COMMON WEALTH CREDIT UNION LIMITED

Consolidated Financial Statements
For the year ended October 31, 2008

COMMON WEALTH CREDIT UNION LIMITED
Auditors' Report

To The Members
Common Wealth Credit Union Limited
Lloydminster, Alberta

We have audited the accompanying consolidated balance sheet of Common Wealth Credit Union Limited (the "Credit Union"), as at October 31, 2008 and the related consolidated statements of income, retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated 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 the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at October 31, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Hawkings Epp Dumont LLP

HAWKINGS EPP DUMONT LLP
Chartered Accountants
Edmonton, Alberta
November 28, 2008

COMMON WEALTH CREDIT UNION LIMITED
Management's Responsibility
For Financial Reporting

To The Members
Common Wealth Credit Union Limited
Lloydminster, Alberta

Management has the responsibility for preparing the accompanying consolidated financial statements and ensuring that all information in the Annual Report is consistent with these statements. This responsibility includes selecting appropriate accounting principles and making objective judgements and estimates in accordance with Canadian generally accepted accounting principles and the requirements of the *Credit Union Act*.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, as well as for the accounting systems from which they are derived, management maintains the necessary systems of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The ultimate responsibility to members for the consolidated financial statements lies with the Board of Directors. The Board appoints two Audit and Finance Liaisons to review consolidated financial statements with management in detail and to report to the Board prior to its approval to publish the consolidated financial statements.

The Board appoints external auditors to audit the consolidated financial statements and to meet separately with both the Audit and Finance Liaisons and management to review their findings. The external auditors report directly to the members. The external auditors have full and free access to the Audit and Finance Board Liaisons to discuss their audit, as well as their findings concerning the integrity of the Credit Union's financial reporting and the adequacy of its systems of internal controls.

Jeff Mulligan
President & Chief Executive Officer
Common Wealth Credit Union Limited
As at October 31, 2008

Brian Weiss, CMA
Senior Vice President, Finance
Common Wealth Credit Union Limited
As at October 31, 2008

Steve Blakely
President & Chief Executive Officer
Servus Credit Union Ltd.

November 28, 2008

COMMON WEALTH CREDIT UNION LIMITED
Consolidated Balance Sheet
As at October 31, 2008

($ thousands)	Notes	2008	2007
ASSETS			
Cash and Current Account		$4,026	$9,458
Investments and Accrued Interest	4	199,657	228,597
Member Loans and Accrued Interest	5	1,579,961	1,345,834
Other Assets		1,887	1,674
Property and Equipment	6	32,504	29,401
		$1,818,035	**$1,614,964**
LIABILITIES			
Operating Demand Loan	7	$7,920	$ –
Other Liabilities		8,241	8,398
Deposit Accounts and Accrued Interest	8	1,639,498	1,463,148
		1,655,659	1,471,546
Contingencies	10		
CAPITAL AND RETAINED EARNINGS			
Allocation Distributable	11	6,181	7,100
Common Shares	12	60,977	49,404
Investment Shares	12	41,202	38,502
Retained Earnings		54,016	48,412
		162,376	143,418
		$1,818,035	**$1,614,964**

The accompanying notes are an integral part of these financial statements.

ON BEHALF OF THE BOARD:

Alison Starke
Director

Doug Hastings
Director

COMMON WEALTH CREDIT UNION LIMITED
Consolidated Income Statement
For the year ended October 31, 2008

($ thousands)	Notes	2008	2007
Financial Income			
Interest from members' loans		$87,995	$77,441
Investment income		7,881	11,700
		95,876	89,141
Financial Expenses			
Interest on members' deposit accounts		46,816	47,314
Interest on financing		1,233	131
		48,049	47,445
Financial Margin		47,827	41,696
Charge for Credit Losses	5	833	638
Gross Margin After Charge for Credit Losses		46,994	41,058
Other Income		10,730	10,103
Gross Margin		57,724	51,161
Operating Expenses			
Personnel		26,106	19,615
General administrative		11,281	9,725
Occupancy		2,951	2,651
Deposit guarantee assessment		2,662	2,348
Organization		732	525
Member security		362	266
		44,094	35,130
Income Before Income Taxes		13,630	16,031
Income Taxes	13	3,165	3,801
Net Income		**$10,465**	**$12,230**

The accompanying notes are an integral part of these financial statements.

