SERVUS CREDIT UNION LTD.

Consolidated Financial Statements
For the year ended October 31, 2008

SERVUS CREDIT UNION LTD.
Auditors' Report

To the Members of
Servus Credit Union Ltd.

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

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Deloitte & Touche LLP

Chartered Accountants

December 4, 2008

SERVUS CREDIT UNION LTD.
Management's Responsibility
for Financial Reporting

These consolidated financial statements have been prepared by the management of Servus Credit Union Ltd. who are responsible for their reliability, completeness and integrity. They were developed in accordance with requirements of the Credit Union Act of Alberta and conform in all material respects with Canadian generally accepted accounting principles.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that financial records are complete and accurate so as to safeguard the assets of the organization. These systems include establishment and communication of standards of business conduct through all levels of the organization to prevent conflicts of interest and unauthorized disclosure and to provide assurance that all transactions are authorized and proper records maintained. Internal audit is one method that provides management with the reliability to assess the adequacy of these controls. Further, the systems of internal control are reviewed by the Credit Union's external auditors to the extent necessary to render their opinion on the consolidated financial statements.

The Board of Directors has approved the consolidated financial statements. The Audit/Finance Committee of the Board has reviewed the consolidated financial statements with the external auditors, in detail, and received regular reports on internal control findings from the internal auditor. Deloitte and Touche LLP, the independent external auditors appointed by the Board of Directors, examined the consolidated financial statements and accompanying notes of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full and free access to the internal audit staff, other management staff and the Audit/Finance Committee. Their audit report outlines the scope of their examination and their opinion.

Steve Blakely
President & Chief Executive Officer

Garth Warner
Acting President & Chief Executive Officer
As of October 31, 2008

Ian Glassford, MBA, CMA
Chief Financial Officer

SERVUS CREDIT UNION LTD.
Consolidated Balance Sheet
As at October 31, 2008

($ thousands)	Notes	2008	2007
ASSETS			
Cash		$40,665	$4,837
Investments	3	402,487	327,068
Member loans	4,5,6	4,049,790	3,843,734
Available for sale assets	7	6,623	–
Premises and equipment	8	103,432	62,467
Other assets	9	20,683	12,798
		$4,623,680	$4,250,904
LIABILITIES			
Member deposits	10	$4,286,737	$3,697,527
Accounts payable and accrued liabilities	11	50,709	43,907
Obligations under capital lease	12	1,133	–
Term loans payable	13	20,012	280,814
		4,358,591	4,022,248
Guarantees, commitments and contingent liabilities	17		
MEMBERS' EQUITY			
Share capital	14	116,401	109,406
Provision for dividends distributable	14	12,062	11,386
Retained earnings		135,837	107,776
Accumulated other comprehensive income		789	88
		265,089	228,656
		$4,623,680	$4,250,904

The accompanying notes are an integral part of the Consolidated Financial Statements.

APPROVED ON BEHALF OF THE BOARD

Peter Elzinga
Director

Penny Reeves
Director

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

($ thousands)	Notes	2008	2007
Interest income			
Member loans		$225,270	$200,568
Investments		15,545	14,519
		240,815	215,087
Interest expense			
Member deposits		111,753	96,797
Term loans payable		6,105	6,206
		117,858	103,003
Net interest income		122,957	112,084
Provision for credit losses	5	1,456	3,328
Net interest income after provision for credit losses		121,501	108,756
Other income	15	38,704	30,504
Net interest and other income		160,205	139,260
Operating expenses			
Salaries and employee benefits		64,749	56,222
Premises and equipment		11,618	10,318
Depreciation		6,390	5,882
Other operating expenses		30,049	27,582
Investment tax credits		(535)	–
		112,271	100,004
Income before Profit$hare Dividends and income taxes		**47,934**	**39,256**
Profit$hare Dividends	14	8,268	7,269
Income before income taxes		39,666	31,987
Income taxes	16	8,621	7,445
Net income		31,045	24,542
Other comprehensive income			
Change in unrealized gains and losses on investments available for sale (net of future income taxes of $210; 2007 – $25)		789	88
Transferred to net income (net of future income taxes of $23; 2007 – $7)		(88)	(24)
Other comprehensive income		701	64
Total comprehensive income		$31,746	$24,606

The accompanying notes are an integral part of the Consolidated Financial Statements.

