We will be Adaptable, Responsive, Committed and Co-operative

ANNUAL REPORT 2009

Starnews
CREDIT UNION

Reach a higher goal

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Starnews CREDIT UNION

Reach a higher goal.

Report of the Board of Directors

As the Chair of the Board of Directors, I would like to welcome all members and guests to our 60th Annual General Meeting.

It is hard to believe that back in 1951 Starnews was formed by a group of employees from the Toronto Star at a time when mortgages and personal loans were difficult for the average worker to obtain.

Going forward almost 60 years, today we are a full service financial institution whose vision is ***"To be our members' first choice for financial products, services and advice."***

Our mission statement states that ***"We are committed to helping our members achieve their financial goals; encouraging and facilitating the development of our team; supporting our communities."***

Taking our vision and mission statements into consideration, I am pleased to announce on behalf of the board of directors that Starnews will be adapting a new set of Values which ensures that Starnews will be Adaptable, Responsive, Committed, and Co-operative. You can read the full list of values found in the Annual Report.

Summary of 2009

This past year we faced many economic challenges, but that did not stop us from achieving various goals to ensure the continued growth of your credit union. Below is a highlight of the major programs implemented during the past year.

Investment Shares: As you are all aware, last year we announced a special offer of Investment Shares, which are a great way of saving in a secure, low-risk investment while increasing your stake in Starnews, and in just a few months our members invested a little over $1.8 million! Your investment has helped us increase our Capital Ratio to 10%, allowing us to implement plans that will see your credit union grow and offer additional products and services in the future.

Syndicate Commercial Program: In addition to assisting members with personal loans and mortgages, Starnews has implemented a Syndicate Commercial Program. This program, in partnership with other Ontario credit unions, allows us to invest in various commercial mortgages to help us increase our assets and revenues, while helping to fund various projects in the Province of Ontario. I am pleased to announce that in less than one year we have funded just over $1.1 million in commercial mortgages.

Mobile Financial Services: In 2009 we introduced our newest branch with legs, and a car – our new Mobile Financial Services Officer who is equipped with a laptop and cell phone, and is meeting and serving our members on-the-spot in their office, their home, or their local coffee shop. For 2010 we are looking at exploring ways to increase the mobile financial services we provide for our members to help us reach you at Vaughan and various Metroland locations.

Member Rebates and Investment Share Dividends

As with every year, Starnews shares a portion its profits with members through our Member Rebate Program. This year, we will also be sharing our profits with members that purchased Investment Shares.

I am pleased to announce that, although we are reporting a Net Loss for 2009, the board of directors has approved that we share a total of close to $34,000 with our members. This translates to a 1% Member Rebate on any interest paid on loans and mortgages, and a 3.55% Dividend on all Class A Investment Shares held from October 1, 2009 through December 31, 2009.

The rebates and dividends will be made to each eligible account no later than April 1, 2010.

Conclusion

In summary, 2009 had its challenges but we persevered and are glad to report that Starnews Credit Union continues to be a healthy and viable financial institution for the future. I would like to thank the management, staff, and board of directors for their tireless efforts. And finally, thank you to our members for all your continued support.

Respectfully presented this 25th day of March, 2010.

Colleen Gray
Chair, Board of Directors

Report of the Chief Executive Officer

I would like take this opportunity to briefly list some financial results from 2009, as well as list a few items that you can look forward to in 2010.

2009 Financial Results

When compared to 2008 the following financial results were in achieved in 2009:

- Cash Resources increased to over $4 million
- Loans to members decreased to $35 million
- Member deposits decreased to $40 million
- Member shares, including investment shares, increased to almost $1.9 million
- Total assets increased to over $44.5 million
- Net interest income (before Class A share dividend) increased to $996,491
- Net interest and other income was steady at a little over $1.1 million
- Retained earnings decreased to $2.5 million
- Regulatory capital on a leverage test ratio grew to 10.0%, while our risk-weighted capital test ratio grew to 30.0%

Service Highlights

Staying true to our values to be Adaptable, Responsive, Committed and Co-operative, during the past year we made various changes including updates to our Telephone System, Online Banking, Internal Networking and Servers. All changes have allowed us to improve the service provided to our members whether it is in branch or virtually through the phone or internet.

Looking Forward

During 2010 the board and management will continue to look for ways to grow our assets with strategic partnerships and by meeting our top strategic issues of continuing to invest in marketing, increasing the wallet share of our existing members, and ensuring that we meet all regulatory requirements.

Special Thanks

I would like to thank the staff, management team and board for their dedication.
Respectfully presented this 25th day of March, 2010.

George De La Rosa,
Chief Executive Officer .

Credit Committee Report

The Credit Committee continued to serve the members of Starnews Credit Union and is pleased to share the following information with its members.