COMMON WEALTH CREDIT UNION LIMITED
Consolidated Statement Of Retained Earnings
For the year ended October 31, 2008

($ thousands)	**Notes**	**2008**	**2007**
Balance, Beginning of Year		$48,412	$41,640
Add:			
Net income		10,465	12,230
Tax recovery on dividends		1,320	1,642
Less:			
Dividends on common shares	11	(3,400)	(3,600)
Dividends on investment shares	11	(2,781)	(3,500)
Balance, End of Year		**$54,016**	**$48,412**

The accompanying notes are an integral part of these financial statements.

COMMON WEALTH CREDIT UNION LIMITED
Consolidated Statement of Cash Flows
For the year ended October 31, 2008

($ thousands)	**2008**	**2007**
Operating Activities		
Net income	$10,465	$12,230
Loss on disposal of property and equipment	62	–
Net (increase)/decrease in other assets	(213)	548
Net increase/(decrease) in other liabilities	(157)	758
Amortization	2,718	1,827
	12,875	15,363
Financing Activities		
Common shares issued	11,573	12,309
Allocation distributable	(919)	(1,741)
Net increase in members' deposits	176,350	161,661
Dividends paid, net of tax savings	(4,861)	(5,458)
Investment shares issued	2,700	1,961
	184,843	168,732
Investing Activities		
Purchase of property and equipment	(6,154)	(8,013)
Proceeds on disposal of property and equipment	271	10
Net decrease in investments and accrued interest	28,940	38,940
Net increase in loans to members	(234,127)	(207,424)
	(211,070)	(176,487)
Change in Cash and Cash Equivalents During the Year	(13,352)	7,608
Cash and Cash Equivalents, Beginning of Year	9,458	1,850
Cash and Cash Equivalents, End of Year	**$(3,894)**	**$9,458**
Cash and Cash Equivalents Represented By:		
Cash and current account	$4,026	$9,458
Operating demand loan	(7,920)	–
	$(3,894)	$9,458
Interest Income Received During the Year	$98,220	$88,817
Interest Expense Paid During the Year	$47,719	$45,534
Income Taxes Paid During the Year	$3,179	$1,283

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS

Common Wealth Credit Union Limited was incorporated under the *Credit Union Act* of the Province of Alberta (the “Province”), and operates a total of fifteen branches and one agency within the following communities and surrounding areas:

Athabasca, Barrhead, Dewberry, Edmonton (2), Fairview, Grande Prairie (2), Grimshaw, Kitscoty (agency), Lloydminster (2), Provost, Slave Lake, Westlock, and Whitecourt.

The Credit Union Deposit Guarantee Corporation (“Corporation”), a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Province will ensure that this obligation of the Corporation is carried out.

Common Quest Financial Ltd. is incorporated under the *Business Corporations Act* of Alberta and registered under the *Business Corporations Act* of Saskatchewan.

2. CHANGE IN ACCOUNTING POLICY

Effective November 1, 2007, the Credit Union adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA), including: Section 1535 Capital Disclosures, Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation. The adoption of these new accounting standards had no impact on accounting or measurement of capital or financial instruments.

Section 1535 requires additional disclosure on the Credit Union’s objectives, policies and processes for managing capital, as well as compliance with externally imposed capital requirements. Note 16 includes information related to this new standard.

Section 3862 and 3863 require additional disclosures for financial instruments including the risks associated with financial instruments and how the Credit Union manages those risks. Note 15 includes information related to this new standard.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The precise determination of many assets and liabilities is dependent upon future events. As a result, the preparation of consolidated financial statements for a period involves the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates and approximations. These consolidated financial statements have, in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of Presentation
The consolidated financial statements of Common Wealth Credit Union Limited include the accounts of Common Wealth Credit Union Limited and Common Quest Financial Ltd.

(b) Investments
Term deposits, debentures and bonds are classified as held-to-maturity and are recorded at cost or amortized cost, adjusted to recognize other than a temporary impairment in the underlying value.

Shares in Credit Union Central are classified as available-for-sale. As there is no market for these shares, their fair value is estimated at amortized cost.

The Credit Union's investment in a related company, 1358938 Alberta Ltd., is recorded at cost.

Interest income is recorded as earned and gains and losses on the sale of investments are recorded in income on disposition.

(c) Mortgage Pool
Investment in the mortgage pool is classified as held-to-maturity and carried at amortized cost, adjusted to recognize other than a temporary impairment in the underlying value. Premiums on the mortgage pool are amortized on a straight-line basis over the term of the mortgages.