SERVUS CREDIT UNION LTD.
Consolidated Statement of Members' Equity
For the year ended October 31, 2008

($ thousands)	Notes	2008	2007
Common Shares			
Balance at the beginning of the year	14	$68,929	$64,156
Distribution of dividends declared in prior year	14	9,192	7,109
Issued and redeemed for cash, net	14	(2,359)	(2,336)
Provision for dividends distributable	14	9,916	9,192
Balance at the end of the year		85,678	78,121
Investment Shares			
Balance at the beginning of the year	14	40,477	39,197
Distribution of dividends declared in prior year	14	2,194	2,064
Issued and redeemed for cash, net	14	(2,032)	(784)
Provision for dividends distributable	14	2,146	2,194
Balance at the end of the year		42,785	42,671
Retained earnings			
Balance at the beginning of the year		107,776	86,465
Transition adjustment		–	(66)
Net income		31,045	24,542
		138,821	110,941
Common share dividends	14	1,648	1,923
Investment share dividends	14	2,146	2,194
		3,794	4,117
Income tax recovery thereon		(810)	(952)
		2,984	3,165
Balance at the end of the year		135,837	107,776
Accumulated other comprehensive income			
Balance at the beginning of the year		88	–
Transition adjustment (net of future income taxes of $7)		–	24
Transferred to net income (net of future income taxes of $23; 2007 – $7)		(88)	(24)
Other comprehensive income for the year (net of future income taxes of $210; 2007 – $25)		789	88
Balance at the end of the year		789	88
Total members' equity at the end of the year		$265,089	$228,656

The accompanying notes are an integral part of the Consolidated Financial Statements.

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

($ thousands)	Notes	2008	2007
Cash flows from (used in) operating activities:			
Net income		$31,045	$24,542
Adjustments for:			
Depreciation		6,390	5,882
Provision for credit losses		1,456	3,328
Provision for Profit$hare Dividends		8,268	7,269
Realized gains on investments available for sale		(113)	(31)
Future income taxes		574	(158)
Loss on disposal of equipment		46	106
Gain on sale of member loans		(6,452)	–
Net change in other assets, accounts payable and accrued liabilities		(1,843)	8,312
Net change in accrued interest on member loans		870	(3,372)
Net change in accrued interest on member deposits		1,151	95
Net change in accrued interest on term loans payable		(802)	814
		40,590	46,787
Cash flows from (used in) financing activities:			
Member deposits		588,059	590,183
Term loans payable		(260,000)	280,000
Proceeds from sale of member loans	6	284,197	–
Repayment of obligation under capital lease		(136)	–
Common shares, issued and redeemed, net		(2,359)	(2,336)
Investment shares, issued and redeemed, net		(2,032)	(784)
Income tax recovery on common share and investment share dividends		810	952
		608,539	868,015
Cash flows from (used in) investing activities:			
Investments, net		(74,420)	21,947
Member loans, net		(486,127)	(927,892)
Additions to premises and equipment		(52,781)	(23,244)
Proceeds on disposal of equipment		27	343
		(613,301)	(928,846)
Increase (decrease) in cash		35,828	(14,044)
Cash, beginning of year		4,837	18,881
Cash, end of year		$40,665	$4,837
Supplementary cash flow information:			
Interest paid during the year		$116,780	$101,623
Interest and dividends received during the year		244,667	212,371
Income taxes paid during the year		8,062	7,493

The accompanying notes are an integral part of the Consolidated Financial Statements.