For the fiscal year of 2009, a total of 237 credit applications were approved with a value of $8,665,986.26. The following chart details the specific loan class and compares them to last year:

2009	2008
135 Personal Loans for $1,580,894.59	163 Personal Loans for $1,900,092.00
15 Mortgages for $2,954,882.50	11 Mortgages for $2,346,358.00
19 Meritlines (Equity Lines of Credit) for $2,689,000.00	13 Meritlines (Equity Lines of Credit) for $2,147,000.00
21 Personal Lines of Credit for $197,000.00	26 Personal Lines of Credit for $259,700.00
43 Overdrafts for $22,000.00	21 Overdrafts for $10,500.00
1 Bridge Financing for $105,450.00	0 Bridge Financing for $0
3 Syndicated Mortgages for $1,116,759.17	Not applicable
0 commercial loans	Not applicable
Total Applications: 237	Total Applications: 234
Total Value: $8,665,986.26	Total Value: $6,663,650.00

In 2009, a total of 52 applications were declined (compared to 42 applications in 2008) for reasons ranging from credit history to lack of ability to pay.

As at December 31, 2009 there were seven (7) Loans in arrears for 90 days or more for a total of $22,877.84 (compared twelve (12) Loans in arrears for a total of $520,336.00 in 2008). The reasons for not paying debt ranged from bankruptcy to lack of income due to unemployment.

The Credit Committee continues its role of approving all director and officer loans. The committee met once every quarter meets at least quarterly to review the credit union's lending decisions to ensure that members' deposits were being utilized to create income at an acceptable risk. The committee also provided management with valuable suggestions to apply to the every day business of the credit union.

Respectfully presented this 25th day of March, 2010.

Credit Committee

Michael Mozewsky, Vice Chair
Andrew Maund
Susan Gouvianakis

Report of the Audit Committee

Pursuant to section 125 of the Credit Unions and Caisses Populaires Act, 1994, the board of directors appointed four directors to the audit committee, a sub-committee of the board.

The Audit Committee met on a quarterly basis to carry out their duties as defined in the Act and as stipulated in the credit union's policies and procedures. The following were the duties performed by the Audit Committee during 2009:

Reviewed complaints and issues concerning privacy and ensured compliance with the Personal Information Protection and Electronic Documents (PIPED) Act initiated in 2001. We can report that Starnews is in compliance with the legislation as of December 31, 2005.

Reviewed results of the external audit services provided by Retford Lane Bates LLP.

Reviewed the Starnews Disaster Recovery Plan that will ensure protection of the assets of Starnews and its members, in the event that unforeseen circumstances prevent normal operating conditions.

Reviewed risk management policies and procedures of Starnews. This review pointed no major areas of weakness that require correction.

Reviewed the policies, procedures and controls used by management to which relate to legislative compliance with particular focus on Capital, Liquidity Management, Investment and Interest Rate Risk.

Reviewed regular reports provided by management to ensure that Starnews complies with the Proceeds of Crime (Money Laundering) and Terrorist Financing Act.

On February 16, 2010 the Audit Committee met with the external auditors to review, discuss and approve the draft financial statements for the year ended December 31, 2009. A report was presented at the next regular meeting of the Board of Directors.

Respectfully submitted this 25th day of March 2010.

Audit Committee,

Paul Miller, Chair
Colleen Gray
Carlos Ferreira
Glenn Pollinger

STARNEWS CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2009

STARNEWS CREDIT UNION LIMITED

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DECEMBER 31, 2009

Retford Lane Bates LLP
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Members of
Starnews Credit Union Limited:

We have audited the balance sheet of Starnews Credit Union Limited as at December 31, 2009 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 Credit Union as at December 31, 2009 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Retford Lane Bates LLP

Retford Lane Bates LLP
Licensed Public Accountants

February 10, 2010

6620 Davand Drive, Mississauga, Ontario L5T 2M3

STARNEWS CREDIT UNION LIMITED

BALANCE SHEET

AS AT DECEMBER 31, 2009

		2009		2008
ASSETS				
Cash resources	**$**	**4,057,644**	$	1,183,690
Investments (Note 3)		**4,825,148**		5,228,170
Loans to members (Note 4 and 5)		**35,055,840**		36,744,056
Other assets (Note 6)		**479,331**		680,130
Capital assets (Note 7)		**132,994**		156,597
	$	**44,550,957**	$	43,992,643
LIABILITIES AND RETAINED EARNINGS				
Liabilities				
Term loans	**$**	**-**	$	500,275
Members' deposits (Note 8)		**40,015,987**		40,491,629
Other liabilities (Note 9)		**136,065**		226,807
Member shares (Note 10)		**1,892,840**		75,575
		42,044,892		41,294,286
Retained earnings		**2,506,065**		2,698,357
	$	**44,550,957**	$	43,992,643

Commitments (Note 4 and 15)