(d) Loans to Members
Member loans are recorded net of any unearned income and an allowance for credit losses. Interest income from loans is recorded on an accrual basis.

A loan is classified as impaired when there is reasonable doubt as to the timely collection of some portion of principal or interest. A loan where payment is contractually past due 90 days is classified as impaired unless there is no reasonable doubt as to the collectibility of all interest and principal. When a loan is classified as impaired, recognition of interest income in accordance with the original loan agreement ceases. Loans, or portions of loans, considered uncollectible are written-off.

(e) Allowance for Credit Losses
The Credit Union maintains an allowance for credit losses in an amount considered adequate to absorb credit losses existing in its loan portfolio. The allowance is increased by a provision for credit losses which is charged to income, and reduced by write-offs, net of recoveries. The allowance for credit losses consists of:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

A general provision established when evidence of impairment within groups of loans exists but is not sufficient to allow identification of individual impaired loans. Impairment is estimated using a formula based on historical credit loss experience, known risks in the portfolio and current economic conditions and trends. As individual impaired loans are identified, a specific allowance is assigned to that loan and the general allowance is adjusted accordingly.

(f) Property and Equipment
Property and equipment are recorded at cost. Amortization is provided on a straight-line basis at the following annual rates:

Buildings	2.5% and 3.5%
Computer equipment	30% and 33%
Furniture	10% and 20%
Security equipment	10% and 20%
Office equipment	20% and 30%
Vehicles	14% and 33%
Leasehold improvements	10% – 20%

Amortization is recorded commencing in the month following acquisition and is not recorded in the month of disposal.

Gains and losses on disposal are included in the general administrative expenses on the consolidated Income Statement in the year of disposal.

(g) Income Taxes
The Credit Union follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the expected future income tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective income tax bases. Future tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Derivative Financial Instruments

The Credit Union enters into equity-linked option contracts to fix costs on deposit products which are linked to movements in equity market indexes. Premiums paid to enter into these contracts are recorded in other assets and are amortized over the contract life.

Notional principal amounts, upon which payments are based, are not indicative of the credit risk associated with derivative instruments. The credit risk arising from transactions is the risk due to counter parties failing to meet their financial obligations, such as making payments to the Credit Union to offset amounts paid to depositors based on the performances of the equity market indexes or the increases in prevailing interest rates. The Credit Union manages this risk by only entering into such arrangements with Credit Union Central Alberta Ltd. ("Central").

4. INVESTMENTS AND ACCRUED INTEREST

($ thousands)	2008	2007
Central		
Shares	$18,420	$18,420
Term deposits	138,350	123,950
Term deposits, debentures, bonds, mortgage pools and other	41,566	84,103
	198,336	226,473
Accrued interest and dividends receivable	1,321	2,124
	$199,657	$228,597

All term deposits mature within one year and are classified as held-to-maturity. Debentures, bonds and mortgage pools are also classified as held-to-maturity. The shares in Central are classified as available-for-sale. As there is no market for these shares, their fair value is estimated at amortized cost. As required by the *Credit Union Act*, the Credit Union holds investments in Central to maintain its statutory liquidity requirements.

The shares have no specific date of maturity.

5. LOANS TO MEMBERS AND ACCRUED INTEREST

($ thousands)	Gross Amount	Allowance for Credit Losses	2008 Net Amount	2007 Net Amount
Consumer/residential mortgages	$837,153	$3,383	$833,770	$719,724
Commercial	607,862	1,158	606,704	484,811
Agricultural	131,133	32	131,101	132,372
	1,576,148	4,573	1,571,575	1,336,907
Accrued interest	8,419	33	8,386	8,927
	$1,584,567	$4,606	$1,579,961	$1,345,834

The allowance for credit losses includes a general allowance of $2,805,000 (2007 – $3,354,000).

There was $8,794,000 (2007 – $6,183,000) in impaired loans as at the year end included in the above amounts. Impaired assets include foreclosed real estate assets held for sale with a gross amount of $15,000 (2007 – $NIL).

