



2009 Management Discussion and Analysis

Performance Measurement

The strategic planning process provides a common language and framework that provides clarity and aligns resources toward the achievement of our goals.

Vision – expresses what we aspire to achieve overall.

Strategic intents – form the four aspects of our balanced scorecard that will enable us to achieve our vision. The intents are based on member needs and the marketplace. Strategic intents provide the link from strategic direction to operational planning.

Key initiatives – describe the major activities that will be undertaken to achieve our goals. Key initiatives are incorporated into operational activity; aligning human resources; process; infrastructure; technology and capital with strategy.

We evaluate progress through our balanced scorecard. The four strategic intents of our balanced scorecard are: People, Community, Finance and Risk, and Relationship Management. The balanced scorecard is integrated at all levels of the organization to ensure *line of sight* from our employees to our vision.

Roles and Responsibilities

Board and Executive – active in the annual planning process. Progress revisited quarterly.

Executive – migration from responders to active planners and decision makers; ensure appropriate information is provided to the Board.

Board – active strategic decision makers

Our Business Environment

The recent economic crisis that disrupted global financial markets forced policy makers around the world to review their fiscal and monetary policies aimed at restoration of confidence in the global financial system, promoting the flow of credit and support of economic activity.

Despite the severity of the financial crisis the Canadian financial system has continued to perform well compared to other countries with no bank failures evident in Canada, nor did Canadian banks require capital from the government.

Although the impact to Canadians was less severe this still had a significant impact on companies and consumers in their ability to borrow funds due to compressed profit margins and disposable personal incomes, negatively affecting overall financial positions.

Alberta was not immune to these pressures with 2009 seeing a dramatic increase in unemployment numbers, which we hadn't been faced with since the late 80's. The negative impact forced many businesses to deal with layoffs, curb capital expenditures, and depressed profit margins. Consumers experienced decreased disposable incomes due to unemployment and lack of overtime generally enjoyed the past 3 to 4 years which detracted from personal financial health.

Today, the outlook has improved and while the Canadian economy is expected to grow faster than other G-7 Countries, the Bank of Canada expects our recovery to be more protracted and reliant on domestic demand than usual. Recently, drilling activity forecast for 2010 has increased since last fall and three significant oil sand projects have announced their intention to move forward this year. Bank of Canada maintained its policy rate recently and reaffirmed its conditional commitment to hold same until late 2010 as they continue to feel that inflationary pressures are low. All of the above should result in an improvement in Alberta's economy thus improving financial health for local businesses and consumers.

2009 Financial Performance Review

The following provides a review of our enterprise financial performance for 2009.

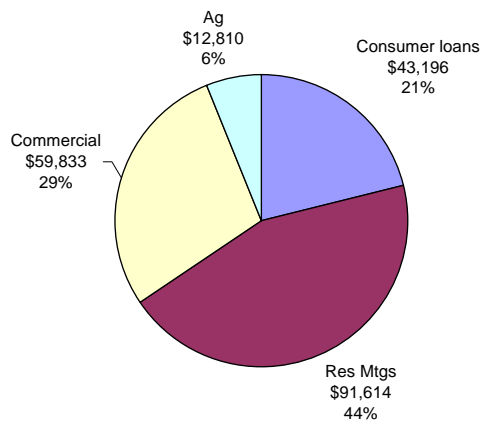
Balance Sheet

On-balance sheet assets at the end of 2009 were \$263.7 million compared to \$293.7 million in 2008 representing a decrease of 10.2%; a reduction of RCU investments at Credit Union Central of Alberta was the primary reason. Our investment portfolio decreased due to a strategic reduction of deposits. Member deposits reduced from \$266.3 million in 2008 to \$235.5 million in 2009 or an annual reduction of 11.5%. Deposits were reduced to achieve a more efficient and prudent level of liquidity.

Other funds under management include \$4.1 million in wealth management assets (\$3.7 million in 2008).

