

2009  
Annual Report

A better way to bank  
**Caisse**  
LA PRAIRIE



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**TABLE OF CONTENTS**


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|   |    |
|---|----|
| Financial Highlights .....                  | 1  |
| 2009 Board of Directors and Personnel ..... | 2  |
| President and CEO Report.....               | 3  |
| Auditors' Report .....                      | 7  |
| Financial Statements.....                   | 8  |
| Credit Report.....                          | 34 |
| Community Involvement.....                  | 35 |

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**FINANCIAL HIGHLIGHTS**


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|                                 | <u>2009</u>   | <u>2008</u>   |
|---------------------------------|---------------|---------------|
| Assets                          | \$301,217,347 | \$284,270,890 |
| <i>% growth</i>                 | 5.96%         | 9.8%          |
| Loans                           | \$244,990,915 | \$213,490,736 |
| <i>% growth</i>                 | 14.75%        | 5.0%          |
| Deposits                        | \$268,057,045 | \$258,003,038 |
| <i>% growth</i>                 | 3.90%         | 7.3%          |
| Members' capital                | \$19,247,378  | \$17,802,025  |
| <i>As a % of assets</i>         | 6.39%         | 6.26%         |
| Net income                      | \$1,526,457   | \$1,268,365   |
| Patronage refund                | \$300,000     | \$250,000     |
| Dividend paid on surplus shares | \$275,000     | \$250,000     |



www.caisse.biz

## BOARD OF DIRECTORS

Léo Leclair, President  
 Pierre Gagné, Vice-president  
 Réal Déquier  
 Diane Dubé  
 Guy Gagnon  
 Carole Hébert  
 Robert Jeanson  
 Ronald St-Hilaire

## STAFF

Audette, Mona  
 Ayotte, Paulette  
 Baillargeon, Lyne  
 Balcaen, Natasha  
 Bazin, Amanda  
 Beaudet, Marcel  
 Bédard, Raymond  
 Bérard, Lucille  
 Bissonnette, Nicole  
 Bouchard, Annette  
 Bouchard, Suzanne  
 Boulanger, Adam  
 Brais, Jocelyne  
 Bruneau, Josée  
 Catellier, Claudelle  
 Chaput, Philippe  
 Chaput, Rachel  
 Collette, Diane  
 Côté, Sylvie  
 Curé, Ginette  
 Delorme, Dianne  
 Desjardins, Janelle  
 Dornez, Emilie  
 Dupuis, Joanne  
 Dupuis, Stella  
 Edbom, Jennifer  
 Ethier, Sophie  
 Foidart, Danica  
 Joanne Forest

Fréchette, Ginette  
 Gauthier, Gisèle  
 Gosselin, Florence  
 Gosselin, Janine  
 Gosselin, Lorraine  
 Gosselin, Rachel  
 Gosselin, Raymonde  
 Hébert, Claire  
 Hébert, Lise  
 Johnson, Linda  
 Jolicoeur, Rémi  
 Joyal, Mariette  
 Kennedy, Simone  
 Klaassen, Joanne  
 Labossière, Laurette  
 Lacasse, Hélène  
 Lagassé, Diane  
 Larivière, Céline  
 Lavallée, Ivan  
 Leclair, Michaël  
 Leclerc, Paulette  
 Legal, Christine  
 Lussier, Claude  
 MacNeil, Carmelle  
 Manaigre Claudette  
 Marcon, Denis  
 Martel, Sylvie  
 Meilleur, Angèle  
 Nadeau, Christel

Nadeau, Suzanne  
 Nault, Lisa  
 Nault-Martens, Colette  
 Normandeau, Jeanine  
 Normandeau, Yvette  
 Pappel, Paulette  
 Piché, Ginette  
 Pilon, Yvette  
 Pinette, Camille  
 Pohl, Diana  
 Poirier, Christina  
 Poirier, Kelly  
 Preteau, Judith  
 Preteau-Roy, Lucille  
 Quennelle, Janice  
 Rioux, Marc  
 Robert, Rachel  
 Robidoux, René  
 Rondeau, Joël  
 Roy, Lise  
 Ruest, France  
 Sibilleau, Christine  
 St-Laurent, Pauline  
 Suderman, Valerie  
 Tétrault, Angèle  
 Trudeau, Paul  
 Vincent, Colette  
 Vincent, Nadine  
 Wiens, Roxanne

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## MESSAGE FROM THE PRESIDENT AND THE CEO

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It is with great pleasure that we welcome you to the third annual general meeting of Caisse La Prairie.

The year 2009 was a year of growth ending with a deciding vote regarding the future of Manitoba Caisses.

### **ConSOLIDation**

While attending special meetings on December 3, 2009, members of Caisses Elie, La Prairie, Pembina and St-Boniface voted 93% in favour of the Manitoba Caisses' network merger proposal. The anticipated date for the merger to officially take place is September 1<sup>st</sup>, 2010. The operational impact for Caisse members should be minimal. This new Caisse will have over 800 million dollars in assets and will serve over 30,000 members, with 237 employees, in 26 locations. Its Board of Directors will democratically represent regions served by Caisses; the new Board will have 11 members (La Prairie 4; St-Boniface 3, Pembina 2, Elie 1 and the Fédération 1). Following this vote, a selection process for a CEO concluded with the appointment of Mr. Joël Rondeau as CEO of the new Caisse. The executive leadership team was then selected as follows: Michel Tessier was appointed Vice President, Finance; Marcel Gauvin as Vice President, Credit; Martin Trudeau as Vice President, Business Development and Retail Sales; Bernard Marcoux as Vice President Information Technology; and Sophie Ethier as Vice President Corporate Services. This team will now oversee management activities for integrating all departments.

The 2010 consolidation represents a new chapter in the history of the Caisses populaires movement in Manitoba. As you will remember, the first Caisse populaire was founded in 1937 in St-Malo. Eventually, 48 more Caisses populaires were formed in various Manitoba francophone villages. In the following years, many dissolutions and amalgamations took place, notably:

- the amalgamation of the Ste-Geneviève Caisse with the Ste-Anne Caisse in 1980;
- the amalgamation of the Richer Caisse with the Ste-Anne Caisse in 1983;
- the amalgamation of the Aubigny Caisse with the Ste-Agathe Caisse in 1986;
- the amalgamation of the South Junction Caisse with the Ste-Anne Caisse in 1986;
- the amalgamation of Caisses in La Broquerie, Lorette, St-Georges and Ste-Anne in 1997 forming Caisse La Vérendrye;
- the amalgamation of Caisses in Aubigny, Letellier, St-Adolphe, St-Jean-Baptiste, St-Joseph, St-Malo, St-Pierre and Ste-Agathe in 1998 forming Caisse Provencher;
- the amalgamation of Caisses La Vérendrye and Provencher on May 1<sup>st</sup>, 2007 forming Caisse La Prairie.

The dissolution of Caisse populaire La Prairie will take place on August 31<sup>st</sup>, 2010 to make way for a new Caisse whose new name will be chosen by that date. All members are invited to participate in the "Name your Caisse" contest.

## **New Product and Services**

Following an initiative announced by the Federal Government in its 2008 budget, Caisse La Prairie is proud to offer, since January 1<sup>st</sup>, 2009, a Tax Free Savings Account (TSFA). This new product, of which all interest income earned is tax-free, was introduced to encourage Canadians to save more. The Caisse offers competitive interest rates and flexible investment options. This product was enthusiastically received by our members who contributed more than 2.6 million dollars since its inception. Thank you!

