COMMUNITY CREDIT UNION LTD.

Consolidated Financial Statements
For the year ended October 31, 2008

COMMUNITY CREDIT UNION LTD.
Management's Responsibility
For Financial Reporting

To the Members of Community Credit Union Ltd.

Management of Community Credit Union Ltd. (the Credit Union) prepared these consolidated financial statements and is responsible for their reliability, completeness and integrity. They conform in all material respects to Canadian generally accepted accounting principles and the requirements of the Credit Union Act.

Management maintains the necessary accounting and internal control systems designed to ensure the timely production of reliable and accurate financial information, the protection of assets (to a reasonable extent) against loss or unauthorized use and the promotion of operational efficiency. The Audit Committee has implemented a plan to review internal controls as deemed appropriate for the Credit Union. The Board of Directors, acting through its Audit Committee, oversees management's responsibilities for financial reporting and internal control systems.

BDO Dunwoody LLP Chartered Accountants, appointed by the Board of Directors, conducted an audit of these consolidated financial statements in accordance with Canadian generally accepted auditing standards. The Audit Committee reviewed these consolidated financial statements with the external auditor in detail before recommending their approval to the Board of Directors.

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

Mike Drotar
Vice President & Chief Financial Officer
Community Credit Union Ltd.
as at October 31, 2008

Red Deer, Alberta
December 5, 2008

COMMUNITY CREDIT UNION LTD.
Auditor's Report

To the Members of Community Credit Union Ltd.

We have audited the consolidated balance sheet of Community Credit Union Ltd. as at October 31, 2008 and the consolidated statements of comprehensive income, retained earnings, and cash flow for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the 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 consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at October 31, 2008 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP
Chartered Accountants

Red Deer, Alberta
December 5, 2008

COMMUNITY CREDIT UNION LTD.
Consolidated Balance Sheet
October 31, 2008

($ thousands)	Notes	2008	2007
Assets			
Cash		$10,202	$10,888
Investments	4	278,576	257,974
Member Loans	5	2,721,703	2,394,481
Property and equipment	6	56,100	54,365
Other assets	7	9,015	3,187
		$3,075,596	$2,720,895
Liabilities			
Member deposit accounts	8	$2,728,040	$2,323,831
Loans payable	9	51,950	112,762
Accounts payable		13,110	12,997
Profit sharing allocation payable	10	14,760	14,500
		2,807,860	2,464,090
Member Equity			
Member common share equity	10	131,139	131,487
Investment shares	11	13,653	13,957
Retained earnings		122,944	111,361
Accumulated other comprehensive income		–	–
		267,736	256,805
		$3,075,596	$2,720,895

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

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

William J. Anhorn
Chair, Board of Directors

Lloyd Robinson
Director

COMMUNITY CREDIT UNION LTD.
Consolidated Statement of Comprehensive Income
For the year ended October 31, 2008

($ thousands)	Notes	2008	2007
Financial Income			
Interest on member loans		$155,620	$137,021
Investment and derivative income		13,625	11,428
		169,245	148,449
Financial Expense			
Interest on member deposits		74,531	62,786
Interest on borrowed funds		3,840	1,869
		78,371	64,655
Net Interest Income		90,874	83,794
Charge for credit losses	5	2,013	1,765
		88,861	82,029
Other Income		28,092	26,458
Income before the following		**116,953**	108,487
Operating Expenses			
Personnel		51,354	38,496
General		23,820	22,173
Occupancy		5,769	4,442
Member security		5,086	4,268
Organization		1,967	1,065
		87,996	70,444
Income before patronage allocation and income taxes		**28,957**	38,043
Patronage allocation to members	10	6,645	6,460
		22,312	31,583
Income taxes	18	4,399	6,600
Net Income		**17,913**	24,983
Other comprehensive income (net of tax)		–	–
Comprehensive Income		**$17,913**	$24,983

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

COMMUNITY CREDIT UNION LTD.
Consolidated Statement of Retained Earnings
For the year ended October 31, 2008

($ thousands)	Notes	2008	2007
Retained Earnings, Beginning of Year		$111,361	$91,971
Add			
Net income		17,913	24,983
Transition adjustment		–	588
		129,274	117,542
Deduct			
Dividends on share capital	10	8,115	8,040
Income tax recovery thereon		(1,785)	(1,859)
		6,330	6,181
Retained Earnings, End of Year		**$122,944**	$111,361