Approved by the Board

_________________________________ Director

_________________________________ Director

STARNEWS CREDIT UNION LIMITED

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
Interest income (Note 12)		
Member loans	**$ 1,875,684**	$ 2,069,382
Investment income	**108,960**	191,496
	1,984,644	2,260,878
Interest expense		
Member deposits (Note 13)	**967,109**	1,275,503
Bonus interest and rebates	**17,564**	34,700
Class A investment shares	**16,286**	-
External borrowings	**3,480**	9,172
	1,004,439	1,319,375
Net interest income	**980,205**	941,503
Provision for impaired loans (Note 5)	**52,725**	42,132
Net interest income after loan losses	**927,480**	899,371
Other income	**217,169**	273,460
Net interest and other income	**1,144,649**	1,172,831
Operating expenses		
Administration expenses *(Schedule)*	**646,357**	600,661
Remuneration to staff *(Schedule)*	**606,431**	639,948
	1,252,788	1,240,609
Loss before fair value changes	**(108,139)**	(67,778)
Fair value changes		
(Loss) gain on interest rate swaps	**(141,201)**	574,153
Gain (loss) on ABCP 2008 Limited Partnership units (Note 3)	**30,969**	(63,371)
Write-down of CUCO shares (Note 3)	**-**	(19,224)
(Loss) gain on other investments	**(11,893)**	11,293
	(122,125)	502,851
(Loss) income before income taxes	**(230,264)**	435,073
Income taxes (recovered)		
Current	**(37,972)**	72,736
Future income taxes	**-**	1,600
	(37,972)	74,336
Net (loss) income for the year	**(192,292)**	360,737
Retained earnings, beginning of the year	**2,698,357**	2,337,620
Retained earnings, end of the year	**$ 2,506,065**	$ 2,698,357

STARNEWS CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
Cash flows from operating activities		
Net (loss) income for the year	$ **(192,292)**	$ 360,737
Adjustments for:		
Amortization	**55,097**	54,997
Provision for impaired loans	**52,725**	42,132
Unrealized loss (gain) on interest rate swaps	**141,201**	(574,153)
Unrealized loss (gain) on other investments	**11,893**	(11,293)
(Gain) loss on ABCP 2008 Limited Partnership units	**(30,969)**	63,371
Write-down of CUCO shares	**-**	19,224
Future income taxes	**-**	1,600
	37,655	(43,385)
Changes in non-cash working capital balances:		
Other current assets	**200,799**	(279,358)
Other liabilities	**(90,743)**	(318,653)
	147,711	(641,396)
Cash flows from investing activities		
Purchase of capital assets	**(31,494)**	(6,520)
Loans to members - net	**1,635,491**	365,806
Investments	**280,897**	230,030
	1,884,894	589,316
Cash flows from financing activities		
(Decrease) increase in bank loan	**(500,275)**	500,275
Members' deposits	**(475,641)**	338,020
Member shares	**(2,775)**	(425)
Issuance of Class A Investment shares	**1,820,040**	-
	841,349	837,870
Increase in cash resources	**2,873,954**	785,790
Cash resources, beginning of the year	**1,183,690**	397,900
Cash resources, end of the year	$ **4,057,644**	$ 1,183,690
INTEREST AND INCOME TAXES PAID:		
Interest paid	$ **1,192,179**	$ 1,412,723
Income taxes paid (net of refunds)	$ **129,487**	$ 8,232

Nature of business

Starnews Credit Union Limited (the "Credit Union") is a financial institution incorporated in Ontario under the Credit Unions and Caisses Populaires Act, and operates in accordance with this statute and the accompanying regulations. The Credit Union is a member of the Deposit Insurance Corporation of Ontario ("DICO") and Central 1 Credit Union ("Central 1"). The Credit Union provides financial products and services to members throughout Ontario.

1. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with the preceding year. Outlined below are the accounting policies considered to be significant.

The Credit Unions and Caisses Populaires Act, 1994 (the "Act")

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, estimates and interpretations have been made in presenting this information.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the year. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

Investments

Investments designated as held for trading are carried at fair value based primarily on published market prices. Gains and losses are included in investment income for the period in which they arise.

Investments classified as available for sale are carried at fair value where such a value can be reliably measured, otherwise they are carried at cost. Unrealized gains and losses are recognized directly in other comprehensive income. In the period in which the asset is sold, or otherwise derecognized, the cumulative gain or loss, previously recorded in accumulated other comprehensive income, is recognized in net income.

Capital assets

Capital assets are stated at acquisition cost. Amortization is calculated using the methods set out below applied to the cost of the assets, at annual rates based on their estimated useful lives as follows:

Asset	Rate	Method
Office equipment	20%	diminishing balance
Computer equipment	30%	diminishing balance
ATM equipment	5 years	straight-line
Leasehold improvements	10 years	straight-line

1. Significant accounting policies *(continued)*

Loans to members

Loans to members are stated at cost which includes amounts advanced and applicable charges, less repayments. Interest is accounted for on the accrual basis for all loans other than impaired loans.

A loan is classified as impaired when a specific provision has been established or a write-off taken or when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of principal or interest. A loan is also classified as impaired when interest or principal is contractually 90 days past due, unless the loan is fully secured and in the process of collection. Fully secured loans are classified as impaired after a delinquency period of 180 days.

Once a loan is classified as impaired, all previously accrued interest is reversed and charged against current income unless the amount is fully secured. Loans are generally returned to accrual status when all delinquent principal and interest payments are brought current and the timely collection of both principal and interest is reasonably assured.

Allowance for impaired loans

The allowance for impaired loans is maintained in an amount considered adequate to absorb estimated credit related losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgements about current economic conditions. If circumstances change, there could be a significant change to the allowance for impaired loans.

The allowance is increased by provisions for impaired loans which are charged to earnings and reduced by write-offs net of recoveries. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

Derivative financial instruments

The Credit Union enters into derivative contracts to manage exposure to market or interest rate risk. The Credit Union does not enter into derivative financial instruments for trading or speculative purposes.

