credit Union is committed to annual maintenance costs of approximately \$636,000 per annum to 2011.

Premises:

The Credit Union has committed to lease premises until 2011. The minimum lease payments, including estimated operating costs incorporated into lease agreements, in each of the next five years are \$1,792,121 in 2008, \$886,416 in 2009, \$738,796 in 2010, \$524,950 in 2011 and \$409,288 in 2012.

13. Other income:

	2007	2006
Member services:		
Chequing and savings accounts	\$ 4,973,427	\$ 4,835,617
Other service income	2,056,075	3,046,939
Insurance administration fees	1,227,704	945,419
Loan fees	990,056	1,439,091
Mortgage payout and prepayment income	1,195,833	1,086,224
Safety deposit boxes	245,742	239,266
	10,688,837	11,592,556
Building and property income	194,294	276,187
Commission income from subsidiaries	12,550,291	10,693,103
	\$ 23,433,422	\$ 22,561,846

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

14. Other expenses:

	2007	2006
Electronic services	\$ 1,215,150	\$ 1,327,167
Automated teller machine services	645,394	559,885
Other services	1,633,243	1,975,155
Chequing services	862,301	1,026,978
	\$ 4,356,088	\$ 4,889,185

15. Operating expenses:

	2007	2006
Salaries and benefits	\$ 33,981,544	\$ 34,630,525
Premises and equipment	4,072,826	4,064,161
Other administrative	5,612,892	5,727,133
Data processing	4,004,268	4,356,040
Amortization of premises and equipment	3,480,815	2,978,217
Advertising and member relations	1,386,726	2,362,172
Professional services	1,206,030	1,174,295
Regulatory costs	852,467	1,106,746
Capital taxes	596,417	659,872
	\$ 55,193,985	\$ 57,059,161

16. Distribution to members:

	2007	2006
Dividends on equity shares	\$ 255,776	\$ 200,194
Dividends on non-equity shares	209	1,514
	\$ 255,985	\$ 201,708

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

17. Income taxes:

(a) Components

	2007	2006
Current income taxes	\$ 1,271,596	\$ 745,646
Provision for current taxes	-	-
Recovery of income taxes paid in prior years	-	(527,941)
Future income taxes	150,000	598,158
	\$ 1,421,596	\$ 815,863

(b) Tax rates

	2007		2006	
	Amount	% Pretax Income	Amount	% Pretax Income
Combined statutory income tax rates	\$ 1,953,769	34.12%	\$ 770,826	34.12%
Reduction for credit unions and small business	(754,807)	(13.18)%	(72,716)	(3.22)%
Other permanent differences	76,920	1.35%	31,412	1.39%
Other	145,714	2.54%	86,341	3.82%
	\$ 1,421,596	24.83%	\$ 815,863	36.11%

(c) Future income tax

The components of future income tax are as follows:

	2007	2006
Premises, equipment and intangibles	\$ (717,819)	\$ (558,103)
Allowance for loan losses	553,002	704,633
Other reserves	171,707	98,743
Investment valuation differences	273,801	284,801
Unrealized financial instrument adjustments	387,462	-
	\$ 668,153	\$ 530,074

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

18. Employee future benefits:

The Credit Union contributes toward retirement benefits for its employees.

(a) Group registered retirement savings plan

Employer contributions for the majority of employees are made to a group registered retirement savings plan at rates varying from 6% to 10% of annual salary. Contributions made during the year totaled \$2,112,706 (2006 – \$1,716,198). Employees contributed a total of \$202,126 (2006 – \$622,507) during the year.

(b) Multi-employer defined benefit pension plan

A multi-employer defined benefit pension plan exists where the members are employees from various credit unions in British Columbia. Employer contributions made during the year totaled \$212,722 (2006 – \$208,908).

The plan is a defined benefit pension plan and is subject to actuarial review every three years. The latest available actuarial review is at December 31, 2006. At December 31, 2006, plan assets exceeded plan liabilities by approximately \$15,159,000. The actuary does not attribute portions of the plan surplus to individual employers. The Credit Union records contributions to the plan as an expense in the year which payments are made.