SERVUS CREDIT UNION LTD.
Notes to Consolidated Financial Statements
For the year ended October 31, 2008
($ Thousands except per share amounts)

Servus Credit Union Ltd. (Servus or the Credit Union) is incorporated under the Credit Union Act of the Province of Alberta (the Act). The Credit Union serves members in north central Alberta.

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

1. CHANGES IN ACCOUNTING POLICIES

Financial instruments

The Canadian Institute of Chartered Accountants (CICA) has issued *Section 3862: Financial Instruments Disclosure and Section 3863: Financial Instruments: Presentation*, which implement changes to accounting standards for disclosure of financial instruments. The disclosure requires information to be presented on all categories of financial instruments, the risks associated with investments and how the Credit Union manages those risks. These standards are effective November 1, 2007 and are applied prospectively.

Capital management

Section 1535: Capital Disclosures require the Credit Union to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. This standard is effective November 1, 2007 and is applied prospectively.

The Credit Union provides financial services to its members and is subject to capital requirement set out in the Act. During 2008, the Credit Union complied with these capital requirements.

Definition and calculation of capital: When determining sufficiency of capital, the Credit Union includes in its calculation amounts permitted under the Act including:

- 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.

The total value of the figures above is then reduced by any amounts of future income taxes recoverable when performing the final calculation of capital. Accumulated other comprehensive income is not included in the calculation of capital according to the definitions provided by the Corporation.

Capital management: The Credit Union's objectives when managing capital are:

- To ensure the long term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses.
- To comply at all times with the capital requirements set out in the Act.

1. CHANGES IN ACCOUNTING POLICIES (cont'd)

The Credit Union measures the adequacy of capital using two methods:

- Total capital as a percent of total assets;
- Total capital as a percent of risk weighted assets. Under this method the Credit Union reviews each loan and other assets and assigns a risk weighting using definitions and formulas set out in the Act and by the Corporation. The more risk associated with an asset, a higher weighting is assigned. The balance of each asset is multiplied by the risk weighting with the result then added together. The total amount of capital is then divided into this figure. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

The Credit Union management ensures compliance with capital adequacy through the following:

- Setting policies for capital management, monitoring and reporting;
- Setting policies for related areas such as asset liability management;
- Reporting to the Board of Directors or its committees regarding financial results and capital adequacy;
- Reporting to the Corporation on its capital adequacy; and
- Setting budgets and reporting variances to those budgets.

In addition, under the terms of the Act, the Credit Union may not pay dividends on Common or Investment Shares if there are reasonable grounds for believing that the Credit Union is, or would by that payment become, insolvent.

Capital requirements: The Credit Union is required under the Act to hold capital equal to or exceeding the greater of:

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

The Credit Union has a stated policy that it will maintain at all times capital equal to no less than 10% of risk weighted assets. A 10% corporate minimum allows the Credit Union to practice more conservative standards of capital management than required by the Act or the Corporation and provides additional security for the Credit Union.

As at October 31, 2008 for regulatory purposes the Credit Union's total capital as a percent of assets was 6.17% and the total capital as a percent of risk weighted assets was 12.28%. For the year ended October 31, 2007 these figures were 5.67% and 11.47% respectively. Therefore, the Credit Union has exceeded its minimum capital requirement at October 31, 2008.

($ Thousands except per share amounts)

1. CHANGES IN ACCOUNTING POLICIES (cont'd)

Elements of risk weighted capital at the year end are:

	2008	2007
Retained earnings	$135,837	$107,776
Common shares	85,678	78,121
Investment shares	42,785	42,671
General allowance for credit losses	6,067	6,511
Qualifying Central retained earnings	16,452	7,680
Future income taxes recoverable	(803)	(1,562)
Other	260	260
	$286,276	$241,457

Retained earnings increase as a result of net income in excess of dividend distribution. Common share balances fluctuate with the addition of new members and members leaving the Credit Union. Common share balances also increase from the payment of dividends.