Hedge accounting has not been used to account for the derivative contracts. As a result, the derivatives are carried at fair value and changes in value are recorded in current period income.

Equity index-linked contracts are used to reduce the exposure to market fluctuations in the returns associated with the index-linked term deposits issued to members. The deposits are recorded at a discount with interest expense accruing at their effective yield as of the date of issue.

The Credit Union enters into interest rate swap agreements to manage the exposure to changes in interest rates created by having variable rate assets. Interest due or receivable under these agreements are recorded in interest revenue.

1. Significant accounting policies *(continued)*

Members' deposits

Members' deposits are recorded at amortized cost. Interest expense is recorded using the effective interest rate method over the terms of the deposits.

Member shares

As the Credit Union's shares are retractable at the discretion of the holder, they are presented in the balance sheet as financial liabilities. Notwithstanding their financial statement classification, these liabilities qualify as capital for regulatory purposes. Dividends or other payments related to member shareholdings are reported in the statement of operations and retained earnings as a financial expense.

Income taxes

The liability method of tax allocation is used in accounting for income taxes. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to be reversed. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Translation of foreign currencies

The monetary assets and liabilities of the Credit Union denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Revenues and expenses are translated at the actual rates in effect at the transaction date. Exchange gains or losses are included in earnings.

2. Future changes in accounting policy

In January 2010, the Canadian Accounting Standards Board introduced International Financial Reporting Standards (IFRS) into Part 1 of the Canadian Institute of Chartered Accountants Handbook to replace Canadian GAAP for publicly accountable enterprises for interim and annual periods beginning on or after January 1, 2011, including the restatement of the comparative period financial statements on the same basis. As a credit union, we are included in the definition of a publicly accountable enterprise and, as such, we will be required to prepare the December 31, 2011 financial statements, including comparative information for 2010, in compliance with IFRS.

The Credit Union's project plan includes three phases: (1) scope and plan, (2) design and build, and (3) implement and review. The scope and plan phase is underway and the standards that are expected to have a significant impact on the Credit Union's recognition, measurement, presentation and disclosure of its financial statements are being identified.

We are in the process of assessing the differences between our current accounting policies and those provided by IFRS, as well as the elections and policy choices available on adoption. Our assessment will include the potential impact of the conversion effort on our systems, internal controls over financial reporting, disclosure controls and business activities.

2. Future changes in accounting policy *(continued)*

Significant changes to IFRS accounting standards are expected to be issued by the International Accounting Standards Board throughout 2010 and 2011. As a result, there is uncertainty regarding the expected accounting standards that will ultimately be in place in 2011 and, therefore, applicable to our first IFRS financial statements, including comparatives and opening IFRS balance sheet. Our IFRS project plan includes activities to ensure we monitor these changes. At this point in the project, we are not able to reasonably estimate the quantitative impact of transitioning to IFRS on our financial statements.

3. Investments

	2009	2008
Held for Trading		
Central 1		
Liquidity reserve deposit	**$ 3,181,972**	$ 3,146,974
Term deposits	**1,111,753**	-
Currency held in third-party ABMs	**-**	1,504,473
Corporate shares	**852**	852
ABCP 2008 Limited Partnership	**201,632**	218,159
	4,496,209	4,870,458
Available for Sale		
Credit Union Central of Ontario shares	**57,858**	357,711
Central 1 Class A shares	**109,281**	1
Central 1 Class E shares	**161,800**	-
	328,939	357,712
	$ 4,825,148	$ 5,228,170

Central 1 Credit Union liquidity reserve deposit

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 7% of the Credit Union's total assets, updated at each calendar quarter end. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by the Credit Union on ninety days notice.

Central 1 Credit Union shares

Effective July 1, 2008, Credit Union Central of Ontario (CUCO) merged with Credit Union Central of British Columbia to form a new entity, Central 1. Central 1 assumes the responsibility of being the credit union central in both provinces.

As a condition of maintaining membership in Central 1, the Credit Union is required to maintain a minimum level of investment in shares of Central 1. The minimum level of investment is determined annually based on the Credit Union's total assets at year end. The merger was affected through the acquisition of CUCO's net assets and the Credit Union has received the Class A and Class E shares in Central 1.

3. Investments *(continued)*

During the prior year, the value of the remaining CUCO shares were determined to be impaired and were written down based on guidance provided by CUCO.

No market exists for the shares of CUCO or Central 1. The shares may be surrendered upon withdrawal from membership. The proceeds and terms of payment are to be negotiated at the time.

ABCP 2008 Limited Partnership

As a pre-condition of the merger to form Central 1, CUCO was required to divest itself of investments in certain third-party asset-backed commercial paper (ABCP). The resolution approved the creation of a limited partnership, ABCP 2008 Limited Partnership ("ABCP LP"), to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. The Credit Union owns ABCP LP units equal to 0.2278% of the partnership. The ABCP LP is governed by a board of directors that was elected by the unit holders.

Approximately 80% of the ABCP held in the partnership is subject to a court-sanctioned restructuring process known as the “Montreal Accord”. The remaining investment is in Apex Trust which has been restructured by the sponsor. Both restructurings involved replacing the original short-term ABCP with various classes of long-term notes. The notes bear a variety of interest rates between 0% and 5% with most floating with a premium or discount to the Bankers’ Acceptance rate.