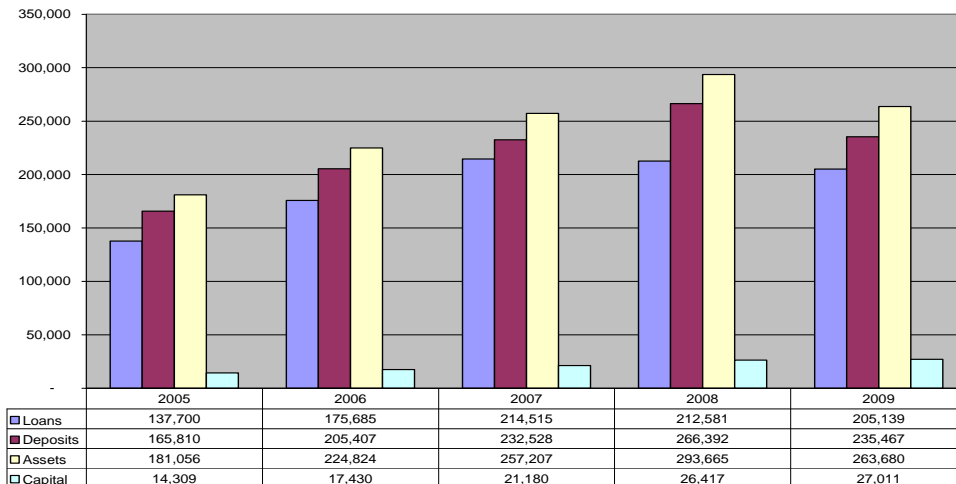
Total loans decreased from \$213.1 million in the prior year to \$205.7 million in 2009, or 3.4% loan decrease. Rocky Credit Union's loan book continues to be comprised largely of stable, low risk, consumer mortgage loans (44% of the total loan portfolio). The province experienced limited economic growth in 2009 leading to Rocky Credit Union decreasing its total commercial loan allocation in 2009 (commercial mortgage and non-mortgage loans); decreasing modestly from 30% in 2008 to 29% in 2009. Loan allocation to the agriculture sector decreased modestly as agriculture mortgages and non-mortgage loans decreased to 6% in 2009 as compared to 7% in the prior year.

2009 Loan Portfolio
(% of total loans)
(\$000s)



Rocky Credit Union Balance Sheet

Balance Sheet
(\$000's)



Liquidity

Despite the market turmoil which created tight liquidity and credit conditions among financial service providers, Rocky Credit Union's liquidity, as measured by the loan to asset ratio, was well within our tolerance range.

Targeted deposit levels and increased allocation to liquid investments (as a percentage of assets) led to an overall more efficient liquidity position. The demand for loans has continued to be funded primarily by deposits from Rocky Credit Union members. These deposits (including interest) are 100% guaranteed by the regulator of credit unions in Alberta, Credit Union Deposit Guarantee Corporation (CUDGC).

Under the *Credit Union Act* of Alberta the Credit Union must maintain a minimum liquidity ratio of 6% of total assets. The Credit Union's liquidity ratio was 9.68% at October 31, 2009 (2008 – 8.10%).

As an added measure of safety, Alberta credit unions are required to maintain 9% of their liabilities on deposit with Credit Union Central of Alberta (CUCA) who manages the Provincial Liquidity Program. Throughout 2009, Rocky Credit Union held the required amount of investments with CUCA for the purpose of maintaining its obligation. Among other reasons, these liquidity investments provide a safety net of liquid resources to satisfy payment obligations and protect against unforeseen liquidity events. In addition to the statutory liquidity investments on deposit with CUCA, Rocky Credit Union maintains a stock of liquid assets, as well as access to borrowings to meet daily and medium-term liquidity requirements.