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

COMMUNITY CREDIT UNION LTD.
Consolidated Statement of Cash Flow
For the year ended October 31, 2008

($ thousands)	**2008**	**2007**
Cash Provided by (Applied to) Operating Activities		
Interest received	$155,215	$135,426
Investment and derivative income received	15,303	10,212
Interest paid	(72,503)	(62,967)
Other income received	24,789	26,450
Operating expenses paid	(82,174)	(63,090)
Income taxes paid	(6,150)	(4,024)
	34,480	42,007
Cash Provided by (Applied to) Investing Activities		
Additions to property and equipment	(9,137)	(12,964)
Proceeds on disposal of property and equipment	2,705	1,078
Net increase in member loans	(328,830)	(343,151)
Net (increase) decrease in investments and derivatives	(22,280)	7,311
	(357,542)	(347,726)
Cash Provided by (Applied to) Financing Activities		
Advances of loans payable	105,000	145,471
Repayment of loans payable	(165,812)	(51,042)
Shares issued, net of redemptions	(652)	(529)
Payment of profit sharing	(14,500)	(14,157)
Net increase in deposit accounts	398,340	215,036
	322,376	294,779
Decrease in Cash	(686)	(10,940)
Cash, beginning of year	10,888	21,828
Cash, End of Year	**$10,202**	$10,888

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

COMMUNITY CREDIT UNION LTD.
Notes to Consolidated Financial Statements
For the year ended October 31, 2008

1. DESCRIPTION OF OPERATIONS

The Credit Union was formed pursuant to the Credit Union Act of the Province of Alberta and has 31 locations in 24 Alberta communities geographically distributed in central and southern Alberta.

Credit Union Deposit Guarantee Corporation (the 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 of Alberta will ensure that the Corporation carries out this obligation.

2. CHANGES IN ACCOUNTING POLICIES

Financial Instruments

The Canadian Institute of Chartered Accountants (CICA) has issued Section 3862: *Financial Instruments—Disclosures* and Section 3863: *Financial Instruments—Presentation*, which revised and enhanced the required disclosures for financial instruments. The standards increased the required disclosures about the nature and extent of risks associated with financial instruments and how the Credit Union manages those risks. These standards are effective November 1, 2007 and are applied prospectively.

Capital Management

CICA has also issued Section 1535: *Capital Disclosures*, which requires the disclosure of (i) the entity's objectives, policies and processes for managing capital, (ii) quantitative data about what the Credit Union regards as capital, (iii) whether the entity has complied with any capital requirements, and (iv) if it has not complied, the consequences of such non-compliance. The standard is effective November 1, 2007 and is applied prospectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Credit Union follows accounting policies appropriate to its activities and governing legislation, which conform, in all material respects, to Canadian generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Credit Union and its wholly owned subsidiary, Community Agencies Ltd. operating as All Source Mortgages. All inter-company transactions and balances have been eliminated.

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

Member Loans

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 of interest is contractually past due 60 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.

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 both specific and general provisions.

A specific provision is 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 for their underlying security.

A general provision is 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.

Unauthorized Overdrafts

At the end of each fiscal year, unauthorized overdrafts outstanding for at least 90 days are considered to be uncollectible and are written off.

Property and Equipment

Land is stated at cost. Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the related assets as indicated below.

Buildings	40 years
Equipment	10 years
Computer equipment	3 – 5 years
Leasehold improvements	3 – 10 years

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

Management assesses the carrying amount of property and equipment for impairment when events indicate that the carrying amount is not recoverable and exceeds fair value.

Future Income Taxes

Income taxes are accounted for by the liability method of income tax allocation (Future Income Taxes). Under this method, future income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the temporary differences are expected to reverse.

Financial Instruments

All financial instruments on the balance sheet are classified as either held-to-maturity (HTM), available-for-sale (AFS), held-for-trading (HFT), loans and receivables, or other financial liabilities.

HTM—Financial instruments classified as HTM were initially measured at fair value and subsequently measured at amortized cost using the effective interest method. Amortization is recognized in net income as are impairment write-downs. To be classified as HTM, the Credit Union must demonstrate intent and ability to hold the instruments until maturity.

AFS—Financial instruments classified as AFS were initially measured at fair value and subsequently measured at fair value. Changes in fair value (net of taxes) are recognized in other comprehensive income (OCI), and transferred to net income when the asset is derecognized or determined to be impaired. Investments in equities that do not have a quoted market price in an active market are measured at cost.