As at December 31, 2009, the ABCP LP determined or estimated the principal characteristics of its notes, including the interest rate, maturity date and credit rating. It then estimated the yield that a potential investor would require to purchase each class of notes. The ABCP LP used this information to calculate a fair value for each class of notes. Based upon a sensitivity analysis of the assumptions used, the expected yield required by a potential investor remains the most significant assumption included in the fair value estimate.

Although there has been some trading activity in the notes held by ABCP LP, it is felt that an active market on which a fair value could be based has not been established for the following reasons: there are only a small number of brokers and buyers; transactions are not regularly occurring; there is a very wide difference between bid and ask values and final prices are negotiated; and relative to a discounted cash flow value, sales are occurring on a distressed basis.

The Credit Union carries its investment in the ABCP LP at its share of the fair value of the partnership as estimated by the general partner. There can be no assurance that this estimate will be realized. Subsequent adjustments, which could be material, may be required in the future.

4. Loans to members

		2009		2008
Mortgages	**$**	**30,594,725**	$	32,958,338
Personal		**3,081,444**		3,496,638
Commercial		**290,095**		298,485
Syndicated commercial mortgages		**1,109,130**		-
Accrued interest		**45,844**		69,583
		35,121,238		36,823,044
Less allowance for impaired loans (Note 5)		**65,398**		78,988
	$	**35,055,840**	$	36,744,056

The loan classifications set out above are as defined in the regulations to the Act. The Credit Union has established loan concentration policies to ensure a prudent diversification of the types of loans in its portfolio. The policy dictates that total personal loans may not exceed 70% of assets, residential mortgages may not exceed 90% of assets, commercial mortgages may not exceed 20% of assets, and syndicated commercial mortgages may not exceed 15% of assets. Additionally, the Credit Union has a maximum limit on the value by type of loan to individuals and connected parties.

Residential mortgage loans are repayable in weekly, semi-monthly or monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of thirty-five years.

Personal loans are repayable in weekly, semi-monthly or monthly blended principal and interest instalments over a maximum term of five years.

Commercial mortgage loans are repayable in weekly, semi-monthly or monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of twenty-five years.

Unsecured lines of credit are repayable in monthly blended principal and interest instalments equal to a minimum of 3% of the principal outstanding. Mortgage secured lines of credit bear minimum payments of monthly interest. These loans have no fixed maturity dates since they are a revolving line of credit.

As at December 31, 2009, the Credit Union was committed to the issuance of mortgage loans to members in the aggregate amount of $275,000 (2008 - $nil).

As at December 31, 2009, the approved and unused line of credit limits amount to $6,192,874 (2008 - $5,592,792).

5. Allowance for impaired loans

		2009		2008
Balance at beginning of year	**$**	**78,988**	$	69,180
Loans written off		**(71,007)**		(35,519)
Loans recovered		**4,692**		3,195
		12,673		36,856
Provision charged to operations		**52,725**		42,132
Balance at end of year	**$**	**65,398**	$	78,988

The allowance for impaired loans provided for in the accounts of the Credit Union is in accordance, in all material respects, with the by-law of the Deposit Insurance Corporation of Ontario governing such allowances. At year end the allowance relates to the following:

	Allowance for impaired loans balance				Aggregate impaired loans			
		2009		2008		**2009**		2008
Mortgages	**$**	**-**	$	23,709	**$**	**-**	$	480,962
Personal		**65,398**		55,279		**50,623**		39,374
	$	**65,398**	$	78,988	**$**	**50,623**	$	520,336

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of the loans that are past due, but not considered impaired.

		2009		2008
Mortgages	**$**	**221,500**	$	24,508
Personal		**36,118**		64,590
Total	**$**	**257,618**	$	89,098

6. Other assets

		2009		2008
Prepaid expenses	**$**	**108,577**	$	109,005
Income taxes recoverable		**119,532**		-
Index-linked contracts		**61,671**		77,794
Interest rate swaps		**177,951**		481,731
Future income taxes		**11,600**		11,600
	$	**479,331**	$	680,130

7. Capital assets

	Cost	Accumulated Amortization	**2009 Net Book Value**	2008 Net Book Value
Office equipment	$ 161,734	$ 123,887	**$ 37,847**	$ 28,895
Computer equipment	240,939	212,497	**28,442**	19,831
ATM equipment	77,889	36,591	**41,298**	57,936
Leasehold improvements	245,513	220,106	**25,407**	49,935
	$ 726,075	$ 593,081	**$ 132,994**	$ 156,597

Amortization expense for the year amounted to $55,097 (2008 - $54,997).

8. Members' deposits

	2009	2008
Chequing accounts	**$ 6,242,845**	$ 5,181,688
Plan 24 deposits	**7,981,069**	5,741,343
Term deposits	**6,983,380**	10,047,855
Registered retirement savings plans	**15,887,357**	16,693,230
Registered retirement income funds	**1,870,251**	1,779,643
Other registered deposits	**659,982**	488,122
Accrued interest	**391,103**	559,748
	$ 40,015,987	$ 40,491,629

Registered plans

Concentra Trust is the trustee of the registered plans offered to the members. Under an agreement with the trust company, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members or their designates, by the Credit Union on behalf of the trust company.