In order to improve on the range of services offered to our members, an automatic teller machine was installed at the Ste-Agathe branch in December 2009.

Furthermore, a link on the [www.caisse.biz](http://www.caisse.biz) website was developed to give Visa Desjardins card holders access to their Visa statements on a Desjardins secured website.

## **Community Support**

As a co-operative deeply committed to its communities, the Caisse continues to support its communities in a significant way. As outlined in our Community Involvement Report, the Caisse was involved in our many communities by way of financial donations or staff volunteering their time. We wish to congratulate and thank these employees for their efforts and community spirit.

The Caisse contributed in 2009 a total of \$88,859 to various community organizations. This represents approximately 4.35% of our income before patronage refund and income taxes. For more information, please refer to the Community Involvement Report on page 35 of the Annual Report. We are pleased to participate in the development and prosperity of vibrant communities.

## **Economic Context**

The recent improvement of various economic indicators suggests a recovery in 2010. The GDP should increase by 2.6% in 2010, the value of the Canadian dollar should remain relatively high, the cost of fuel should remain around \$80/barrel, and the rate of inflation should stay between 1% and 2% during the year. The real estate market has been increasing steadily since the beginning of 2009 which causes concerns of overheated housing prices. Many factors which are favourable to the real estate market, contributed to this phenomenon: interest rates are exceptionally low, household confidence is increasing and the labour market is stabilizing. Furthermore, certain temporary factors are also at work, i.e. there was less demand during the recession, prepayment of certain transactions in anticipation of an eventual interest rate increase, and the disruption created by the changes to taxation in Ontario and British Columbia.

In order to prevent any possible real estate bubble, the Federal Government announced certain restrictive measures such as stricter solvability criteria, reducing maximum amount allowed on refinancing mortgage loans, and increasing minimum down payments on speculative transactions. Also, an increase in interest rates is predicted in 2010. Always committed to sound management of its loan portfolio, the Caisse has adjusted certain practices of credit approval.

## Financial Results

In spite of the uncertain economic climate in 2009, the Caisse has successfully generated excellent financial results along with a strong growth in loans and mortgages at 14.75%. This growth is due primarily to the increased use of commercial lines of credit, and an increase in residential and commercial mortgages. Considering these favourable results, the Caisse has taken the opportunity to strengthen its allowance for doubtful loans. For more information, please refer to the Credit Report on page 34 of the Annual Report.

As of December 31, 2009, the Caisse had assets of \$318.9 million, which include \$17.7 million administered by our Credential Financial Strategies representative. Compared to December 31, 2008 results, this represents an annual growth of 5.96% in the Caisse's assets, while Credential net assets show an increase of 30% caused mainly by the financial markets recovery in 2009.

Members' capital as of December 31, 2009, was \$19.2 million or 6.39% of assets. This ratio exceeds the capital requirement of 5%, and confirms our priority in safeguarding our members' capital.

The net income before patronage refund and income taxes amounted to \$2,040,782 compared to \$1,688,000 in 2008.

These excellent financial results have enabled the Board of Directors to declare a patronage refund of \$300,000 based on members' volume of loans and deposits. The patronage refund will be paid to members in the form of additional surplus shares. The Board has also declared a dividend on the existing surplus shares of \$275,000. The dividend will be paid to members in cash, and represents a 5.04% return on their investment.

## Staff

We would like to extend a warm welcome to those who have chosen to join the Caisse's team in 2009. Also, we wish our former employees all the best with their new endeavours.

In 2009, several of our employees reached important milestones with the Caisse. We would like to formally recognize the following employment anniversaries:

|                     |  |
|---------------------|--|
| 5 years of service  | Suzanne Bouchard<br>Adam Boulanger<br>Danica Foidart<br>Nadine Vincent |
| 10 years of service | Joanne (Maynard) Dupuis<br>Joël Rondeau<br>Christine Sibilleau         |
| 15 years of service | Diana Pohl   |
| 20 years of service | Sophie Ethier<br>Denis Marcon<br>Marc Rioux<br>Paul Trudeau            |
| 30 years of service | Lucille Bérard<br>Marianne Joyal                                       |
| 45 years of service | Marcel Beaudet   |

## **Acknowledgments**

We wish to thank our staff for their integrity, professionalism and dedication as they contribute directly to the Caisse's success. We appreciate their co-operation and participation during this merger project over the course of 2010.

We would like to thank Pauline St-Laurent, Ivan Lavallée, Raymond Bédard and the Ste-Anne branch staff for the production of this annual report and all the preparations for this evening.

We would like to express our gratitude to the directors sitting on our Board for their outstanding contribution and the numerous hours of work in 2009. The plans and preparation involved in such a merger have required an important contribution on their part. Their support and leadership are essential to the success of the new Caisse.

Finally, we would like to thank you, the members. Your confidence and continued support is very much appreciated now and during the transition stage of the amalgamation in 2010.

Thank you!

Pierre Gagné, President

Joël Rondeau, CEO



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## Auditors' Report

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### To the members of CAISSE POPULAIRE LA PRAIRIE LTÉE

We have audited the balance sheet of **CAISSE POPULAIRE LA PRAIRIE LTÉE** as at December 31, 2009 and the statements of retained surplus, accumulated other comprehensive income, income, comprehensive income and cash flows for the period 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 December 31, 2009 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

*BDO Canada LLP*

Chartered Accountants

Winnipeg, Manitoba  
February 11, 2010

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Balance Sheet

| As at December 31  | 2009               | 2008               |
|--|--------------------|--------------------|
|  | \$                 | \$                 |
| <b>Assets</b>  |                    |                    |
| Funds on deposit (Note 4)  | 3,408,997          | 2,952,489          |
| Investments (Note 5)   | 52,007,599         | 65,479,536         |
| Loans to members (Note 6)  | 242,090,027        | 210,978,143        |
| Derivative financial instruments (Notes 15 and 16)                       | 543,649            | 1,505,291          |
| Other assets   | 297,207            | 300,970            |
| Property and equipment (Note 8)  | 2,238,744          | 2,423,337          |
| Goodwill   | 631,124            | 631,124            |
|  | <b>301,217,347</b> | <b>284,270,890</b> |
| <b>Liabilities and Members' Capital</b>                                  |                    |                    |
| Due to La Fédération des caisses populaires<br>du Manitoba Inc. (Note 4) | 11,549,725         | 5,502,495          |
| Members' deposits (Note 9)   | 268,057,045        | 258,003,038        |
| Future income taxes (Note 7)   | 92,382             | 213,557            |
| Dividend payable (Note 12)   | 275,000            | 250,000            |
| Other liabilities  | 1,539,671          | 1,259,721          |
|  | <b>281,513,823</b> | <b>265,228,811</b> |
| <b>Commitments (Note 10)</b>   |                    |                    |
| <b>Members' Capital (Note 11)</b>  |                    |                    |
| Provision for issue of surplus shares (Note 12)                          | 300,000            | 250,000            |
| Members' shares (Note 13)  | 5,519,165          | 5,408,269          |
| Retained surplus   | 13,428,213         | 12,143,756         |
| Accumulated other comprehensive income                                   | 456,146            | 1,240,054          |
|  | <b>19,703,524</b>  | <b>19,042,079</b>  |
|  | <b>301,217,347</b> | <b>284,270,890</b> |