Profitability

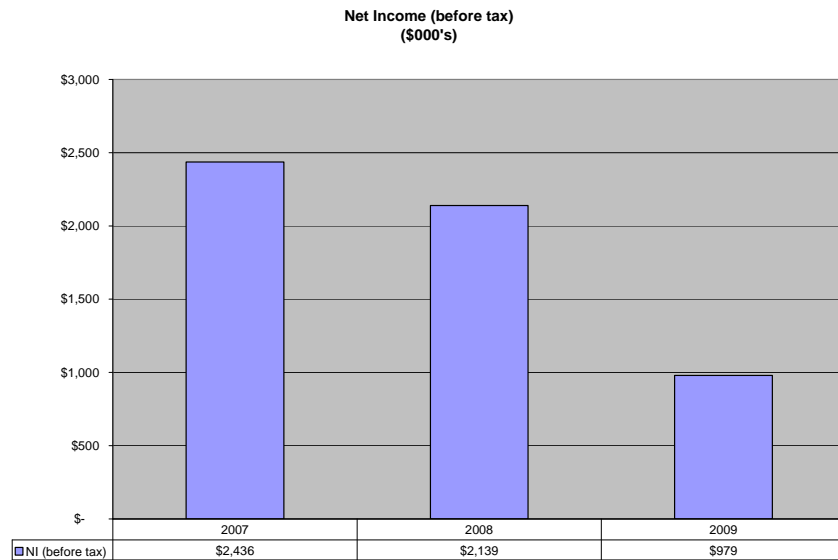
Income before tax for the year was \$0.979 million, a decrease from \$2.139 million in the prior year. For 2009 our total annualized return on assets (ROA) before patronage allocation and income tax was 0.35% compared to 0.95% in 2008. The primary reason was reduced interest margin.

Net Interest Margin – is total interest revenue less total interest expenses while factoring in any provisions for credit and investment losses. For 2009, net interest margin was \$4.499 million compared to \$5.461 million in 2008. Reduced loan demand and declining interest rates resulted in an overall lower yield on loans while rates on deposits stayed relatively elevated.

Non-Interest Revenue – includes fixed asset revenue, commissions and charges. Non-interest revenue decreased from \$1.76 million in 2008 to \$1.43 million in 2009. The primary source of the decrease was reduced commissions due to decrease in loan portfolio and reduced service charges to members due to the banking system conversion.

Non-Interest Expense – includes various operating costs such as personnel, occupancy, security, governance, community development and general business. Non-interest expense increased slightly from 1.6% of assets or \$4.61 million in 2008 to 1.7% of assets or \$4.95 million in 2009. The largest increase was in personnel costs.

Efficiency – Is measured by both non interest expense divided by average assets and non-interest operating expenses as a percentage of revenue. We continued to remain very cost efficient when compared to our peers; with non-interest expense increased slightly from 1.6% of assets 2008 to 1.7% of average assets (Alberta system = 2.4%). Part of the increase in percentage was the reduction in assets. The efficiency ratio decreased from the prior year, decreasing to 82.5% from 51.2% in 2008. The decrease was primarily due to the drop in revenue. (note: high efficiency ratio = reduced efficiency)



Equity

Total capital as a percentage of risk weighted assets and total capital as a percentage of total assets (capital adequacy) is one of our primary measures of financial strength. Our capital management framework is designed to maintain an optimal level of capital. Accordingly, our capital policies are designed to ensure that: we meet our regulatory capital requirements; we meet our internal assessment of required capital; and we build long-term membership value. Rocky Credit Union retains a portion of its annual earnings in order to meet these capital objectives. Once these capital objectives are met, additional earnings are allocated to members through our profit sharing program. The program allocates earnings to members' equity accounts based on usage of services and/or dividends approved annually by the Board.

Capital adequacy for Alberta credit unions is set and measured in accordance to guidelines issued by the regulator, Credit Union Deposit Guarantee Corporation. The guideline requires that a credit union maintain a minimum of 8% of total capital as a percentage of risk weighted assets. For the year-ending 2009, our total capital (including dividend payable) as a percentage of risk weighted assets was 17.2%. In 2009 Rocky Credit Union added to its sound financial position; capital increased by \$0.594 million from \$26.4 million in 2008 to \$27.0 million in 2009.