HFT—Financial instruments classified as HFT were initially measured at fair value and subsequently measured at fair value. Changes in fair value are immediately recognized in net income.

Loans and Receivables—Financial instruments classified as loans and receivables were initially measured at fair value and subsequently measured at amortized cost using the effective interest method. Fees (net of associated costs) earned on loans are amortized using the effective interest method, if material.

Other Financial Liabilities —Financial instruments classified as other financial liabilities were initially measured at fair value and subsequently measured at amortized cost using the effective interest method. Amortization is recognized in net income as are impairment write-downs.

Derivatives

All derivative instruments are either designated as a hedge or not. Derivatives designated as hedges are classified as either cash flow hedges or fair value hedges. Although all derivatives are entered into as hedges of future cash flow fluctuations, and documented internally as such, the Credit Union generally does not designate derivatives as hedges. All non-designated derivatives are accounted for as held-for-trading.

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

Comprehensive Income

Comprehensive income includes net income and other comprehensive income (OCI). OCI represents changes in members' equity during a period arising from transactions and other events from non-owner sources and includes unrealized gains and losses on financial instruments classified as AFS and changes in the fair value of the effective portion of cash flow hedging instruments. Accumulated changes in OCI are included in accumulated other comprehensive income, which is presented as a category of members' equity on the Balance Sheet.

New Accounting Pronouncements

International Financial Reporting Standards

The CICA will transition Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS). The Credit Union's consolidated financial statements will be prepared in accordance with IFRS for the fiscal years commencing November 1, 2011. The impact of the transition to IFRS on the Credit Union's consolidated financial statements has not yet been determined.

General Standards on Financial Reporting

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Credit Union does not expect the adoption of these standards to have a material impact on its financial statements.

4. INVESTMENTS

($ thousands)	2008	2007
Central term deposits	$240,900	$190,100
Central shares	31,057	31,057
Other term deposits	–	30,000
Other	4,009	2,529
Total Investments	**275,966**	253,686
Accrued interest	2,610	4,288
	$278,576	$257,974

As required by the Credit Union Act, the Credit Union holds investments in Credit Union Central of Alberta (Central) to maintain its statutory liquidity level. The required statutory liquidity level at October 31, 2008 was $255,812,694. All investments with no specified maturity date are classified as available for sale. As there is no market for the shares in Central, the fair value of the shares is estimated at amortized cost.

5. MEMBER LOANS

($ thousands)	Gross Amount	Allowance for Credit Losses*	2008	2007
Consumer loans	$330,729	$746	$329,983	$412,964
Residential mortgages	1,241,938	1,682	1,240,256	1,060,752
Commercial	1,087,941	1,802	1,086,139	848,208
Agricultural	55,647	72	55,575	63,647
Foreclosed assets	436	–	436	–
	2,716,691	**4,302**	**2,712,389**	2,385,571
Accrued interest	9,510	196	9,314	8,910
	$2,726,201	**$4,498**	**$2,721,703**	$2,394,481

* For presentation purposes, the general allowance for credit losses has been allocated proportionately to the above loan categories. However, this allowance is available to the total loan portfolio.

The allowance for credit losses includes a general allowance of $3,500,000 (2007 – $3,000,000). There were $1,065,624 (2007 – $1,088,652) in impaired loans as at the year end included in the above amounts.

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

($ thousands)	30-59 Days	60-89 Days	90 Days and Greater	2008 Total
Consumer loans	$6,232	$1,578	$2,820	$10,630
Residential mortgages	1,496	266	2,023	3,785
Commercial	6,628	2,334	2,343	11,305
Agricultural	1,814	–	840	2,654
	$16,170	**$4,178**	**$8,026**	**$28,374**

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

($ thousands)	2008	2007
Balance, beginning of year	$3,687	$3,027
Deduct: Accounts written off, net of recoveries	(1,202)	(1,105)
Charge for credit losses	2,013	1,765
Balance, end of year	**$4,498**	$3,687

COMMUNITY CREDIT UNION LTD.
Notes to Consolidated Financial Statements
For the year ended October 31, 2008

6. PROPERTY AND EQUIPMENT

($ thousands)	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value
Land	$15,156	$ –	$15,156	$16,058
Buildings	32,025	5,190	26,835	24,333
Equipment	14,196	9,529	4,667	4,324
Computer equipment	17,744	10,834	6,910	8,358
Leasehold improvements	6,128	3,596	2,532	1,292
	$85,249	**$29,149**	**$56,100**	$54,365

Amortization in respect of the buildings, equipment and leasehold improvements for the year amounted to $5,136,814 (2007 – $5,068,002).