Approved on behalf of the Board of Directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

**CAISSE POPULAIRE LA PRAIRIE LTÉE**  
**Statement of Retained Surplus**

| <b>For the year ended December 31</b>               | <b>2009</b>       | <b>2008</b> |
|---|-------------------|-------------|
|   | \$                | \$          |
| <b>Retained surplus, beginning of period</b>        | <b>12,143,756</b> | 11,092,891  |
| <b>Net income for the year</b>                      | <b>1,526,457</b>  | 1,268,365   |
| <b>Dividend on surplus shares (Note 12)</b>         | <b>(275,000)</b>  | (250,000)   |
| <b>Income taxes recovered on dividend (Note 12)</b> | <b>33,000</b>     | 32,500      |
| <b>Retained surplus, end of period</b>              | <b>13,428,213</b> | 12,143,756  |

**CAISSE POPULAIRE LA PRAIRIE LTÉE**  
**Statement of Accumulated Other Comprehensive Income**

| <b>For the year ended December 31</b>                              | <b>2009</b>      | <b>2008</b> |
|--|------------------|-------------|
|  | \$               | \$          |
| <b>Accumulated other comprehensive income, beginning of period</b> | <b>1,240,054</b> | (228,137)   |
| <b>Other comprehensive income for the year</b>                     | <b>(783,908)</b> | 1,468,191   |
| <b>Accumulated other comprehensive income, end of period</b>       | <b>456,146</b>   | 1,240,054   |

## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Statement of Income

| For the year ended December 31  | 2009               | 2008              |
|---|--------------------|-------------------|
|   | \$                 | \$                |
| <b>Income</b>   |                    |                   |
| Interest from members' loans  | 10,695,490         | 12,201,584        |
| Investments   |                    |                   |
| Liquidity deposits  | 2,041,009          | 2,118,324         |
| Shares - Fédération   | 370,985            | 96,933            |
| Swaps   | 1,072,377          | 123,523           |
| Unrealized gains (losses) on swaps                                    | (70,837)           | 60,753            |
|   | <u>14,109,024</u>  | <u>14,601,117</u> |
| <b>Cost of Funds</b>  |                    |                   |
| Interest paid to members  | 6,809,507          | 8,094,593         |
| Interest charges  | 22,472             | 3,465             |
|   | <u>6,831,979</u>   | <u>8,098,058</u>  |
| <b>Gross financial margin</b>   | <b>7,277,045</b>   | 6,503,059         |
| <b>Assessment and bonding insurance</b>                               | <b>310,042</b>     | 285,262           |
| <b>Provision for doubtful loans</b>                                   | <b>450,000</b>     | 240,000           |
| <b>Net financial margin</b>   | <b>6,517,003</b>   | 5,977,797         |
| <b>Operating Expenses</b>   |                    |                   |
| Personnel   | 3,511,293          | 3,420,822         |
| Administration  | 1,028,929          | 1,034,699         |
| Computer services   | 612,058            | 570,802           |
| Premises, furniture and equipment                                     | 620,053            | 652,141           |
| Fees - Fédération   | 556,004            | 523,610           |
| <b>Gross operating expenses</b>                                       | <b>6,328,337</b>   | 6,202,074         |
| <b>Less other income</b>  | <b>(1,852,116)</b> | (1,912,148)       |
| <b>Net operating expenses</b>   | <b>4,476,221</b>   | 4,289,926         |
| <b>Net income before patronage refund to members and income taxes</b> | <b>2,040,782</b>   | 1,687,871         |
| <b>Patronage refund to members (Note 12)</b>                          | <b>300,000</b>     | 250,000           |
| <b>Net income before income taxes</b>                                 | <b>1,740,782</b>   | 1,437,871         |
| <b>Provision for income taxes (Note 7)</b>                            | <b>214,325</b>     | 169,506           |
| <b>Net income for the year</b>  | <b>1,526,457</b>   | 1,268,365         |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

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**CAISSE POPULAIRE LA PRAIRIE LTÉE**  
**Statement of Comprehensive Income**

| <b>For the year ended December 31</b>                                       | <b>2009</b>      | <b>2008</b>      |
|---|------------------|------------------|
|   | \$               | \$               |
| <b>Net income for the year (per Statement of Income)</b>                    | <b>1,526,457</b> | 1,268,365        |
| <b>Other Comprehensive Income (Net of Tax)</b>                              |                  |                  |
| Gains on derivative financial instruments designated<br>as cash flow hedges | <u>(783,908)</u> | 1,468,191        |
| <b>Comprehensive income</b>   | <b>742,549</b>   | <b>2,736,556</b> |

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Statement of Cash Flows

| For the year ended December 31                               | 2009                | 2008                |
|--|---------------------|---------------------|
|  | \$                  | \$                  |
| <b>Cash Flows from Operating Activities</b>                  |                     |                     |
| Cash received - interest income                              | 14,231,549          | 14,051,725          |
| Cash received - other income                                 | 1,852,116           | 1,912,148           |
| Cash paid - cost of funds                                    | (6,946,983)         | (7,722,205)         |
| Cash paid - suppliers and employees                          | (6,130,633)         | (6,902,537)         |
| Cash paid - income taxes                                     | (156,202)           | (130,150)           |
|  | <u>2,849,847</u>    | <u>1,208,981</u>    |
| <b>Cash Flows from Financing Activities</b>                  |                     |                     |
| Net increase in members' deposits                            | 10,169,011          | 17,285,361          |
| Repurchase of surplus shares                                 | (388,924)           | 20,852              |
| Net change in share capital                                  | (181)               | (799)               |
|  | <u>9,779,906</u>    | <u>17,305,414</u>   |
| <b>Cash Flows from Investing Activities</b>                  |                     |                     |
| Purchase of capital assets                                   | (78,841)            | (196,384)           |
| Net increase in loans to members                             | (31,639,582)        | (10,423,589)        |
| Decrease (increase) in investments                           | 13,497,948          | (24,271,658)        |
|  | <u>(18,220,475)</u> | <u>(34,891,631)</u> |
| <b>Net decrease in cash deposits</b>                         | <b>(5,590,722)</b>  | <b>(16,377,236)</b> |
| <b>Funds on deposit, beginning of period</b>                 | <b>(2,550,006)</b>  | <b>13,827,230</b>   |
| <b>Funds on deposit, end of period</b>                       | <b>(8,140,728)</b>  | <b>(2,550,006)</b>  |
| <b>Comprised of the following:</b>                           |                     |                     |
| Funds on deposit   | 3,408,997           | 2,952,489           |
| Due to La Fédération des caisses populaires du Manitoba Inc. | (11,549,725)        | (5,502,495)         |
|  | <u>(8,140,728)</u>  | <u>(2,550,006)</u>  |

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Summary of Significant Accounting Policies

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For the year ended December 31, 2009

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#### Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from management's best estimates as additional information becomes available in the future.