Details of the changes in the allowance for credit losses are as follows:

($ thousands)	2008	2007
Balance, beginning of year	$4,730	$4,536
Less: accounts written-off, net of recoveries	(990)	(444)
Charge for credit losses	833	638
Net change to the allowance for credit losses	(157)	194
Balance, end of year	$4,573	$4,730

6. PROPERTY AND EQUIPMENT

			Net Book Value	
($ thousands)	Cost	Accumulated Amortization	2008	2007
Land	$3,546	$ –	$3,546	$3,470
Buildings and leasehold improvements	29,034	5,284	23,750	20,601
Computer equipment and software	7,379	5,724	1,655	1,742
Furniture and other equipment	8,846	5,293	3,553	3,588
	$48,805	$16,301	$32,504	$29,401

6. PROPERTY AND EQUIPMENT (cont'd)

Amortization in respect of the above buildings and equipment for the year amounted to $2,718,000 (2007 – $1,827,000).

Included in the building and leasehold improvements category is $766,000 (2007 – $1,685,000) related to construction projects. Amortization has not been taken on these assets as they are not yet in use.

Computer equipment and software includes a one-time fee of $1,026,000 required under the Retail Banking Services Agreement with Celero Solutions Inc., for which no amortization has been provided. Amortization of the one-time license fee will commence in the year the Credit Union commences using the *eroWORKS* Retail Banking System.

7. OPERATING DEMAND LOAN AND TERM LOAN

The Credit Union has an approved revolving operating demand loan with Central which is secured by a registered security agreement covering accounts and instruments and pledge of all investments, deposits and share account(s) at Central. The authorized limit on the revolving operating demand loan is $166,800,000, including a U.S. dollar component equivalent to $1,800,000 CDN. The demand loan bears interest at Central's prime rate for CDN dollar advances and Central's U.S. base rate on U.S. advances, in both cases plus or minus Central's applicable discount or margin rates in effect from time to time.

($ thousands)	**2008**	**2007**
Revolving operating demand loan	$7,920	$ –

The Credit Union has an approved term loan with Central which is secured by a general assignment of book debts and assignment of investments and deposits held at Central. The authorized limit on the term loans is $75,000,000. The term loan bears interest at (i) Central's prime rate plus or minus Central's applicable discount or margin rates in effect from time to time, or (ii) at the option of the Credit Union for terms of more than 30 days at a fixed rate equal to Central's money market deposit rate of the equivalent paid fixed swap rate for the term plus or minus the applicable discount or margin rate. At October 31, 2008, the Credit Union had $NIL outstanding on its term loan.

8. DEPOSIT ACCOUNTS AND ACCRUED INTEREST

The repayment of all deposits, including accrued interest, is guaranteed by Credit Union Deposit Guarantee Corporation for which the Credit Union pays a deposit guarantee assessment fee.

8. DEPOSIT ACCOUNTS AND ACCRUED INTEREST (cont'd)

Details are as follows:

($ thousands)	2008	2007
Term deposits	$653,530	$594,266
Demand accounts	745,320	644,047
Registered plans	225,165	209,681
	1,624,015	1,447,994
Accrued interest	15,483	15,154
	$1,639,498	$1,463,148

Concentra Financial Services Association is the trustee of the Registered Retirement Savings Plan, Registered Retirement Income Funds Plan, and Registered Education Savings Plan offered to members. Under an agreement, Concentra deposits the contributions to the plans, and the interest earned on them, in the Credit Union.

As at October 31, 2008, deposits by the Province of Alberta total $32,000 (2007 – $82,000) relating to deposits for loans made under the Alberta Farm Credit Stability Program.

9. COMMITMENTS

(a) Option Agreements
The Credit Union has $12,637,000 of Index-Linked RRSP and term deposits outstanding to its members at October 31, 2008. The deposits mature from February 2009 to February 2013 and pay bonus interest to the depositors at the end of the term, based upon the performance of the appropriate index. The Credit Union has entered into option agreements with Central to offset the exposure on these deposits. At the end of the term the Credit Union will receive payments from Central which will offset the amounts that will be paid to the depositors.

The option agreements are recorded in other assets at cost less accumulated amortization in the amount of $905,000. Interest expense includes $356,000 of amortization relating to these options. Amortization is calculated on a straight-line basis over the term of the deposits.

(b) Retail Banking Services Agreement
The Credit Union entered into a *eroWORKS* Retail Banking Services Agreement with Celero Solutions Inc. Under the terms of this Agreement the Credit Union is committed to a one-time implementation fee in the amount of $1,169,000, a one-time license fee of $1,026,000 and annual operating fee which will vary from year-to-year and will be based on the project operating costs for the upcoming year. The one-time implementation fee is payable in full on the activation date which is currently unknown. The one-time license fee was paid during the 2006 fiscal year. The annual operating fee will be payable in equal monthly installments commencing on the first day of the month following the activation date.