**Capital
(% of Assets and Risk Weighted Assets)**

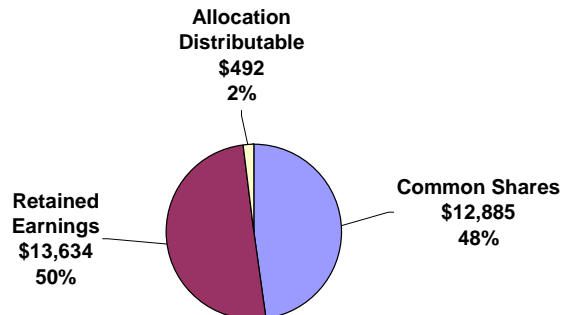


Total capital (equity) of Rocky Credit Union consists of:

1. Amounts held in member common share accounts (registered and non registered): \$12.8 million (\$13.1 million in 2008),
2. Retained Earnings: \$13.6 million (\$13.2 million in 2008),
3. Allocation distributable (dividends paid in December 2009)

The following illustrates the capital mix of Rocky Credit Union. As the chart illustrates, strong retained earnings and capital base provide a stable balance sheet to instill stakeholder confidence and allow RCU to grow and prosper.

**2009 Capital Mix
(\$000s)**



Profit Sharing

In 2009, Rocky Credit Union allocated \$0.516 million of earnings to members through the profit share program (Dividends of \$0.697 million and Patronage of \$0.475 million for a total of \$1.17 million in 2008). Members, in accordance with the profit sharing program, will receive all of the allocation as a distribution to members' equity accounts.

Credit Quality

Ensuring delinquency greater than 90 days does not exceed 1.50% of the loan portfolio is one of our key risk management standards. In 2009 the quality of Rocky Credit Union' loan portfolio was 1.49% level of delinquency greater than 90 days. A significant decrease from 2.75% in 2008.

The loan portfolio is continuously monitored to identify potential credit losses. Guided by this monitoring, management maintains both specific and general loan allowances. Specific allowances are reviewed regularly by examining the individual loans and estimating the likelihood of realizing the full carrying value. General allowances are calculated using the weighted average risk rating of the portfolio.

Specific loan allowances at 2009 year end were 0.563% of total assets compared to 1.06% in 2008. Overall loan loss provisions (general and specific loan provisions combined as a percentage of total assets) were 0.88% in 2009, down from 1.40% in 2008, a favorable improvement of 0.52%

Management of Risk

As a financial institution, Rocky Credit Union is exposed to a variety of risks. An enterprise-wide risk management approach is used for the identification, measurement, and monitoring of risks. The Board's oversight of risk management includes:

The Board of Directors (Board) – is responsible for approving the overall business strategies and significant policies of Rocky Credit Union and understanding and setting acceptable levels of risk for the organization.

The Audit and Risk Committee – monitors the major risks of Rocky Credit Union and reviews and recommends acceptable levels for these major risks to the Board. The committee also reviews the appropriateness of risk management processes and procedures implemented by management. The committee provides oversight of the external and internal audit functions including ensuring the adequacy of internal controls.

Executive Management – is responsible for implementing strategies and policies approved by the Board and for developing processes that identify, measure, monitor, and control risks. Management reports to the Board on risk management performance on a regular basis. Established management committees include:

Strategic Financial Management Committee (SFM) – is composed of executive and management of Rocky Credit Union. The committee is responsible for understanding and monitoring liquidity risk, and interest rate risk. The committee ensures balance sheet activities and measures are within acceptable limits including, but not necessarily limited to, pricing of products and services; capital adequacy; investment limits; liquidity risk; and interest rate risk. The committee sets and approves balance sheet operational strategies with a focus on achieving financial targets, managing market and liquidity risk and optimizing the use of capital.