#### Financial Instruments

*Recognition and Measurement* - The Caisse Populaire recognizes and measures financial assets and financial liabilities on the balance sheet when they become a party to the contractual provisions of a financial instrument. All transactions related to financial instruments are recorded on a settlement date basis. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of each financial instrument. Held-for-trading items are carried at fair value, with changes in their fair value recognized in the statement of income. Available-for-sale items are carried at fair value, with changes in their fair value recognized in the statement of other comprehensive income. Loans and receivables and other financial liabilities are carried at amortized cost, using the effective interest method.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices as appropriate, in the most advantageous active market for that instrument to which the Caisse Populaire has immediate access.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discounted rates. In determining those assumptions, external readily observable market inputs including interest rate yield curves, currency rates and price and rate volatilities are considered, as applicable.

The Caisse Populaire has elected some deposits, and loans and mortgages to be classified as "loans and receivables", shares held in the Fédération as "available for sale", other investments as "held-to-maturity", member deposits to be classified as "other financial liabilities", derivatives not designated in a hedging relationship as "held-for-trading" and derivatives designated in a hedging relationship as "available for sale". See note 15 for details on classification of all the Caisse Populaire's financial instruments.

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Summary of Significant Accounting Policies

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For the year ended December 31, 2009

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#### Financial Instruments (continued)

Transaction costs for financial instruments are capitalized and then amortized over the term of the instrument using the effective interest rate method.

*Derivative Financial Instruments and Hedges* - 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 interest rate swap agreements are recorded on the balance sheet at fair value as derivative financial instruments. 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 comprehensive income until this hedged item is recognized in income while the ineffective portion will be recognized in income of the period.

The prepayment option included in the Caisse Populaire's loan agreements have been identified as embedded derivatives. The interest differential penalties meet the criteria as being closely related to the host and therefore are not required to be valued separately.

*Other Comprehensive Income* - Other comprehensive income includes unrealized gains and losses on financial assets classified as "available-for-sale" and the change in the effective portion of a cash flow hedge transaction.

#### Impairment of Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar risk characteristics. All impairment losses are recognized in the statement of income.

*Loans to Members* - The allowance for doubtful loans is maintained at a level considered adequate to absorb credit losses existing in the Caisse Populaire's portfolio. The allowance is increased by an annual provision for doubtful loans which is charged against income. Loans are considered uncollectible when the Caisse Populaire has exhausted all means of collection. These loans are written-off against the associated provision.

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Summary of Significant Accounting Policies

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**For the year ended December 31, 2009**

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**Impairment of Financial  
Assets (continued)**

The Caisse Populaire maintains specific allowances for doubtful loans that reduce the carrying value of loans identified as impaired to their estimated realizable amounts.

The Caisse Populaire includes in impaired loans (see Note 6), all loans where principal payments are 90 days or greater in arrears plus any other loans where, in management's view, there is no longer reasonable assurance of timely collection of the full amount of principal and interest in accordance with the terms of the loan agreement. Estimated realizable amounts are determined by discounting the expected cash flows at the effective interest rate inherent in the loan. If cash flows cannot be reasonably estimated, the fair value of any underlying security, net of expected realization costs, or an estimate of market price for the loan is used.

When the terms of loans that would otherwise be past due or impaired have been renegotiated, a review of the borrower's credit history and the collateral securing the loan is conducted to minimize the risk of loss to the Caisse Populaire.

In addition to specific allowances against identified impaired loans, the Caisse Populaire maintains a non-specific allowance to cover impairment which is inherent in the loan portfolio and is estimated based upon historical loss experience and prevailing economic conditions.

**Revenue Recognition**

Interest on loans is recorded as earned as specified in the loan agreement, except for loans which are considered impaired. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan including accrued interest exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Interest on investments including interest rate swap agreements is recorded as income in accordance with the terms of the instrument.

Other income, which is largely comprised of commissions, service charges and documentation fees, are recognized as income when the related service is provided or earned.

**Properties for Resale**

Properties for resale are stated at the lower of acquisition cost or net realizable value.

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Summary of Significant Accounting Policies

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**For the year ended December 31, 2009**

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|  |   |              |                    |           |                    |                         |                     |                    |                                   |
|--|---|--------------|--------------------|-----------|--------------------|-------------------------|---------------------|--------------------|-----------------------------------|
| <b>Property and Equipment</b>            | <p>Property and equipment are recorded at cost with amortization being provided over the estimated useful life of the assets using the following rates and methods:</p> <table border="0" style="margin-left: 40px;"> <tr> <td>Parking lots</td> <td style="text-align: right;">8% declining basis</td> </tr> <tr> <td>Buildings</td> <td style="text-align: right;">5% declining basis</td> </tr> <tr> <td>Furniture and equipment</td> <td style="text-align: right;">20% declining basis</td> </tr> <tr> <td>Computer equipment</td> <td style="text-align: right;">3 to 15 years straight-line basis</td> </tr> </table>  | Parking lots | 8% declining basis | Buildings | 5% declining basis | Furniture and equipment | 20% declining basis | Computer equipment | 3 to 15 years straight-line basis |
| Parking lots                             | 8% declining basis  |              |                    |           |                    |                         |                     |                    |                                   |
| Buildings                                | 5% declining basis  |              |                    |           |                    |                         |                     |                    |                                   |
| Furniture and equipment                  | 20% declining basis   |              |                    |           |                    |                         |                     |                    |                                   |
| Computer equipment                       | 3 to 15 years straight-line basis   |              |                    |           |                    |                         |                     |                    |                                   |
| <b>Goodwill</b>                          | <p>Goodwill represents the cost of the National Bank branch that was acquired by the Caisse populaire Provencher Ltée in excess of the fair value of net identifiable assets acquired. Effective January 1, 2002, new accounting standards came into effect where goodwill is not subject to amortization; however an annual test for impairment is required. Any impairment in value of the goodwill is written off against earnings.</p>  |              |                    |           |                    |                         |                     |                    |                                   |
| <b>Income Taxes</b>                      | <p>The Caisse Populaire follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year.</p> <p>Future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates at each balance sheet date. A future income tax asset is only recognized if it is more likely than not that the future income tax asset will be realized.</p> <p>The valuation of future income tax assets is reviewed annually and adjusted, if necessary, to reflect the estimated realizable amount.</p> |              |                    |           |                    |                         |                     |                    |                                   |
| <b>Translation of Foreign Currencies</b> | <p>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.</p>   |              |                    |           |                    |                         |                     |                    |                                   |
| <b>New Accounting Pronouncements</b>     | <p>Recent accounting pronouncement that have been issued but are not yet effective, and have a potential implication for the Caisse Populaire, are as follows:</p> <p><i>International Financial Reporting Standards</i> - The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2010. The impact of the transition to IFRS on the Caisse Populaire's financial statements has yet to be determined.</p>   |              |                    |           |                    |                         |                     |                    |                                   |

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

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#### **1. Nature of Business**

The Caisse Populaire is incorporated under *The Credit Unions and Caisses Populaires Act* of Manitoba ("The Act") and is affiliated with La Fédération des caisses populaires du Manitoba Inc. ("Fédération"). The Caisse Populaire is a cooperative financial institution belonging to its members and operates thirteen financial service centres in the Eastern and Red River regions of Manitoba. The Caisse Populaire offers a wide range of products and services including deposits, loans, lines of credit, demand accounts, savings accounts, registered products, mutual funds, financial planning and automated services.

#### **2. Amalgamation**

In December, 2009, the members of Caisse populaire La Prairie Ltée, Caisse populaire de Saint-Boniface Limitée, Caisse populaire Pembina Ltée and Caisse Populaire Élie Ltée approved a merger of the four caisses to take effect September 1, 2010.