Should the Credit Union not comply with its legislated capital adequacy requirements the following actions would result:

- The CEO and CFO would immediately notify the Board Chair, the Audit Finance Committee Chair, and the Corporation.
- The Board of Directors would be informed at their next scheduled meeting;
- Per the Act, redemption of Common shares would be suspended;
- An explanation and action plan would be presented and enacted; and
- The Credit Union may be subjected to intervention by the Corporation as provided for in the Act.

2. SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of the Credit Union have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies.

The preparation of Consolidated 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. Allowance for credit losses, fair value of financial instruments, income taxes, defined benefit pension plans, post retirement benefits, contingent liabilities, useful life of premises and equipment and accrued liabilities are areas where management makes significant estimates and assumptions in determining the amounts to be recorded in the Consolidated Financial Statements.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Consolidation

The Consolidated Financial Statements include the accounts of Servus, its wholly owned subsidiary, Home Start Financial Ltd. (HSFL) and certain enterprises considered variable interest entities (VIEs) where control is achieved on a basis other than through ownership of a majority of voting rights. HSFL operates a mortgage brokerage which provides mortgage brokerage services to a number of lenders, including the Credit Union. All intercompany balances and transactions are eliminated on consolidation.

(b) Financial instruments recognition and measurement

Financial instruments are initially measured at fair value. Subsequent to initial recognition these instruments are measured as set out below.

Transaction costs are capitalized on initial recognition, except financial instruments designated as held for trading where transaction costs are expensed.

Held-for-trading

Financial instruments classified as held-for-trading are initially measured at fair value and subsequently measured at fair value. Changes in fair value are immediately recognized in Net income.

Held-to-maturity investments

If the Credit Union has positive intent and ability to hold investments to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost. The Credit Union has not classified any financial instruments held-to-maturity as of October 31, 2008.

Available-for-sale investments

Debt securities that the Credit Union may not hold until maturity and marketable equity securities are classified as available for sale and are measured at estimated fair value. The Credit Union uses current market interest rate quotation to estimate the fair values of these investments. Unrealized gains and losses, net of taxes, are reported in Other comprehensive income.

Non-marketable equity instruments

Non-marketable equity instruments include investments in companies that are not traded on an active market and are part of the credit union system (i.e. Central, Credential Securities, Concentra Trust). These instruments are measured at cost.

For investments carried at amortized cost, gains and losses are recognized in Net income when the investment is derecognized or impaired, as well as through the amortization process.

Financial liabilities

Financial liabilities include member deposits, accounts payable and other accrued liabilities and term loans payable. These are measured at amortized cost.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

All impairment losses are recognized in the Net income for the period. Any cumulative loss in respect of an available-for-sale financial assets recognized previously in Accumulated other comprehensive income is transferred to the Net income.

There are no such events or change in circumstances that would indicate impairment as at October 31, 2008.

(c) Cash
Cash is designated as held-for-trading and is considered to be cash on hand, the current account with Central and items in transit.

(d) Investments
Dividends and interest are recorded on an accrual basis using the effective interest method. Gains and losses on the sale of investments are reflected in Interest income on disposition in the Consolidated Statement of Income and Comprehensive Income.

(e) Member loans
Member loans are stated net of unearned income and an allowance for credit losses.

Interest income from loans is recorded on an accrual basis except on loans classified as impaired. A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that 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 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.

Loan origination and renegotiation fees are considered adjustments to loan yield and are deferred and amortized to interest income over the term of the loan. Mortgage prepayment penalties are included in income when charged.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Assets under administration

Assets under administration by the Credit Union comprise loans that have been securitized and sold. Assets under administration are not the property of the Credit Union and are not reflected in the Consolidated Financial Statements. Net revenue from service fees earned for administration is recorded in Other income only when received in cash.

(g) 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 allowances, each of which is reviewed on a regular basis.