7. OTHER ASSETS

($ thousands)	2008	2007
Accounts receivable	$3,158	$295
Prepaid expenses	3,578	2,892
Taxes receivable	2,279	–
	$9,015	$3,187

8. MEMBER DEPOSIT ACCOUNTS

($ thousands)	2008	2007
Demand deposits	$1,161,084	$996,784
Term deposits	1,229,142	1,029,245
Retirement savings plans	248,654	211,399
Retirement income fund plans	61,810	64,921
	2,700,690	2,302,349
Accrued interest	27,350	21,482
	$2,728,040	$2,323,831

9. LOANS PAYABLE

($ thousands)	2008	2007
Central term loan – 1	$17,708	$ –
Central term loan – 5	–	7,500
Central term loan – 6	–	3,333
Central term loan – 7	–	27,500
Central term loan – 8	–	23,958
Central term loan – 10	22,500	–
Central line of credit	11,742	50,471
	$51,950	$112,762

a) The Credit Union has an authorized line of credit of $130,000,000 arranged with Credit Union Central of Alberta (Central). Interest is payable on a monthly basis at Central's prime rate less 0.50%.

b) The Credit Union has a term loan facility available of $200,000,000 with Central. Term loan – 1 is repayable in 17 equal monthly instalments of $1,041,670, with interest at 3.094% adjusted to the final payment. Term loan – 10 is repayable in 18 equal monthly instalments of $1,250,000, with interest at 3.697% adjusted to the final payment.

The line of credit and term loans are secured by a promissory note, general assignment of book debts and hypothecation of the Credit Union's shares and investments with Central.

10. MEMBER COMMON SHARE EQUITY

The class of equity shares known as common shares has 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 at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the Credit Union Act and Regulations and the supplemental bylaws of the Credit Union.

A membership in the Credit Union requires the purchase of a minimum of one share. No member can purchase more than 5,000 shares.

10. MEMBER COMMON SHARE EQUITY (cont'd)

Common shares represent at-risk capital not guaranteed by Credit Union Deposit Guarantee Corporation.

($ thousands)	2008	2007
Member contributions		
Balance, beginning of year	$76,597	$74,626
Net member contributions	1,653	1,971
Balance, end of year	**78,250**	76,597
Allocation to members		
Balance, beginning of year	54,890	56,946
Deduct: Redemptions	(2,001)	(2,056)
Balance, end of year	**52,889**	54,890
	$131,139	$131,487

The Board of Directors declared a $14,760,000 (2007 – $14,500,000) profit sharing allocation to be paid January 2009. The allocation is represented by $6.645 million in patronage rebates and bonuses and $8.115 million in dividends on common and investment shares. The patronage rebates and bonuses will be allocated to the members based upon the volume of business, number of qualifying products and types of products.

11. INVESTMENT SHARES

Investment shares have the following characteristics:

i) no par value;
ii) no voting rights;
iii) non-assessable;
iv) transferable under limited circumstances;
v) callable at the discretion of the Credit Union upon 5 years written notice;
vi) dividends are non-cumulative and subject to the Credit Union's dividend policy and approval of the Board of Directors; and
vii) redemptions are subject to the Credit Union's redemption policy and approval of the Board of Directors.

The minimum amount of Series A investment shares that could be purchased was $1,000 and the maximum was $100,000. The minimum number of Series B investment shares that could be purchased was $1,000 and the maximum was $300,000.

Investment shares represent at-risk capital not guaranteed by Credit Union Deposit Guarantee Corporation.

11. INVESTMENT SHARES (cont'd)

($ thousands)	Series A	Series B	2008	2007
Authorized shares	5,000	10,000		
Issued shares	5,000	4,517		
Outstanding shares	5,000	4,517		
Member contributions	**$5,000**	**$4,517**	**$9,517**	$9,517
Allocation to members				
Balance, beginning of year	3,562	878	4,440	4,884
Deduct: Redemptions	(95)	(209)	(304)	(444)
Balance, end of year	**3,467**	**669**	**4,136**	4,440
	$8,467	**$5,186**	**$13,653**	$13,957

12. RELATED PARTY TRANSACTIONS

The Credit Union, in accordance with established policy, grants mortgage loans and consumer loans to its management and staff at rates equal to the Credit Union's cost of funds plus ½% – 1½% and 2% – 3% respectively. Directors pay regular member rates on loans.