19. Other information:

At December 31, 2007 loans to directors, officers, management, as well as families and business interests of these positions amounted to \$4,420,188. The definition of related parties changed as of January 1, 2007. Related parties are now defined to include the positions mentioned above and no longer include lenders.

Directors received remuneration of \$204,048 in 2007 (2006 – \$225,845).

20. Derivative financial instruments:

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain interest rates, indices or changes therein to notional contract amounts. The Interest Rate Swap contracts entered into by the Credit Union are classified as cash flow hedge instruments. Cash flow hedges modify exposure to variability in cash flows for changes in interest rates.

For cash flow hedges that meet the requirements of Section 3855 (note 1), gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in Other Comprehensive Income until the hedged item is recognized in income, at which time such change is recognized as interest income. Any ineffective portion is recognized immediately in income as Other Income.

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

20. Derivative financial instruments (continued):

The Credit Union has entered into Interest Rate Swap contracts with Credit Union Central of British Columbia to hedge the Credit Union's exposure to interest rate risks. As at December 31, 2007, the Credit Union had entered into Interest Rate Swap contracts for a total of \$100,000,000 of notional principal (2006 – \$94,500,000), whereby it has agreed to pay at variable interest rates and receive at fixed interest rates. These swaps have fixed interest rates ranging from 3.80% to 4.78% and will mature from April 2008 to April 2009. These agreements are secured by a general security agreement covering all assets of the Credit Union.

As at December 31, 2007 the derivative instruments recorded on the Balance Sheet related to the above were as follows:

Fair value of derivative liabilities	<u>2007</u>	2006
Swap contracts	\$ 140,605	\$ 102,003

These balances are recorded in accounts payable and accrued liabilities.

21. Contingent liabilities:

Class action lawsuit

A class-action lawsuit has been instigated against several British Columbia Credit Unions in respect of alleged excess overdraft charges. The Credit Union has been named in this suit.

The Credit Union strongly disputes any wrongdoing in this matter, but the financial statements do include a provision against possible loss. Should this provision turn out to be overstated or understated, it will be adjusted in the year additional information becomes available.

22. Dispositions:

During the year, the Credit Union sold the Campbell River Administration building. The disposition was accounted for as follows:

Gross proceeds	\$ 1,175,000
Carrying value of asset	(1,005,703)
Professional fees	<u>(4,342)</u>
Gain on disposition	<u>\$ 164,955</u>

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

23. Fair value of financial instruments:

	2007	2006
Balance sheet		
Assets		
Cash and investments	\$ 167,507,336	\$ 161,099,000
Loans	1,215,897,000	1,198,388,000
Other assets	10,582,910	5,154,088
Liabilities		
Member deposits	\$ 1,351,961,120	\$ 1,284,480,000
Short-term borrowings from Credit Union Central of British Columbia	21,002,836	39,014,617
Accounts payable and accrued liabilities	11,037,481	11,894,841
Swaps, net	(140,605)	(102,003)

The fair value of financial instruments as at December 31, 2007 and December 31, 2006 are based on relevant prices and information at the time. The fair value estimates are not necessarily indicative of the amounts the Credit Union may receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Some of the Credit Union's assets and liabilities, such as equipment, do not meet the definition of financial instruments. The fair value estimates do not reflect the Credit Union as a whole.

Determination of Fair Values

- (a) The fair value of items which are highly liquid such as certain cash resources, investments, and other liabilities approximate their carrying values because of the short maturity of these instruments.
- (b) The fair value of all floating rate residential and commercial loans was determined by discounting future loan cash flows at the prime rate. The fair market value of fixed rate residential and commercial mortgages was discounted using retail mortgage rates as at December 31, 2007.
- (c) The fair value of all demand deposits approximate their carrying value.
- (d) The fair value of all fixed rate non-registered and registered term deposits were valued using retail deposit rates as at December 31, 2007.