#### **3. Change in Accounting Policy**

On January 1, 2009, the Caisse Populaire adopted amendments to CICA Handbook Section 3862, "Financial Instruments – Disclosure". The purpose of the amendments is to enhance disclosure about fair value measurements of financial instruments and liquidity risks. These amendments are presented in Note 16.

#### **4. La Fédération des caisses populaires du Manitoba Inc.**

The Caisse Populaire has an approved credit facility equal to 10% of its member deposits. For the current year, this amounts to \$27.7 million. The accommodation is secured by a general security agreement and an assignment of shares and deposits with La Fédération des caisses populaires du Manitoba Inc. As at December 31, 2009, the balance due was \$11,549,725 (\$5,502,495 in 2008).

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**CAISSE POPULAIRE LA PRAIRIE LTÉE**  
**Notes to Financial Statements**

**For the year ended December 31, 2009**

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**5. Investments**

|                  | <u>2009</u>       | <u>2008</u> |
|------------------|-------------------|-------------|
|                  | \$                | \$          |
| Fédération       |                   |             |
| Term deposits    | <b>45,669,418</b> | 59,608,161  |
| Shares           | <b>4,808,045</b>  | 4,719,895   |
| Debentures       | <b>904,437</b>    | 551,792     |
|                  | <b>51,381,900</b> | 64,879,848  |
| Accrued interest | <b>625,699</b>    | 599,688     |
|                  | <b>52,007,599</b> | 65,479,536  |

As the shares held in La Fédération have been classified as "available for sale", they are valued at cost as quoted market prices do not exist.

**6. Loans to Members**

Loans to members are presented net of allowances for doubtful loans totalling \$2,900,888 (\$2,512,593 in 2008) consisting of \$2,664,024 (\$1,218,829 in 2008) for specific loans considered impaired and \$236,865 (\$1,293,764 in 2008) as non-specific. The gross amount of loans including accrued interest along with the corresponding allowance are as follows for each major loan category:

|                                      | <u>2009</u>        |                    | <u>2008</u>    |                    |
|--------------------------------------|--------------------|--------------------|----------------|--------------------|
|                                      | Total<br>Loans     | Total<br>Allowance | Total<br>Loans | Total<br>Allowance |
|                                      | \$                 | \$                 | \$             | \$                 |
| Residential mortgages                | <b>97,750,966</b>  | <b>139,970</b>     | 81,993,315     | 380,075            |
| Personal loans                       | <b>26,448,423</b>  | <b>269,057</b>     | 23,735,910     | 653,019            |
| Commercial and<br>agricultural loans | <b>120,791,526</b> | <b>2,491,861</b>   | 107,761,511    | 1,479,499          |
|                                      | <b>244,990,915</b> | <b>2,900,888</b>   | 213,490,736    | 2,512,593          |
| Net loan balances                    |                    | <b>242,090,027</b> |                | <b>210,978,143</b> |

## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

#### 6. Loans to Members (continued)

The specific allowance for doubtful loans by each category is as follows:

|                                      | 2009              |                       | 2008              |                       |
|--------------------------------------|-------------------|-----------------------|-------------------|-----------------------|
|                                      | Doubtful<br>Loans | Specific<br>Allowance | Doubtful<br>Loans | Specific<br>Allowance |
|                                      | \$                | \$                    | \$                | \$                    |
| Residential mortgages                | 702,991           | 42,922                | 578,480           | 112,365               |
| Personal loans                       | 315,831           | 242,924               | 347,973           | 150,910               |
| Commercial and<br>agricultural loans | 7,107,684         | 2,378,178             | 3,840,723         | 955,554               |
|                                      | <b>8,126,506</b>  | <b>2,664,024</b>      | 4,767,176         | 1,218,829             |
| Net doubtful loans                   |                   | <b>5,462,482</b>      |                   | <b>3,548,347</b>      |

The principal collateral and other credit enhancements we hold as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities.

During the year ended December 31, 2009, the Caisse Populaire acquired two properties in respect of problem loans.

A loan is considered past due when a counterparty has not made a payment by the contractual date due. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (i) less than 90 days past due, or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

|                                      | 2009             |                  |                         | Total            |
|--------------------------------------|------------------|------------------|-------------------------|------------------|
|                                      | 1-30 Days        | 31-90 Days       | Greater Than<br>90 Days |                  |
|                                      | \$               | \$               | \$                      | \$               |
| Residential mortgages                | 594,433          | 515,912          | -                       | 1,110,345        |
| Personal loans                       | 364,116          | 84,993           | 11,496                  | 460,605          |
| Commercial and<br>agricultural loans | 2,176,860        | 619,612          | 8,696                   | 2,805,168        |
|                                      | <b>3,135,409</b> | <b>1,220,517</b> | <b>20,192</b>           | <b>4,376,118</b> |

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**CAISSE POPULAIRE LA PRAIRIE LTÉE**  
**Notes to Financial Statements**

**For the year ended December 31, 2009**

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**6. Loans to Members** (continued)

|                                      | 2008             |                |                         |                  |
|--------------------------------------|------------------|----------------|-------------------------|------------------|
|                                      | 1-30 Days        | 31-90 Days     | Greater Than<br>90 Days | Total            |
|                                      | \$               | \$             | \$                      | \$               |
| Residential mortgages                | 978,430          | 329,287        | -                       | 1,307,717        |
| Personal loans                       | 305,668          | 107,335        | -                       | 413,003          |
| Commercial and<br>agricultural loans | 1,909,453        | 23,184         | -                       | 1,932,637        |
|                                      | <b>3,193,551</b> | <b>459,806</b> | -                       | <b>3,653,357</b> |

The following consists of the year's transactions through the allowance for doubtful loans:

|                              | 2009             | 2008      |
|------------------------------|------------------|-----------|
|                              | \$               | \$        |
| Balance, beginning of period | <b>2,512,593</b> | 2,353,337 |
| Provision for doubtful loans | <b>450,000</b>   | 240,000   |
| Loans recovered              | <b>2,738</b>     | 12,798    |
| Loans written off            | <b>(64,443)</b>  | (93,542)  |
|                              | <b>2,900,888</b> | 2,512,593 |

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**CAISSE POPULAIRE LA PRAIRIE LTÉE**  
**Notes to Financial Statements**

**For the year ended December 31, 2009**

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**7. Provision for Income Taxes**

Future income tax assets and liabilities are included in other assets and other liabilities on the balance sheet. As at December 31, 2009, the future income tax liability is \$92,382 (\$213,557 in 2008)

Components of provision for income taxes are as follows:

|   | <u>2009</u>     | 2008    |
|---|-----------------|---------|
|   | \$              | \$      |
| Current income tax expense                        | <u>228,603</u>  | 165,855 |
| Future income tax expense (recovery) related to   |                 |         |
| Origination and reversal of temporary differences | (13,266)        | 3,651   |
| Reduction in the tax rate                         | <u>(1,012)</u>  | -       |
|   | <u>(14,278)</u> | 3,651   |
|   | <u>214,325</u>  | 169,506 |

The total provision for income taxes in the statement of operations is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

|  | <u>2009</u> | 2008   |
|--|-------------|--------|
|  | %           | %      |
| Combined federal and provincial statutory income tax rates | 31.5        | 33.0   |
| Rate reduction available to Caisses Populaires             | (19.5)      | (20.0) |
| Other  | <u>0.3</u>  | -      |
|  | <u>12.3</u> | 13.0   |

The tax effects of temporary differences, which give rise to the net future income tax assets and liabilities, is related to property and equipment, the allowance for doubtful loans, goodwill and unrealized gains or losses on derivative financial instruments.