Directors, management and staff of the Credit Union had $61,542,282 in loans outstanding at October 31, 2008 (2007 – $60,202,525). All loans were in good standing at that date.

The aggregate remuneration paid to directors during the year was $720,730 (2007 – $281,817). Amounts paid to directors range from $6,503 (2007 – $5,467) to $128,029 (2007 – $35,740) with an average of $51,481 (2007 – $21,618). Reimbursement of expenses was $186,463 (2007 – $139,979).

13. CONTINGENT LIABILITIES

a) Credit Commitments
In the normal course of business, the Credit Union has outstanding contingent liabilities such as undrawn lines of credit, letters of commitment and guarantees on behalf of members. The Credit Union does not report these items on the balance sheet and management does not anticipate any material loss as a result of these transactions. In the event of a call on any of these commitments, the Credit Union has recourse against the respective members.

As at October 31, 2008 there was $1,222,379,494 (2007 – $949,174,697) in undrawn lines of credit, letters of commitment and guarantees outstanding.

13. CONTINGENT LIABILITIES (cont'd)

b) Operating Leases
The Credit Union has obligations under long-term, non-cancellable operating leases for the rental of premises. The future minimum lease payments are as follows:

	($ thousands)
2009	1,524
2010	1,296
2011	1,158
2012	800
2013 and thereafter	2,783

The total rental expense paid in respect of buildings and equipment for the year was $1,376,220 (2007 – $863,469).

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the table below 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 use of objective assumptions and uncertainties, the fair value amounts should not be interpreted as being 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 were used to estimate the fair value of financial instruments:

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

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

c) The estimated fair values of fixed rate member loans, investments and deposits are determined by discounting the expected future cash flows at current market rates for instruments with similar terms and credit risks.

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

Estimated fair values of financial instruments are summarized as follows:

	2008			**2007**		
($ thousands)	**Book Value**	**Fair Value**	**Fair Value Excess (Deficiency)**	**Book Value**	**Fair Value**	**Fair Value Excess (Deficiency)**
Assets						
Cash	$10,202	$10,202	$ –	$10,888	$10,888	$ –
Investments and derivatives	278,576	278,788	212	257,974	258,251	277
Member loans	2,721,703	2,761,599	39,896	2,394,481	2,418,685	24,204
Accounts receivable	3,158	3,158	–	295	295	–
Liabilities						
Member deposits	2,728,040	2,742,425	14,385	2,323,831	2,322,898	(933)
Loans payable	51,950	52,160	210	112,762	112,997	235
Other liabilities	27,870	27,870	–	27,497	27,497	–
Total fair value adjustment			**$25,513**			$25,179

15. INTEREST RATE SENSITIVITY

Interest rate sensitivity refers to the potential financial impact of changes in market interest rates on the Credit Union's earnings and economic value. The interest rate risk is being managed within prudent guidelines. The table below summarizes amounts by repricing dates and effective interest rates:

($ thousands)	Floating Rate	Within 1 Year	More Than 1 Year	Non Interest Sensitive	Total
Cash	$ –	$ –	$ –	$10,202	$10,202
Investments	31,057	239,900	1,018	6,601	278,576
Effective yield	4.03%	2.97%	3.76%	–	3.02%
Member loans	964,088	553,934	1,193,931	9,750	2,721,703
Effective yield	5.28%	6.08%	6.05%	–	5.76%
Other	–	–	–	65,115	65,115
	995,145	**793,834**	**1,194,949**	**91,668**	**3,075,596**
Member deposits	945,911	1,209,181	330,424	242,524	2,728,040
Effective yield	1.31%	3.69%	4.01%	–	2.58%
Loans payable	11,742	–	40,208	–	51,950
Effective yield	3.50%	–	3.43%	–	3.45%
Other	–	–	–	27,870	27,870
Equity	–	–	–	267,736	267,736
	957,653	**1,209,181**	**370,632**	**538,130**	**3,075,596**
Derivatives					
– receive swaps	–	65,000	30,000	–	95,000
	–	2.68%	3.31%	–	–
– pay swaps	–	(55,000)	(40,000)	–	(95,000)
	–	3.43%	4.46%	–	–
	–	**10,000**	**(10,000)**	–	–
Net 2008 position	**$37,492**	**$(405,347)**	**$814,317**	**$(446,462)**	**$ –**
Net 2007 position	$(82,079)	$(329,132)	$879,362	$(468,151)	$ –

16. DERIVATIVE INSTRUMENTS

Interest rate derivatives are used for asset liability management purposes to hedge against changes in market interest rates. They involve the exchange of interest flows between two parties on a specified notional principal.