9. COMMITMENTS (cont'd)

(c) Credit Commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts for these commitments as set out below represent the maximum exposure to the Credit Union should the contracts be fully drawn, and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements. Such commitments, which are not included on the Balance Sheets, include:

i) Guarantees and standby letters of credit are issued at the request of a member in order to secure the member's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Credit Union to make payments to third parties in the event that the member is unable to meet their contractual financial or performance obligations without investigation as to the validity of the beneficiary's claim against the member. In the event of a call on such commitments, the Credit Union has recourse against the members. Generally, the term of these guarantees does not exceed three years.

ii) Commercial letters of credit which require the Credit Union to honour drafts presented by third parties upon completion of specific activities. Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

($ thousands)	**2008**	**2007**
Guarantees and stand-by letters of credit	$12,934	$10,134
Commitments to extend credit:		
Original term to maturity of one year or less	33,229	27,958
Original term to maturity of more than one year	270,187	219,478
	$316,350	$257,570

9. COMMITMENTS (cont'd)

(d) Operating Leases
The Credit Union is committed to rent and operating costs under lease agreements for office space in Barrhead, Westlock, Grande Prairie (Patterson) and Grande Prairie (Northgate), and for a vehicle lease. The lease agreements, each of which contain renewal options, expire between June 30, 2009 and May 31, 2018. Lease payments for the next five fiscal years are as follows:

	($ thousands)
2009	$ 279
2010	273
2011	248
2012	248
2013	248

10. CONTINGENCIES

Various actions and legal proceedings arising from the normal course of business are pending against Common Wealth Credit Union Limited. Management does not anticipate that the ultimate loss, if any, of these actions and proceedings will be material.

11. ALLOCATION DISTRIBUTABLE

The Credit Union declared a dividend of 6% on common shares (2007 – 8%) in the amount of $3,400,000 on October 31, 2008 (2007 – $3,600,000) to be paid prior to November 30, 2008 through the issue of additional common shares.

The Credit Union declared a dividend of 6.75% on investment shares (2007 – 9%) in the amount of $2,781,000 (2007 – $3,500,000) to be paid prior to December 15, 2008 through the issue of additional Series A investment shares.

12. SHARE CAPITAL

	2008			2007
($ thousands)	**Common Shares**	**Series A Investment Shares**	**Total**	**Total**
Balance, beginning of year	$49,404	$38,502	$87,906	$73,636
Net contribution (redemptions) by (to) members	8,016	(765)	7,251	5,463
Prior year's dividends paid	3,557	3,465	7,022	8,807
Balance, end of year	$60,977	$41,202	$102,179	$87,906

12. SHARE CAPITAL (cont'd)

Common Shares

The Credit Union created a class of equity shares known as common shares, having the following characteristics:

i) an unlimited number may be issued;
ii) a par value of $1, but fractional shares may be issued;
iii) transferable only in restricted circumstances;
iv) non-assessable; and
v) redemption of common shares is at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the *Credit Union Act* and Regulations.

A member must purchase at least one share to retain membership in the Credit Union. Common shares are "at risk" capital and are not guaranteed by the Credit Union Deposit Guarantee Corporation.

Series A Investment Shares

Series A Investment Shares have the following characteristics:

i) a maximum of 35,000,000 Series A Investment Shares may be issued;
ii) no par value; issue price of $1 per share; no fractional shares may be issued except in the form of a dividend;
iii) transferable only in restricted circumstances;
iv) non-voting;
v) no rights to dividends; however, the Board of Directors has set a dividend policy subject to certain preconditions; and
vi) redemption of Series A Investment Shares is at $1 per share, subject to the approval of the Board of Directors and subject to certain preconditions.

The minimum purchase amount of the Series A Investment Shares is 1,000 shares per member. The maximum amount of Series A Investment Shares that may be purchased is 1,000,000 shares per member. Series A Investment Shares are "at risk" capital and are not guaranteed by the Credit Union Deposit Guarantee Corporation.