Index-linked deposits

The Credit Union has issued and outstanding $1,141,197 (2008 - $1,397,143) of index-linked registered savings plan and term deposit products to its members. These deposits have maturities of 3 and 5 years and pay interest to the depositors, at the end of the respective terms, based on the positive performance of the S&P / TSX 60 Index.

In order to hedge the exposure to changes in the index, the Credit Union has entered into agreements with Central 1 under which the Credit Union will receive amounts comparable to those due to members on their deposits at maturity. These derivative contracts are carried at their fair value in other assets.

The deposit is recorded at a discount to reflect the fair value of the index-linked derivative contract with the member. The discount amortizes the interest expense over the life of the deposit at the initial effective yield. The derivative contract with the member is carried in other liabilities at its fair value.

9. Other liabilities

		2009		2008
Accounts payable and accrued charges	**$**	**42,503**	$	66,386
Accrued dividend on investment shares		**16,286**		-
Bonus interest and rebates payable		**15,605**		34,700
Income taxes payable		**-**		47,927
Index-linked contracts		**61,671**		77,794
	$	**136,065**	$	226,807

Distribution to members

At year end, an interest rebate to members was accrued of $15,605 (2008 - $34,700), comprised of an interest bonus and an interest rebate. The interest rebate is based on 1.0% (2008 - 2.0%) of member mortgage and personal loan interest received during 2009.

10. Member shares

		2009		2008
Membership shares	**$**	**72,800**	$	75,575
Class A Investment shares		**1,820,040**		-
	$	**1,892,840**	$	75,575

Authorized share capital

The authorized share capital of the Credit Union consists of the following:

i) An unlimited number of membership shares non-cumulative, voting, participating.

ii) An unlimited number of Class A non-cumulative, non-voting, non-participating special shares, issuable in series;

iii) An unlimited number of Class B shares, issuable in series.

Membership shares rank junior to Class A and B shares for priority in the declaration and payment of dividends and in the event of liquidation, dissolution or winding-up of the Credit Union. In addition, Class B shares rank junior to Class A shares.

Issued and outstanding

a) Class A Shares, Series 1

Effective October 2009, the Credit Union issued Class A Shares, Series 1 at a value of $1 per share. The Class A shares are not redeemable at the option of the shareholder for five years after their issue, except in cases of death, expulsion from membership, or collapsing an RRSP into a RRIF. Shares may be redeemed for their issue amount, subject to the approval of the Credit Union and total redemptions cannot exceed 10% of the Class A Investment Shares outstanding at the end of the previous fiscal year. The Credit Union, at its option, may acquire all or any portion of the Class A shares outstanding at the original investment amount for cancellation after a period of five years from the issue date.

10. Member shares *(continued)*

Dividends may be paid on the Class A shares at the discretion of the Credit Union and subject to the availability of earnings and the ability to meet regulatory capital requirements. At year end, dividends of 3.55% were accrued to shareholders of Class A shares on record at December 31, 2009, totalling $16,286.

b) Membership shares

The Credit Union has 2,935 (2008 - 3,040) members. Each member must hold 5 shares with a par value of $5 each. Shares may be withdrawn on demand or withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements, and the discretion of the directors who may require notice.

11. Capital adequacy

The Credit Union's capital management policy outlines the overall objectives to ensure that the Credit Union has sufficient capital needed to address the inherent risks of the Credit Union, ensure the long term viability of the Credit Union, and support its current and future operating plans.

The processes for managing capital include setting the policy for capital management, setting policies in related areas, establishing budgets and reporting regularly to the board of directors regarding financial results and capital adequacy, in relation to the statutory minimum.

In accordance with the requirements of the Act and accompanying regulations, credit unions are required to maintain sufficient capital to meet two tests:

(a) Leverage test:
Regulatory capital, primarily comprising of membership shares, any other class of qualifying capital that may be issued, retained earnings and the non-specific/general allowance for impaired loans, must amount to at least 4.0% (2008 - 4.25%) of total assets. The Credit Union has established an internal policy to maintain capital at no less than 0.5% greater than the regulatory requirement.

(b) Risk-weighted capital test:
Regulatory capital, as defined above, must amount to at least 8% of risk-weighted equivalent values. The risk weighting of assets is specified in the regulations to the Act. The Credit Union has established an internal policy to maintain risk-weighted capital at no less than 1.0% greater than the regulatory requirement.

As at December 31, 2009, the Credit Union is in compliance with the minimum statutory requirements for regulatory capital, as outlined in the following table:

11. Capital adequacy *(continued)*

Total regulatory capital is comprised of Tier 1 and Tier 2 capital as follows:

	2009	2008
Tier 1 capital		
Membership shares	**$ 72,800**	$ 75,575
Non-redeemable portion of Class A investment shares	**1,820,040**	-
Retained earnings	**2,506,065**	2,698,357
	4,398,905	2,773,932
Tier 2 capital		
Non-specific loan loss provisions	**24,250**	20,000
Future tax asset (2008 only)	**-**	(11,600)
	24,250	8,400
Total Regulatory Capital	**$ 4,423,155**	$ 2,782,332
Leverage test ratio:	**9.9%**	6.3%
Risk-weighted capital test ratio:	**29.9%**	19.2%