Equity-linked option contracts are used to fix costs on deposit products which are linked to movements in equity market indexes.

16. DERIVATIVE INSTRUMENTS (cont'd)

Notional principal amounts, upon which payments are based, are not indicative of the credit risk associated with derivative instruments. The credit risk arising from off-balance sheet transactions is the risk due to counterparties 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 changes in prevailing interest rates. The Credit Union manages this risk by entering into such arrangements with Credit Union Central of Alberta or other highly rated financial institutions.

The notional amounts of derivative contracts maturing at various times through 2013 are summarized as follows:

($ thousands)	Fair Value	2008	2007
Interest rate cap options	$(1,396)	$240,000	$140,000
Interest rate swaps	(1,290)	95,000	585,000
Forward rate agreements	–	–	50,000
Equity-linked options	321	3,350	4,030
Total Notional Amounts	**$(2,365)**	**$338,350**	$779,030

17. SEGMENTED INFORMATION

The Credit Union manages its business as one integrated operating segment as it operates principally in personal, commercial and agricultural banking in Alberta through 31 locations. Accordingly, it has only one reporting segment for financial reporting purposes.

18. INCOME TAXES

($ thousands)	2008	2007
Current income taxes	$4,713	$6,946
Future income taxes	(314)	(346)
	$4,399	$6,600

18. INCOME TAXES (cont'd)

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates of 22.0% (2007 – 23.1%) to income before income taxes. The reasons for the differences are as follows:

	2008 % of Pre-Tax Income	2007 % of Pre-Tax Income
Income taxes calculated at the statutory rate	22.0	23.1
Income taxes adjusted for the effect of:		
Non-deductible and other items	(0.9)	(1.1)
Adjustments for changes in future tax assets and liabilities	(1.4)	(1.1)
Income taxes as recorded	**19.7**	20.9

Future income tax liabilities are reported as accounts payable on the Consolidated Balance Sheet. The net tax effect of temporary differences resulted in a future tax liability of $686,747 (2007 – $1,001,212).

19. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

This note describes the Credit Union's objectives, policies and processes for managing risks arising from financial instruments and the methods used to measure them. The following table presents the principal financial instruments used by the Credit Union from which financial instrument risk arises:

($ thousands)	Held for Trading	Held to Maturity	Available for Sale	Loans & Receivables	Other Financial Liabilities
Cash	$10,202	$ –	$ –	$ –	$ –
Investments	–	242,717	35,859	–	–
Other assets	–	–	–	3,158	–
Member loans	–	–	–	2,721,703	–
Member deposits	–	–	–	–	2,728,040
Loans payable	–	–	–	–	51,950
Other liabilities	2,686	–	–	–	25,184

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how the Credit Union manages its exposure to them.

19. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Credit Risk

Credit Risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk may arise in lending activities that lead to loans and advances, or investments that bring debt securities and other investments into the Credit Union's asset portfolio.

Risk measurement

The Credit Union employs a risk measurement process for its loan portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. Risk measured by reviewing exposure to member borrowers, and by qualitative and quantitative analysis of a borrower's financial information are important factors used in determining the financial state of the counterparty.

Loan exposures are managed and monitored through facility limits for individual borrowers and a credit review process. These reviews ensure that the borrower complies with internal policy and underwriting standards. The Credit Union relies on collateral security typically in the form of a fixed and floating charge over the assets and underwriting of its borrowers. Credit risk is also managed through regular analysis of the ability of members and potential members to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Credit risk of counterparties in other financial instruments, such as investments and derivatives, is generally assessed through published credit ratings.

Credit quality performance

Refer to Note 5 for additional information on the credit quality performance of member loans.

Objectives, policies and processes

The Credit Union employs and is committed to a number of important principles to manage credit risk exposure as follows:

- Credit risk assessment includes policies related to credit risk analysis, risk rating, and risk scoring;
- Credit risk mitigation includes credit structuring, collateral, and guarantees;
- Credit approvals include credit risk limits and exceptions;
- Credit risk documentation focuses on documentation and administration; and
- Credit review and deterioration includes monitoring and review.