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**CAISSE POPULAIRE LA PRAIRIE LTÉE**  
**Notes to Financial Statements**

**For the year ended December 31, 2009**

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**8. Property and Equipment**

|                         | <b>2009</b>      |                                     | 2008                      |                   |
|-------------------------|------------------|-------------------------------------|---------------------------|-------------------|
|                         | <b>Cost</b>      | <b>Accumulated<br/>Amortization</b> | <b>Net Book<br/>Value</b> | Net Book<br>Value |
|                         | \$               | \$                                  | \$                        | \$                |
| Land                    | 74,906           | -                                   | 74,906                    | 74,906            |
| Parking lots            | 95,390           | 73,422                              | 21,968                    | 23,879            |
| Buildings               | 3,165,885        | 1,580,518                           | 1,585,367                 | 1,669,080         |
| Furniture and equipment | 2,732,457        | 2,175,954                           | 556,503                   | 655,472           |
|                         | <b>6,068,638</b> | <b>3,829,894</b>                    | <b>2,238,744</b>          | <b>2,423,337</b>  |

Amortization expense of \$262,247 for the year ended December 31, 2009 (\$269,820 in 2008) is included in the premises, furniture and equipment expense on the statement of income.

**9. Members' Deposits**

|                  | <b>2009</b>        | 2008        |
|------------------|--------------------|-------------|
|                  | \$                 | \$          |
| Term deposits    | 80,927,521         | 75,185,987  |
| Savings          | 60,104,199         | 64,318,994  |
| Registered plans | 67,843,850         | 61,898,029  |
| Chequing account | 55,957,883         | 53,261,432  |
|                  | <b>264,833,453</b> | 254,664,442 |
| Accrued interest | <b>3,223,592</b>   | 3,338,596   |
|                  | <b>268,057,045</b> | 258,003,038 |

**10. Future Commitments**

As at December 31, 2009, the Caisse Populaire has total commitments of \$63,802,683. This total consists of commitments to members for loans that have not been disbursed of \$18,715,739, lines of credit extended but not utilized by members of \$44,535,644, and letters of credit in effect at December 31, 2009 of \$551,300.

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

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#### 11. Capital Requirement

Regulations to *The Credit Unions and Caisses Populaires Act* (the Act) require that each Caisse Populaire establish and maintain a level of capital that meets or exceeds the following:

- (i) total members' capital as shown on the balance sheet shall not be less than 5% of the book value of assets;
- (ii) retained surplus shall not be less than 3% of the book value of assets; and
- (iii) total capital as calculated in accordance with the Act shall not be less than 8% of the risk-weighted value of its assets.

The Caisse Populaire considers its capital to comprise its common and surplus shares and retained surplus. There have been no changes in what the Caisse Populaire considers to be its capital since the previous period.

As at December 31, 2009, the Caisse Populaire met the capital requirements of the Act.

#### 12. Patronage Refund and Dividend to Members

A patronage refund of \$300,000 (\$250,000 at December 31, 2008) and a patronage dividend of \$275,000 (\$250,000 at December 31, 2008) based on surplus shares held by the membership on December 31, 2009 were approved by the Board of Directors and have reduced the provision for income taxes by \$69,000 (\$65,000 in 2008). An amount of \$300,000 will be used to purchase surplus shares in the Caisse Populaire and the remaining \$275,000 will be paid to members in cash.

#### 13. Shares

Authorized shares

##### Common Shares

Authorized common share capital consists of an unlimited number of common shares, with an issue price per share to be not less than \$5 and redeemable in the amount of consideration received for the share. No member may hold more than 10% of the total number of shares. The total share balance will not be reduced below the previous year end balance or below 2% of the Caisse Populaire's assets, whichever is the lesser.

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**CAISSE POPULAIRE LA PRAIRIE LTÉE**  
**Notes to Financial Statements**

**For the year ended December 31, 2009**

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**13. Shares (continued)**

Surplus Shares

Authorized surplus share capital consists of an unlimited number of surplus shares, with an issue price per share of \$1 and redeemable at the option of the Caisse Populaire at \$1 per share. The total amount of surplus shares purchased or redeemed by the Caisse Populaire in a fiscal year shall not reduce the Caisse Populaire's equity below 5% of assets.

Each member of the Caisse Populaire has one vote, regardless of the number of shares that member holds.

Issued shares

|  | 2009      | 2008      |
|--|-----------|-----------|
|  | \$        | \$        |
| 12,056 common shares (12,092 in 2008)        | 60,280    | 60,460    |
| 5,458,885 surplus shares (5,347,809 in 2008) | 5,458,885 | 5,347,809 |
|  | 5,519,165 | 5,408,269 |

During the year, 248,550 surplus shares were issued and 137,474 surplus shares were redeemed.

**14. Related Parties Transactions**

All transactions between the related parties were in conformity with the laws, statutes and policies.

La Société d'assurance-dépôts des caisses populaires

The expenses invoiced by La Société d'assurance-dépôts des caisses populaires represent their annual regulatory assessment.

Expenses incurred for assessments totaled \$252,158 (\$229,391 in 2008) during the period ended December 31, 2009.

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

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#### **14. Related Parties Transactions (continued)**

##### La Fédération des caisses populaires du Manitoba Inc.

These transactions represent investments and interest received on investments, loans and the interest paid on the loans and clearing and assessment fees paid to La Fédération des caisses populaires du Manitoba Inc.

The total amount received from La Fédération des caisses populaires du Manitoba Inc. for investment income for the period ended December 31, 2009 totaled \$2,367,877 (\$2,173,373 in 2008). Payments made to La Fédération des caisses populaires during the period ended December 31, 2009 for clearing and assessment fees totaled \$556,004 (\$523,610 in 2008).

##### Télé-Pop Inc.

Télé-Pop Inc. is a subsidiary of La Fédération des caisses populaires du Manitoba Inc. The expenses invoiced by Télé-Pop Inc. comprise amounts for computer services.

Payments made to Télé-Pop Inc. during the period ended December 31, 2009 totaled \$612,058 (\$570,802 at 2008).

##### Directors and Officers

All transactions with the directors and officers, including any approved loans, conformed to the Caisse Populaire's normal procedures and lending practices.

The aggregate amount of remuneration paid to all directors including reimbursement for expenses on Caisse Populaire business amounted to \$25,721 (\$19,569 at 2008) for the period ended December 31, 2009.

As at December 31, 2009, outstanding loans to directors and committee members, as well as management and staff totalled 2.35%, in aggregate, of the assets of the Caisse Populaire.