12. Interest income

Interest income is generated as follows:

	2009	2008
Mortgage loans	**$ 1,628,987**	$ 1,755,711
Personal loans	**212,294**	295,829
Commercial loans	**34,403**	17,842
Member loans	**1,875,684**	2,069,382
Investments classified as available for sale	**18,071**	-
Financial assets other than those held for trading	**1,893,755**	2,069,382
Investments classified as held for trading	**90,889**	191,496
	$ 1,984,644	$ 2,260,878

13. Interest expense on member deposits

Interest expense on member deposits is generated as follows:

	2009	2008
Demand	**$ 82,302**	$ 152,951
Term	**367,857**	481,758
Registered retirement savings plans	**469,744**	556,048
Registered retirement income funds	**39,585**	77,409
Other registered deposits	**7,621**	7,337
	$ 967,109	$ 1,275,503

14. Income taxes

The Credit Union's basic statutory tax rate is approximately 16.5%. Any future income taxes included in other liabilities is the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities and their values for tax purposes. The components of future income taxes are as follows:

		2009		2008
Allowance for impaired loans	**$**	**4,680**	$	4,273
Capital assets		**(7,008)**		(3,403)
Accrued interest		**13,928**		10,730
	$	**11,600**	$	11,600

15. Commitments

The Credit Union has entered into commitments under an operating lease that expires in 2020. The minimum annual rent under the lease is:

From January 1, 2010 to December 31, 2010	-	$24,890
From January 1, 2011 to December 31, 2015	-	$25,176
From January 1, 2016 to December 31, 2020	-	$25,490

The Credit Union's technology services agreement for core banking and other services expires on December 31, 2013. The Credit Union is a member of the Credit Union Services Association that negotiated a minimum monthly fee of $1.91 (2008 - $1.93) per member. The price may vary depending on total members' volumes increasing or decreasing as calculated and determined by the Credit Union Services Association Agreement. At December 31, 2009, the amount of this monthly commitment was approximately $5,665 (2008 - $5,942).

16. Restricted party transactions

As at December 31, 2009, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors, officers and their related parties totaled $2,371,202 (2008 - $2,127,764). There was no allowance for impaired loans required in respect of these loans as at December 31, 2009.

The regulations require the financial statements to disclose a general description of the nature, number and aggregate value of restricted party transactions, as defined, and the allowance for loan losses related to such transactions. Restricted party has been defined to include a person, and the person's relative, spouse, or relative of the spouse, who has been a director, officer or committee member in the preceding twelve months, and corporations in which the person owns more than 10% of the voting shares.

17. Additional disclosures required by the Act

The only amounts paid to directors during the year were to cover travel and meeting related expenses. Directors did not receive an honorarium.

Total board related expenses during the year amounted to $6,213 (2008 - $8,989).

18. Fair value of financial instruments

The estimated fair value amounts approximate the amounts at which instruments could be exchanged in a current transaction between willing partners who are under no compulsion to act. The estimated fair values of the Credit Union's financial instruments and the valuation techniques and assumptions are set out below. The valuations may vary significantly based on the judgement used in estimating the amount and timing of future cash flows. As a result, the estimated fair values are not necessarily comparable across different organizations and may not be realizable. The estimation of fair values are based on market conditions at a specific point in time and may not be reflective of future fair values.

	Book value	Estimated fair value	**2009 Difference**	2008 Difference
Assets				
Cash resources	$ 4,057,644	$ 4,057,644	**$ -**	$ -
Investments	4,825,148	4,825,148	**-**	-
Loans to members	35,055,840	35,147,272	**91,432**	148,725
Other	359,154	359,154	**-**	-
Liabilities				
Members' deposits	(40,015,987)	(40,376,604)	**(360,617)**	(190,827)
Other	(136,064)	(136,064)	**-**	-

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

(a) The fair value of cash resources are assumed to approximate their book value due to their short-term nature.

(b) The fair value of investments are based on quoted market values.

(c) The estimated fair value of variable rate loans and deposits are assumed to be equal to book value as the interest rates reprice to market on a periodic basis.

(d) The estimated fair value of fixed rate loans and deposits is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

19. Nature and extent of risks arising from financial instruments

Liquidity risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk that the Credit Union will be unable to pay obligations when they fall due, including the withdrawal of members' deposits or the funding of loans to members.

The Credit Union's liquidity management practices are governed by the Credit Union's Liquidity Risk Management Policy which defines requirements for: the type and minimum levels of assets held to manage liquidity risk; the use of liquidity projections; the monitoring of significant deposits and loan commitments; lines of credit with Central 1; and regular reporting of actual liquidity levels against policy minimums to the board of directors.

The Credit Union has available a credit facility totalling $4,800,000. This facility consists of an operating line of credit of $805,000, a term loan of $2,100,000, an extraordinary term loan of $1,845,000 and capital markets of $50,000. The credit facility is secured by a general security agreement and an assignment of book debts. At December 31, 2009, $1,361 of the capital market loan was utilized bearing interest at 2.25%.