The Credit Union's credit risk policies, processes and methodologies have not changed from October 31, 2007.

19. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Market Risk

Market risk arises from changes in interest rates and foreign exchange rates that affect the Credit Union's net income. Exposure to this risk directly impacts the Credit Union's net income from its loan, investment, derivative, borrowings, and deposit portfolios.

Risk measurement

The Credit Union's risk position is measured based on rates charged and paid to members, and investment and borrowing counterparties. The Treasury department manages day-to-day market risk within approved policies and reports at least quarterly to management's Asset Liability Committee (ALCO) to ensure policy compliance. Tools to measure this risk include: gap analysis, which shows the sensitivity between interest sensitive assets and interest sensitive liabilities; duration analysis; and income sensitivity analysis.

Objectives, policies and processes

The Credit Union's goal is to achieve adequate profits, liquidity and safety. The Credit Union manages market risk by developing and implementing asset and liability management policies. The policies are approved by ALCO and reported to the Board. The Credit Union makes use of financial modeling based on possible interest rate scenarios and matching analysis to measure and manage its market risk.

Refer to Notes 14 and 15 for additional information on fair values and interest rate sensitivity.

The Credit Union's market risk policies, processes and methodologies have not changed from October 31, 2007.

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.

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgement pertaining to current and prospective specific market conditions and the related behaviour of its members and counterparties. The Credit Union measures and manages its liquidity position from three main risk perspectives:

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term assets;
- Tactical liquidity risk, which addresses the Credit Union's day-to-day funding requirements that are managed by imposing prudent limits on net fund outflows; and
- Contingent liquidity risk, which assesses the impact of the Credit Union's intended responses to sudden stressful events.

19. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Objectives, policies and processes
The acceptable amount of risk is defined by policies approved by ALCO and reported to the Board. The Credit Union's liquidity policies and practices include:

- Measurement and forecast of cash flows;
- Maintenance of a pool of high quality liquid assets;
- A stable base of core deposits from retail and commercial members;
- Limits on single deposits and sources of deposits;
- Monitoring of wholesale demand and term deposits; and
- Diversification of funding sources.

The Credit Union's liquidity risk policies, processes and methodologies have not changed from October 31, 2007.

20. CAPITAL MANAGEMENT

The Credit Union is subject to the capital requirements set out in the Credit Union Act of Alberta (the Act). Under the Act, the Credit Union is required to maintain capital equal to or exceed the greater of 4 percent of total adjusted assets and 8 percent of risk-weighted assets. When determining the sufficiency of capital, the Credit Union is permitted under the Act to include retained earnings, common shares, investment shares, general allowance for credit losses, and the Credit Union's portion of qualifying retained earnings of Credit Union Central of Alberta (Central) as calculated and provided by Central.

($ thousands)	**2008**	**2007**
Retained earnings	$122,944	$111,361
Common shares	131,139	131,487
Investment shares	13,653	13,957
General allowance for credit losses	3,500	3,000
Qualifying Central retained earnings	12,280	6,703
Other	687	1,001
Capital Available	**$284,203**	$267,509
Capital Ratios		
Percent of adjusted assets	9.2%	9.8%
Percent of risk-weighted assets	16.0%	17.1%

20. CAPITAL MANAGEMENT (cont'd)

The Credit Union's objectives when managing capital are to ensure the long term viability and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses and to comply at all times with the capital requirements set out in the Act. Management ensures compliance with capital adequacy by setting equity targets, monitoring and reporting. Should the Credit Union not comply with its legislated capital adequacy requirements, the Credit Union may be subjected to intervention by the Credit Union Deposit Guarantee Corporation. In addition, the redemption of common shares would be suspended and payment of dividends on shares would be limited to terms under the Act.

The Credit Union's capital management policies, processes and methodologies have not changed from October 31, 2007.

21. SUBSEQUENT EVENTS

Effective November 1, 2008, the Credit Union amalgamated with Common Wealth Credit Union of Lloydminster, Alberta and Servus Credit Union of Edmonton, Alberta to form the amalgamated entity, Servus Credit Union Ltd. Based on the October 31, 2008 annual financial statements of the three credit unions, the combined credit union would have approximately 403,000 members and $9.519 billion of assets.

On amalgamation, all common and investment shares of each credit union will be converted share for share into an equal number of common or investment shares with a par value of $1 each of the amalgamated Servus Credit Union Ltd.