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

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#### 15. Financial Instrument Risk Exposure and Management

This note describes the Caisse Populaire's objectives, policies and processes for managing risks arising from financial instruments and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The following table presents the principal financial instruments used by the Caisse Populaire from which financial instrument risk arises:

| Class of Financial Instrument               | <u>Categories of Financial Assets and Financial Liabilities</u> |                     |                    |                  |                             |
|---|---|---------------------|--------------------|------------------|-----------------------------|
|   | Held for Trading  | Loans & Receivables | Available for Sale | Held to Maturity | Other Financial Liabilities |
|   | \$  | \$                  | \$                 | \$               | \$                          |
| Funds on deposit                            | 3,408,997   | -                   | -                  | -                | -                           |
| Investments (Fédération)                    |   |                     |                    |                  |                             |
| Term deposits                               | -   | 45,669,418          | -                  | -                | -                           |
| Shares                                      | -   | -                   | 4,808,045          | -                | -                           |
| Debentures                                  | -   | -                   | -                  | 904,437          | -                           |
| Accrued interest                            | -   | 419,079             | 202,539            | 4,081            | -                           |
| Loans to members                            | -   | 242,090,027         | -                  | -                | -                           |
| Derivative financial instruments            | -   | -                   | 543,649            | -                | -                           |
| Other assets                                | -   | 2,388               | -                  | -                | -                           |
| Due to La Fédération des caisses populaires | 11,549,725  | -                   | -                  | -                | -                           |
| Member deposits                             | -   | -                   | -                  | -                | 268,057,045                 |
| Other liabilities                           | -   | -                   | -                  | -                | 1,539,670                   |

There have been no substantive changes in the Caisse Populaire's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or methods used to measure them from previous periods unless otherwise stated in this note.

#### General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Caisse Populaire's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Caisse Populaire's management. The Board of Directors receives monthly reports from the Caisse Populaire's Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

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#### **15. Financial Instrument Risk Exposure and Management** (continued)

##### Credit Risk

Credit risk is the risk of loss to the Caisse Populaire if a counterparty to a financial instrument fails to meet its contractual obligations. The Caisse Populaire is mainly exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

##### *Risk Measurement*

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Caisse Populaire takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

##### *Objectives, Policies and Processes*

The Caisse Populaire's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Caisse Populaire's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration.
- Loan lending limits including Board of Directors limits, schedule of assigned limits and exemptions from aggregate indebtedness.
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods.
- Procedures outlining the steps to follow to deal with loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations.
- Loan delinquency controls regarding procedures followed for loans in arrears.
- Audit procedures and processes are in existence for the Caisse Populaire's lending activities.

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

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#### 15. Financial Instrument Risk Exposure and Management (continued)

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 bad debts and allowance for doubtful loans quarterly.

##### *Maximum Exposure to Credit Risk*

The Caisse Populaire's maximum exposure to credit risk without taking account of any collateral or other credit enhancements is as follows:

|                             | 2009               |                    | 2008           |                  |
|-----------------------------|--------------------|--------------------|----------------|------------------|
|                             | Carrying Value     | Maximum Exposure   | Carrying Value | Maximum Exposure |
|                             | \$                 | \$                 | \$             | \$               |
| Fédération - Term deposits  | 45,669,418         | 45,669,418         | 59,608,161     | 59,608,161       |
| Debentures                  | 904,437            | 904,437            | 551,792        | 551,792          |
| Member loans                | 242,090,027        | 242,090,027        | 210,978,143    | 210,978,143      |
| Undisbursed loans           | -                  | 18,715,739         | -              | 18,182,183       |
| Unutilized lines of credit  | -                  | 44,535,644         | -              | 40,120,983       |
| Unexpired letters of credit |                    | 551,300            | -              | 1,160,000        |
|                             | <b>288,663,882</b> | <b>352,466,565</b> | 271,138,096    | 330,601,262      |

Details regarding concentration of credit risk, collateral and other credit enhancements held and loans past due but not impaired are disclosed in Note 6.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is nil.

##### Liquidity Risk

Liquidity risk is the risk that the Caisse Populaire may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost effective manner to meet its commitments as they come due.

##### *Risk Measurement*

The assessment of the Caisse Populaire's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm-specific and market conditions and the related behaviour of its clients and counterparties.

## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

#### 15. Financial Instrument Risk Exposure and Management (continued)

##### *Objectives, Policies and Processes*

The Caisse Populaire's liquidity management framework is designed to ensure that adequate sources of reliable and cost-effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the *The Credit Unions and Caisses Populaires Act* (the Act) require the Caisse Populaire to maintain a certain amount of liquid assets in order to meet member withdrawals.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Caisse Populaire's liquidity framework. The Caisse Populaire was in compliance with the liquidity requirements throughout the fiscal year.

As at December 31, 2009, the Caisse Populaire met the liquidity requirements of the Act.

The following are the contractual maturities of financial liabilities, including estimated interest payments as at:

|                               | December 31, 2009  |                  |                     |               |               |                         |
|-------------------------------|--------------------|------------------|---------------------|---------------|---------------|-------------------------|
|                               | Carrying<br>Amount | Gross<br>Nominal | Less than<br>1 Year | 2 - 3 years   | 4 - 5 years   | Greater than<br>5 years |
| <i>(Thousands of dollars)</i> | \$                 | \$               | \$                  | \$            | \$            | \$                      |
| Due to La Fédération          | 11,550             | 11,550           | 11,550              | -             | -             | -                       |
| Member deposits               | 268,057            | 279,029          | 189,239             | 51,179        | 38,611        | -                       |
| Other liabilities             | 1,539              | 1,539            | 1,539               | -             | -             | -                       |
|                               | <b>281,146</b>     | <b>292,118</b>   | <b>202,328</b>      | <b>51,179</b> | <b>38,611</b> | -                       |

|                               | December 31, 2008  |                  |                     |               |               |                         |
|-------------------------------|--------------------|------------------|---------------------|---------------|---------------|-------------------------|
|                               | Carrying<br>Amount | Gross<br>Nominal | Less than<br>1 Year | 2 - 3 years   | 4 - 5 years   | Greater than<br>5 years |
| <i>(Thousands of dollars)</i> | \$                 | \$               | \$                  | \$            | \$            | \$                      |
| Due to La Fédération          | 5,502              | 5,502            | 5,502               | -             | -             | -                       |
| Member deposits               | 258,003            | 270,919          | 174,660             | 53,714        | 42,546        | -                       |
| Other liabilities             | 1,260              | 1,260            | 1,260               | -             | -             | -                       |
|                               | <b>264,765</b>     | <b>277,681</b>   | <b>181,422</b>      | <b>53,714</b> | <b>42,546</b> | -                       |

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

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#### **15. Financial Instrument Risk Exposure and Management** (continued)

##### Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices, and credit spreads. The Caisse Populaire is exposed to market risk in its asset/liability management activities. The level of market risk to which the Caisse Populaire is exposed varies depending on market conditions and expectations of future price and yield movements.

##### Interest Rate Risk

Traditional banking activities, such as deposit taking and lending, expose the Caisse Populaire to market risk, of which interest rate risk is the largest component. The Caisse Populaire's goal is to manage the interest rate risk of the balance sheet to a target level. The Caisse Populaire continually monitors the effectiveness of its interest rate mitigation activities.

##### *Risk Measurement*

The Caisse Populaire's position is measured monthly. Measurement of risk is based on rates charged to clients 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 interest earned on members 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 to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Caisse Populaire management. The matching is managed by the Fédération des caisses populaires du Manitoba in accordance to its matching policy.