The Liquidity Risk Management Policy requires no less than 15% of the Credit Union's total deposits and borrowing to be invested in cash, deposits, and investment grade fixed income securities which trade in an active market ("Liquid Assets"). Should Liquid Assets fall or be projected to fall below this threshold, management is required to develop and implement a plan to restore compliance within 3 months.

At December 31, 2009, Liquid Assets amount to 21.0% (2008 - 14.4%) of deposits and borrowings and consist of the following:

		2009		2008
Cash and current account balances	**$**	**4,157,131**	$	2,687,698
Liquidity reserve deposits with Central 1		**3,169,315**		3,111,464
Other deposits with Central 1 maturing in less than 100 days		**1,006,258**		-
Other deposits		**514**		466
	$	**8,333,218**	$	5,799,628

Credit risk

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet his or her financial obligations.

19. Nature and extent of risks arising from financial instruments *(continued)*

The Credit Union's credit management policy sets out the processes for managing credit risk, including the following:

- Exposure limits to individuals and connected parties;
- Exposure limits by loan type;
- Nature and scope credit analysis;
- Security requirements;
- Risk-based pricing;
- Loan approval authorities and limits;
- Industry concentration limits for commercial loans;
- Regular reporting to the board of directors on loan activities as required under policy and the Act; and
- Procedures to be followed for loans that are in arrears.

The Credit Union's exposure to the risk of loss on impaired or potentially impaired loans is set out in Note 5.

Structural risk

The business of the Credit Union necessitates the management of structural risk. Structural risk refers to potential exposures from changes in interest rates and other factors which may have a negative impact on margins.

The Credit Union's Structural Risk Management Policy sets out requirements for managing structural risk, including repricing risk, yield curve risk, basis risk and optionality risk. More specifically, the policy requires the use of income simulation and duration models to measure the impact of interest rate changes on the Credit Union's projected earnings and capital against policy limits of 15 basis points of assets. These measures incorporate interest rate shock scenarios which are based upon reasonable expectations of interest rate movements. At December 31, 2009, management estimates that the Credit Union is exposed to a decline in interest rates in the amount of 1 basis point of total assets.

The table below summarizes amounts by maturity dates and effective interest rates for the following on-balance sheet financial instruments:

	Variable Rate	Less than one year	One to five years	Non-rate Sensitive	Total	Effective Interest Rate
Cash resources	$ 3,799,060	$ -	$ -	$ 258,584	$ 4,057,644	1.00%
Investments	-	4,293,724	-	531,424	4,825,148	0.71%
Loans to members	13,745,140	1,684,500	19,626,200	-	35,055,840	4.63%
Interest rate swaps receiving	-	1,000,000	3,500,000	-	4,500,000	3.88%
Total	17,544,200	6,978,224	23,126,200	790,008	48,438,632	
Members' deposits	19,203,087	12,975,400	7,837,500	-	40,015,987	1.66%
Member shares	1,820,040	-	-	72,800	1,892,840	3.41%
Interest rate swaps paying	4,500,000	-	-	-	4,500,000	0.40%
Total	25,523,127	12,975,400	7,837,500	72,800	46,408,827	
Matching gap	$ (7,978,927)	$ (5,997,176)	$ 15,288,700	$ 717,208	$ 2,029,805	

19. Nature and extent of risks arising from financial instruments *(continued)*

Foreign currency exchange risk

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings when balances of its foreign currency liabilities are not matched with the balances of its foreign currency assets.

It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency assets to its foreign currency liabilities (i.e. members' deposits denominated in US dollars). Consequently, the impact on earnings of foreign currency exchange risk is not significant.

Net foreign exchange gains of $20,013 (2008 - $29,310) have been included in other income on the statement of income and retained earnings for the year ended December 31, 2009.

20. Derivative financial instruments

Interest rate swaps

As at December 31, 2009, the Credit Union had three interest rate swap agreements outstanding with a total notional value of $4,500,000 (2008 - $7,000,000) and maturing at various dates between May 2010 and August 2011. Under the terms of these agreements, the Credit Union will pay the counterparty a variable rate of interest and will receive a fixed rate based on the notional amounts. The effect of the swaps is to hedge the variable interest revenue stream generated by variable interest loans. Therefore, interest due and receivable under the agreements are recorded on a net basis to interest revenue.

The interest rate derivative contracts are carried at their fair value with changes in value being recognized in current period earnings.

STARNEWS CREDIT UNION LIMITED

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2009

		2009		2008
Administration expenses				
Amortization	**$**	**55,097**	$	54,997
Automatic banking charges		**72,866**		71,999
Bonding, fire and liability insurance		**39,611**		40,052
Central 1 dues and operations manual		**11,295**		15,588
Cash and service charges		**29,418**		26,041
Collection expenses		**2,942**		3,640
Data processing		**117,539**		134,839
Deposit insurance		**33,906**		41,630
Education and promotion		**82,681**		71,095
Meeting expenses		**6,213**		8,989
Office supplies and general		**100,226**		55,390
Professional fees		**39,252**		26,296
Registered funds administration fees		**18,327**		14,910
Rent		**25,274**		25,490
Telephone		**11,710**		9,705
	$	**646,357**	$	600,661
Remuneration to staff				
Salaries to employees	**$**	**503,205**	$	538,137
Employee benefits		**103,226**		101,811
	$	**606,431**	$	639,948