13. INCOME TAXES

($ thousands)	2008	2007
Current	$3,060	$3,845
Future (recoverable)	105	(44)
	$3,165	$3,801

13. INCOME TAXES (cont'd)

Income tax expense differs from the amount that would have been expected if the reported income before income taxes was subject to the combined federal and provincial statutory income tax rate for the year. The difference between the expected income tax expense and the actual is as follows:

($ thousands)	**2008**	**2007**
Expected tax rate	21.36%	23.12%
Income taxes at statutory rate	$2,911	$3,706
Add (deduct):		
Temporary differences (primarily due to differences between tax treatment and accounting treatment of loan allowance and property and equipment)	131	122
Non-deductible expenses	18	17
Future taxes (recoverable)	105	(44)
	$3,165	$3,801
Actual tax rate	23.22%	23.71%

Common Quest Financial Ltd., a wholly owned subsidiary, has $317,000 of non-capital losses available for carry-forward. These losses expire as follows:

	($ thousands)
2016	$ 33
2017	118
2018	166

14. RELATED PARTY TRANSACTIONS

The Credit Union, in accordance with its policy, grants loans to its management and staff at regular member rates or the deemed employment rates as published by Canada Revenue Agency. Directors and management of the Credit Union have loans from the Credit Union totalling $2,223,000 (2007 – $3,026,000). Directors pay regular member rates on loans. All loans are in good standing.

Directors and management of the Credit Union have deposits with the Credit Union totalling $4,505,000 (2007 – $4,498,000). These accounts are maintained under the same terms and conditions as accounts of other members, and are included in member deposits. Staff have access to personal chequing accounts which do not incur service charges.

14. RELATED PARTY TRANSACTIONS (cont'd)

Directors and management of the Credit Union have Series A Investment Shares with the Credit Union totalling $1,850,000 (2007 – $1,697,000).

Directors' fees and expenses, included in operating expenses as organization, are as follows:

($ thousands)	2008	2007
Directors' fees and committee remuneration	$204	$65
Directors' expenses	81	44
	$285	$109

Amounts paid to directors range from $19,000 to $22,000 with an average of $20,000.

1358938 Alberta Ltd. is owned 50% by the Credit Union and 50% by an unrelated third party. A summary of the Credit Union's transactions with this company are as follows:

($ thousands)	
Cash advances	$783
Investment in 100 common shares	$ –
Transportation services cost	$209

15. RISK MANAGEMENT

The use of financial instruments exposes the Credit Union to credit risk, market risk and liquidity risk. The following is a description of those risks and how the Credit Union manages exposure to them.

Credit Risk

Credit risk is the risk that financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union arising from financial instruments, such as loan balances, credit commitments and letters of guarantee.

The Credit Union's credit risk management practices include ongoing assessment, analysis and monitoring of financial information related to individual borrowers included in the Credit Union's loan portfolio.

Refer to Note 5 and Note 9 (c) for information on credit exposure and credit quality.

15. RISK MANAGEMENT (cont'd)

Market Risk

Market risk is the risk that the Credit Union may incur a loss due to adverse changes in interest rates, foreign exchange rates or equity and commodity market prices arising from financial instruments, such as investments, loans and deposit balances.

The Credit Union's market risk management practices include day-to-day analysis and monitoring of market interest rates and foreign exchange rates.

Refer to Note 18 for more information on interest rate risk.

Liquidity Risk

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

Under the *Credit Union Act* of Alberta the Credit Union is required to maintain a liquidity ratio of 9% of two months prior average monthly liabilities. The Credit Union's liquidity ratio was 9.00% at October 31, 2008 (2007 – 9.00%).

The Credit Union's liquidity risk management practices include daily monitoring of expected cash inflows and outflows and analysis of loan and deposit maturities.

16. CAPITAL MANAGEMENT

The Credit Union manages capital to ensure that it meets the minimum levels set out in the *Credit Union Act* of Alberta (the "Act") and to support the continued growth of the Credit Union and build member value.

The Credit Union's capital includes:

($ thousands)	**2008**	**2007**
Investment Shares	$41,202	$38,502
Retained earnings	54,016	48,412
Common shares	60,977	49,404
Qualifying Central retained earnings (a)	7,284	3,975
	$163,479	$140,293

(a) The Credit Union's portion of qualifying retained earnings of Credit Union Central of Alberta ("Central") as calculated and provided by Central.

16. CAPITAL MANAGEMENT (cont'd)

The Credit Union is required under the Act to have a capital balance that is equal to or exceeds the greater of:

4% of total assets; and
8% of risk weighted assets

Credit Union management measures the adequacy of the Credit Union's capital to these requirements on an ongoing basis and report the results to the Board of Directors and Credit Union Guarantee Corporation.