Specific allowances include all the accumulated allowances for losses on particular loans required to reduce the carrying amount of those loans to their estimated realizable values. Estimated realizable values are generally 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. Specific allowances are determined on a loan by loan basis except for certain groups of loans which are determined by formula method taking into account recent loss experience.

The general allowance is established by taking into consideration historical trends in loss experience, historical experience in the industry, the current portfolio profile, and management's evaluation of other conditions existing at the balance sheet date which are not reflected in historical trends.

(h) Premises and equipment

Land is carried at cost. Buildings, furniture, equipment and leasehold improvements are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	20 to 40 years
Furniture and equipment	3 to 20 years
Computer equipment	3 to 5 years
Leasehold improvements	Term of lease

Depreciation is recorded commencing in the month after acquisition; none is recorded in the month of disposal. Gains and losses on disposal are recorded in Other income in the Consolidated Statement of Income and Comprehensive Income in the year of disposal.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Assets classified as available for sale
Assets classified as available for sale are those assets whose carrying amounts will be recovered principally through a sale transaction rather than through continuing use. These assets are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated.

An impairment loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognized for subsequent increases in fair value less costs to sell an asset but not exceeding any cumulative impairment losses previously recognized.

(j) Impairment of long lived assets
The Credit Union evaluates the carrying value of long lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized. Impairment losses on long-lived assets are measured as the amount by which the carrying value of an asset group exceeds its fair value, as determined by the discount future cash flows of the asset group. There are no such events or changes in circumstances that would indicate impairment as at October 31, 2008.

(k) Employee future benefits
The Credit Union provides certain pension and other benefits to staff as follows:

(i) *Defined contribution registered retirement savings plan*
The Credit Union offers employees a defined contribution registered retirement savings plan where contributions are made by both the Credit Union and the employee. Contributions are based on a percentage of salary and no further contributions are required once the employee retires or leaves the Credit Union.

(ii) *Defined benefit plans*
The Credit Union provides a defined benefit pension plan, a defined benefit supplemental plan, and a post-retirement benefits plan to qualifying employees. Post-retirement benefits include extended health care, dental, and life insurance. The cost of benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of turnover rates, salary escalation, retirement ages, expected health care costs, and other actuarial factors. Net actuarial gains or losses in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year are amortized over the expected average remaining service life of the employee group. Transitional obligations are amortized in the same manner. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Derivative financial instruments
The Credit Union's policy is not to use derivative financial instruments (derivatives) for trading or speculative purposes.

The Credit Union formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the consolidated balance sheet. The Credit Union also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Credit Union uses quotations based on current observable market data to estimate the fair value of all derivatives.

(i) *Interest rate swaps and interest rate caps*
The Credit Union enters into interest rate swaps and interest rate caps to manage its exposure to fluctuations in interest rates in its overall portfolio or in specific financial instruments. All derivatives are structured by management as economic hedges, however, not all of these derivatives qualify for hedge accounting treatment under GAAP.

For derivatives that do qualify for hedge accounting, the premiums paid to enter into these contracts are recorded in other assets and are amortized over the contract life. Income and expense associated with these contracts are accounted for on an accrual basis and recognized over the life of the contract as an adjustment to interest income or interest expense. Derivatives that do not qualify for hedge accounting are stated at fair value at each reporting period.

Derivatives with positive fair value are recorded as Other assets, and derivatives with negative fair value are recorded as Accounts payable and accrued liabilities. Gains and losses on the derivatives are included in Other income on the Consolidated Statement of Income and Comprehensive Income.

(ii) *Equity-linked term deposits*
The Credit Union has term deposit obligations that are linked to the performance of certain equity indexes and thus have embedded derivatives. These embedded derivatives are accounted for at fair value with changes in fair value reflected in Other income on the Consolidated Statement of Income and Comprehensive Income. This income item is offset by the derivatives used to hedge the deposit obligations and these derivatives are also accounted for at fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(iii) *Foreign currency forward agreements*
Foreign currency derivatives are used to manage the foreign exchange rate exposure from foreign currency denominated assets and liabilities. These derivatives are recorded at fair value and changes in fair value are recorded in Other income on the Consolidated Statement of Income and Comprehensive Income.