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

24. Interest rate sensitivity position:

The repricing of the Credit Union's interest sensitive financial assets and liabilities and their average effective interest rates, based on contractual maturity dates, is as follows (in thousands of dollars):

	Repricing period								Total	Rate
	2008 Carrying value	Rate	2009/2010 Carrying value	Rate	2011+ Carrying value	Rate	Non-Rate Sensitive			
Assets										
Cash resources	\$ 35,871	4.37%	\$ 40,170	3.89%	\$ 23,260	4.27%	\$ 26,288	\$	125,589	4.18%
Loans	498,262	6.66%	217,691	5.66%	523,216	5.94%	–		1,239,170	6.18%
Investments	20,031	4.37%	6,800	3.89%	7,952	4.27%	5,355		40,138	4.00%
Other assets	11,491	5.27%	2,313	5.02%	–	–	19,324		33,127	1.43%
	\$ 565,655	6.47%	\$ 266,974	5.34%	\$ 554,428	5.85%	\$ 50,967	\$	1,438,025	5.72%
Liabilities										
Member deposits	\$ 1,137,986	2.87%	\$ 138,334	3.81%	\$ 74,191	4.20%	\$ –	\$	1,350,511	3.04%
Other liabilities	21,001	4.93%	–	–	–	–	11,040		32,041	2.36%
Equity	–	–	–	–	–	–	55,473		55,473	–
	\$ 1,158,987	2.90%	\$ 138,334	3.81%	\$ 74,191	4.20%	\$ 66,513	\$	1,438,025	2.88%
Swaps	(15,000)		15,000				–			
Net Mismatch	\$ (608,331)		\$ 143,639		\$ 480,237		\$ (15,546)			

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

25. Acquisition of insurance agency:

On August 31, 2007, a subsidiary of the Credit Union acquired an insurance agency. The aggregate purchase price was \$6,225,686, which consisted of \$6,000,000 cash, \$75,634 acquisition costs and a net working capital adjustment of \$150,052.

The acquisition has been accounted for using the purchase method. Details of this transaction were as follows:

Purchase price	\$	6,225,686
Excess of value of assets acquired over liabilities		675,462
Automobile insurance license		550,000
Customer list		5,000,000
Excess of purchase price over assets purchased	\$	<u>224</u>

The excess of purchase price over value of assets purchased has been allocated as goodwill.

26. Option to purchase 100% of shares in subsidiary:

On October 12, 2007, a subsidiary of the Credit Union exercised an option to purchase all the shares of Gabriola Insurance Agencies Ltd. The transaction resulted in the subsidiary obtaining 100% ownership of Gabriola Insurance Agencies Ltd. at the date of the share purchase. The aggregate purchase price was \$891,139, which consisted of \$829,989 cash, and \$61,150 for acquisition costs.

The acquisition has been accounted for using the purchase method. Details of this transaction were as follows:

Purchase price	\$	891,139
Value ascribed to net assets purchased		<u>100,968</u>
Excess of purchase price over assets purchased	\$	<u>790,171</u>

The excess of purchase price over value of assets purchased has been allocated as goodwill.

Coastal Community Credit Union

Notes to Consolidated Financial Statements

Year ended **December 31, 2007**

27. Risk management:

The three types of financial risk inherent in the Credit Union environment include credit, liquidity and interest rate.

Credit risk is the risk that the Credit Union will incur a loss because members fail to meet an obligation. Risk management policies are implemented by management and the Board. These include evaluation of the members' ability to repay the loan when it is originally granted and subsequently renewed and the regular monitoring of member information such as delinquent and over-limit amounts. The Credit Union provides lending and deposit activities predominately in British Columbia. Accordingly, the repayment by its members is influenced by the economic conditions of these areas.

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to its members. To mitigate risk, the Credit Union Central of British Columbia requires the Credit Union to maintain a prescribed percentage of total cash and term deposits based on members' equity, liabilities and shares. As at December 31, 2007 and December 31, 2006, the Credit Union exceeded the prescribed liquidity requirements of 8%.

Interest rate risk is the risk that the value of the Credit Union's assets will fluctuate due to changes in interest rates. The Credit Union mitigates interest rate risk through interest rate swaps.



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