Enterprise Risk Management Committee – is composed of executive management. The committee meets at least once per quarter to review the internal and external environment and identify, analyze and assess the key risks that may impact the achievement of strategic objectives.

In addition to these management committees, there are several business units that are also responsible for managing risks within their respective area of authority. Separate divisions provide independent control and/or assurance as to soundness of operations.

Governance and Enterprise Risk Management – oversees enterprise-wide management of risk and compliance throughout the organization.

Internal Audit – Internal Audit function is contracted to Credit Union Central and provides independent and objective assurance of control and soundness of operations to management and the Audit and Risk Committee of the board.

Credit Management - controls the adjudication, management and monitoring of our organization's credit risk; establishes operating credit policies and procedures for loan origination; and applies credit management techniques and models to manage the credit portfolio.

Finance - controls asset/liability management, liquidity management and capital management to ensure our organization is financially strong.

Risk Categories

Credit Risk

At Rocky Credit Union, credit risk comes primarily from our direct lending activities and, to a lesser extent, our holdings of investment securities. Credit risk is the risk of financial loss arising from a borrower or counterparty's inability to meet its obligations. Lending and credit risk management is performed in accordance with documented policies, standards and controls. Risk concentration limits have been designed to reflect our risk tolerance. Other risk mitigation efforts include in-depth training of loans personnel, independent adjudication of higher risk loan applications and regular monitoring and reporting.

Market Risk

Market risk is the risk that the financial position or earnings will be adversely affected by changes in market conditions such as, interest rates and foreign exchange rates. Rocky Credit Union's market risk primarily arises from movements in interest rates, specifically from timing differences in the re-pricing of loans and deposits, both on-balance sheet and off-balance sheet. Rocky Credit Union employs comprehensive management processes around our market exposures and risk taking activities.

These include:

- Well-defined market risk exposure limits, measuring and monitoring processes and reporting.
- Management reporting to the board, at least quarterly, with respect to market risk exposure and management strategies.
- Providing oversight of market risk within the Strategic Financial Management Committee (SFM).
- Scenario and stress testing based on changes in interest rates.

Liquidity Risk

Liquidity risk arises from general funding activities and in the course of managing assets and liabilities. It is the risk of having insufficient cash resources or equivalents to meet financial obligations without having to raise funds at unfavorable rates or selling assets on a forced basis. At Rocky Credit Union liquidity risk management strategies seek to maintain sufficient liquid resources to continually fund our on-balance sheet and off-balance sheet commitments. Policies, standards and limits that define the liquidity risk management requirements are established through board approved corporate policies. The SFM Committee and the Finance department oversee liquidity risk exposure and management.

Strategic Risk

Strategic risk is the risk that adverse decisions or ineffective plans will impact the ability of Rocky Credit Union to meet business objectives. Rocky Credit Union has formal planning processes which result in a Strategic Business Plan and Balanced Scorecard that focus on strategic objectives such as providing professional, personal and caring service.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Exposures to this risk arise from deficiencies in internal controls, technology failures, human error or natural disasters and / or pandemics. Operational risk is managed through the use of policies and procedures, controls and monitoring. Control and monitoring involves segregation of duties, employee training, performance management and a structured internal audit program. Other mitigation includes business continuity planning, appropriate insurance coverage and secure technology solutions.

Legal and Regulatory Risk

Legal and regulatory risk arises from potential violations of, or non-conformance with laws, rules, regulations or ethical standards. Rocky Credit Union operates in a heavily regulated environment. Structure, policies and procedures are designed to ensure compliance. A comprehensive corporate compliance environment is in place to manage and report on legal and regulatory risk on a regular basis.

This Management Discussion and Analysis may contain forward-looking statements concerning Rocky Credit Union future strategies. These statements involve uncertainties in relation to prevailing economic, legislative and regulatory conditions at the time of writing. Therefore, actual results may differ from the forward-looking statements contained in this discussion.