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 December 31, 2009, the notional principal amount of swaps totalled \$25,600,000. 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 \$543,649 at December 31, 2009. This cost would be incurred only in the event of failure by the counter party, restricted to major chartered banks, to honour its contractual obligations; it is the management's responsibility to assess whether an event of failure is remote and the associated credit risk is minimal.

## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

#### 15. Financial Instrument Risk Exposure and Management (continued)

The following schedule shows the Caisse Populaire's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within twelve months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

| December 31, 2009             |                |                 |                |                      |                            |
|-------------------------------|----------------|-----------------|----------------|----------------------|----------------------------|
| Maturity Dates                | Assets         | Assets<br>Swaps | Liabilities    | Liabilities<br>Swaps | Asset/<br>Liability<br>Gap |
| <i>(Thousands of dollars)</i> | \$             | \$              | \$             | \$                   | \$                         |
| 0-12 Months                   | 174,204        | 15,700          | 151,813        | 25,600               | 12,491                     |
| 1-5 Years                     | 118,029        | 9,900           | 80,958         | -                    | 46,971                     |
| Interest sensitive            | 292,233        | 25,600          | 232,771        | 25,600               | 59,462                     |
| Non-interest sensitive        | 8,984          | -               | 68,446         | -                    | (59,462)                   |
| <b>Total</b>                  | <b>301,217</b> | <b>25,600</b>   | <b>301,217</b> | <b>25,600</b>        | <b>-</b>                   |

The notional amount of swaps reflected in the above schedule is added to the balance sheet as fixed rate assets of \$25,600,000 and variable rate liabilities of \$25,600,000.

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of the Caisse Populaire is to intermediate between the expectations of borrowers and depositors.

#### Foreign Exchange Risk

Another risk component of traditional banking activities is foreign exchange risk. The Caisse Populaire's goal is to manage the foreign exchange risk of the balance sheet to a target level. The Caisse Populaire continually monitors the effectiveness of its foreign exchange mitigation activities.

#### *Risk Measurement*

The Caisse Populaire's position is measured monthly. Measurement of risk is based on rates charged to members as well as currency purchase costs.

## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

#### 15. Financial Instrument Risk Exposure and Management (continued)

##### *Objectives, Policies and Procedures*

The Caisse Populaire's exposure to changes in currency exchange rates shall be controlled by limiting the unheeded foreign currency exposure.

For the year ended December 31, 2009, the Caisse Populaire's exposure to foreign exchange risk was not material.

#### 16. Fair Values of Financial Assets and Liabilities

The following represents the fair values of on and off balance sheet financial instruments of the Caisse Populaire. The fair values disclosed exclude the value of assets and liabilities that are not considered financial instruments. In addition, the value of intangibles such as long-term member relationships is not included in the fair value amounts. The Caisse Populaire considers the value of intangibles to be significant.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of the Caisse Populaire's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

Due to the judgemental used in applying a wide range of acceptable valuation techniques in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

|                                  | 2009           |                |                                    | 2008           |                |                                    |
|----------------------------------|----------------|----------------|------------------------------------|----------------|----------------|------------------------------------|
|                                  | Book Value     | Fair Value     | Fair Value Over (Under) Book Value | Book Value     | Fair Value     | Fair Value Over (Under) Book Value |
| <i>(Thousands of dollars)</i>    | \$             | \$             | \$                                 | \$             | \$             | \$                                 |
| <b>Assets</b>                    |                |                |                                    |                |                |                                    |
| Funds on deposit                 | 3,409          | 4,467          | 1,058                              | 24,836         | 24,836         | -                                  |
| Investments                      | 52,008         | 53,279         | 1,271                              | 43,596         | 44,242         | 646                                |
| Loans to members                 | 242,090        | 246,612        | 4,522                              | 210,978        | 214,037        | 3,059                              |
| Other assets                     | 3              | 3              | -                                  | 6              | 6              | -                                  |
| Derivative financial instruments | 544            | 544            | -                                  | 1,505          | 1,505          | -                                  |
|                                  | <b>298,054</b> | <b>304,905</b> | <b>6,851</b>                       | <b>280,921</b> | <b>284,626</b> | <b>3,705</b>                       |
| <b>Liabilities</b>               |                |                |                                    |                |                |                                    |
| Due to La Fédération             | 11,550         | 11,550         | -                                  | 5,502          | 5,502          | -                                  |
| Member deposits                  | 268,057        | 272,566        | 4,509                              | 258,003        | 260,756        | 2,753                              |
| Other liabilities                | 1,815          | 1,815          | -                                  | 1,260          | 1,260          | -                                  |
|                                  | <b>281,422</b> | <b>285,931</b> | <b>4,509</b>                       | <b>264,765</b> | <b>267,518</b> | <b>2,753</b>                       |

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## CAISSE POPULAIRE LA PRAIRIE LTÉE

### Notes to Financial Statements

**For the year ended December 31, 2009**

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#### **16. Fair Values of Financial Assets and Liabilities (continued)**

Interest rate sensitivity is the main cause of changes in the fair value of Caisse Populaire's financial instruments. The book values are generally not adjusted to reflect the fair value, as it is the Caisse Populaire's intention to realize their value over time by holding them to maturity.

The Caisse populaire has categorized its assets and liabilities that are carried at fair value on a recurring basis, into a three level fair value hierarchy. The assets and liabilities are categorized in the hierarchy based on the priority of the inputs used to measure fair value. The three level fair value hierarchy is composed of the following categories:

- Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.
- Level 2: Fair value is based on inputs other than quoted prices included in Level 1. Fair value of the quoted prices is based on inputs that are directly observable or inputs derived from information that is observable in an active market.
- Level 3: Fair value is based on inputs for the asset or liability that are not based on observable market data.

The Caisse populaire considers all financial assets and liabilities to be in the level 2 fair value measurement category.

During the period there were no transfers between levels in the fair value hierarchy.

#### **17. Comparative Amounts**

Certain comparative amounts have been restated to conform to the current year's presentation.



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## COMMUNITY INVOLVEMENT

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Like the Co-operative Movement we belong to, your Caisse wants to be more than just a financial institution. The Caisse believes that the economic, cultural and social health of a society is the foundation for building a community where people can be happy and fulfilled.

Since our members come from our communities and our revenues come from our members, the Caisse believes it is important to get involved in community activities. The Caisse's contribution includes donations in cash, services and staff time.

Below is a list of a few of the associations and community groups that benefited from the Caisse's generosity through donations and sponsorships in 2009.

- Community festivals
- Cultural committees
- Festival du Voyageur
- Various bursaries
- Ag, Farm, Soil & Crop Days
- 4-H Clubs
- Winter carnivals
- Summer festivals
- Fire and rescue departments
- Community centres
- Parishes
- Cercle Molière
- CJP and Youth Groups
- Community Safety Net
- Hospital and Health Foundations
- Hospital Activity Book
- Various Mini Franco-Fun and pre-school
- Community schools
- Community libraries
- Community museums
- Dairy Farmers of Manitoba
- Wildlife Associations
- Knights of Columbus
- Sports and recreational centres
- Sports and curling clubs
- Francofonds
- Community health centres
- Retirement homes and seniors' clubs
- Christmas hampers
- Community newspapers
- Junior Achievement
- Various recreational, minor, Junior and Senior hockey teams
- Various baseball, ringette and figure skating clubs

**Thanks to all our partners!**