As at October 31, 2008 the Credit Union's total capital as a percent of assets was 8.6% (2007 – 8.4%) and the total capital as a percent of risk weighted assets was 12.5% (2007 – 13.0%). Therefore, the Credit Union has exceeded its minimum capital requirement at October 31, 2008.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts are designed to approximate the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. The estimated fair values disclosed do not reflect the value of items that are not considered financial instruments, such as property and equipment or intangible assets. Since many of the Credit Union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Due to the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The carrying value of most of the Credit Union's financial instruments is not adjusted to reflect changes in interest rates, as it is the Credit Union's intention to hold the instruments to maturity.

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

i) The fair values of cash, other assets, and other liabilities are assumed to approximate book values, due to their short-term nature.

ii) The estimated fair value of floating rate member loans and member deposits is assumed to equal book value as the interest rates automatically reprice to market.

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

17. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

	2008			2007		
($ thousands)	Fair Value	Book Value	Fair Value Over Book Value	Fair Value	Book Value	Fair Value Over Book Value
Assets						
Cash	$4,026	$4,026	$ –	$9,458	$9,458	$ –
Investments	203,112	198,336	4,776	235,939	226,473	9,466
Loans	1,574,351	1,571,575	2,776	1,329,110	1,336,907	(7,797)
Other assets	44,098	44,098	–	42,126	42,126	–
Less:						
Liabilities						
Deposits	1,630,254	1,624,015	6,239	1,447,991	1,447,994	(3)
Other liabilities	31,644	31,644	–	23,552	23,552	–
Equity	$163,689	$162,376	$1,313	$145,090	$143,418	$1,672

18. INTEREST RATE RISK

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with maturities of its financial assets. The interest rate risk is being managed within prudent guidelines. The table below summarizes amounts by maturity dates:

	As at October 31, 2008				
($ thousands)	**Floating Rate**	**Within 1 Year**	**1 to 5 Years**	**Non-rate Sensitive**	**Total**
Assets					
Cash	$ –	$ –	$ –	$4,026	$4,026
Effective Yield	0.00%	0.00%	0.00%	0.00%	*0.00%*
Investments	23,917	139,857	34,438	124	198,336
Effective Yield	3.44%	3.09%	4.59%	0.00%	*3.39%*
Member loans	646,971	158,430	770,747	(4,573)	1,571,575
Effective Yield	4.98%	6.16%	6.04%	0.00%	*5.62%*
Other	–	–	–	44,098	44,098
	670,888	298,287	805,185	43,675	1,818,035
Liabilities					
Member deposits	723,026	450,372	338,862	111,755	1,624,015
Effective Yield	1.55%	3.54%	4.36%	0.00%	*2.58%*
Other	7,920	–	–	23,724	31,644
Effective Yield	3.54%	0.00%	0.00%	0.00%	*0.89%*
Equity	–	–	–	162,376	162,376
	730,946	450,372	338,862	297,855	1,818,035
Net gap	$(60,058)	$(152,085)	$466,323	$(254,180)	$ –

	As at October 31, 2007				
Net gap	$(116,389)	$(114,526)	$466,996	($236,081)	$ –

19. SEGMENTED INFORMATION

The Credit Union operates principally in personal, commercial, and agricultural banking in Alberta, through fifteen branch locations and one contracted agency.

20. SUBSEQUENT EVENT

Effective November 1, 2008, the Credit Union amalgamated with Community Credit Union Ltd. of Red Deer, Alberta and Servus Credit Union Ltd. of Edmonton, Alberta to form the amalgamated entity, Servus Credit Union Ltd. Based on the October 31, 2008 Annual Financial Statements of these three credit unions, the combined credit union would have approximately 403,000 members and $9.5 billion of assets.

The amalgamation will be accounted for using the pooling of interests method. On amalgamation, all common and investment shares of each credit union will be converted share for share into an equal number of common and investment shares of the amalgamated Servus Credit Union Ltd. The common shares will have a par value of $1 each. The investment shares will have no par value; the issue price will be $1 per share.

21. FUTURE ACCOUNTING CHANGES

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the basis for financial reporting by Canadian publicly accountable enterprises will move from Canadian Generally Accepted Accounting Standards ("GAAP") to International Financial Reporting Standards ("IFRS"). The Credit Union will adopt IFRS for the year ending October 31, 2012. The impact of the transition to IFRS on the Credit Union's financial statements has not yet been determined.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

NOTES