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

Future income tax assets are included in Other assets on the Consolidated Balance Sheet.

(n) Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. Gains and losses resulting from translation are recorded in Other income in the Consolidated Statement of Income and Comprehensive Income.

(o) Variable interest entities (VIEs)
VIEs are entities in which equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. GAAP requires the primary beneficiary of a variable interest entity's activities to consolidate the VIE.

On an annual basis, the Credit Union identifies VIEs in which it has an interest, determines whether it is the primary beneficiary of such entities, and if so, consolidates them. The primary beneficiary is an entity that is exposed to a majority of the VIEs' expected losses or entitled to a majority of the VIEs' expected residual returns or both.

The Credit Union is considered to be the primary beneficiary of three registry services which have been consolidated.

($ Thousands except per share amounts)

3. INVESTMENTS

	2008	2007
Central term deposits	$355,957	$279,935
Central shares	42,547	41,607
Accrued interest and dividends	3,983	5,526
	$402,487	$327,068

As required by the Act, the Credit Union maintains its statutory liquidity investments in Central. As of October 31, 2008 these investments' carrying amounts approximate their fair values. The central shares are carried at cost as no market exists for these shares. Refer to Note 19 on interest rate risk for a summarization of amounts of investments by maturity dates and weighted average effective interest rates.

4. MEMBER LOANS AND IMPAIRED LOANS

	Gross Amount	Allowance for Credit Losses		Net Amount	Gross Impaired Loans
		Specific	General		
2008					
Residential mortgages	$2,753,276	$19	$740	$2,752,517	$8,371
Consumer loans	414,225	1,118	3,107	410,000	5,911
Commercial mortgages and loans	876,785	1,515	2,220	873,050	9,413
Accrued interest	14,223	–	–	14,223	–
	$4,058,509	$2,652	$6,067	$4,049,790	$23,695

	Gross Amount	Allowance for Credit Losses		Net Amount	Gross Impaired Loans
		Specific	General		
2007					
Residential mortgages	$2,681,159	$ –	$774	$2,680,385	$2,763
Consumer loans	408,807	1,035	3,160	404,612	4,432
Commercial mortgages and loans	747,176	954	2,577	743,645	7,034
Accrued interest	15,092	–	–	15,092	–
	$3,852,234	$1,989	$6,511	$3,843,734	$14,229

The total amount of loan delinquent over 30 days but not impaired is $32,668 (2007 – $30,506). Refer to Note 19 for interest rate risk.

($ Thousands except per share amounts)

5. ALLOWANCE FOR CREDIT LOSSES

	2008	2007
Balance, beginning of year	$8,500	$5,877
Loans written off	(1,637)	(1,190)
Recoveries of amounts written off in prior years	400	485
Provision for credit losses	1,456	3,328
Balance, end of year	$8,719	$8,500

Refer to Note 22 for information on credit risk.

6. SALES OF MEMBER LOANS

The Credit Union periodically enters into agreements to fund loan growth and manage liquidity by selling loans to unrelated third parties. The Credit Union retains the contractual obligation to service these loans as part of the agreements. The Credit Union's retained interest in the receivables sold consist of rights to future cash flows after payment to the investor (excess spread) and of servicing obligations. The value of the Credit Union's retained interests are subject to prepayment and interest rate risk on the receivables sold. The third parties have no recourse to the Credit Unions' Other assets.

During 2008, the Credit Union sold $284,083 of mortgage loan receivables (2007 – nil) with the gain of $6,452 on sale being recognized in the Consolidated Statement of Income and Comprehensive Income as Other Income. As of October 31, 2008, securitized mortgages not included in the loan balances, total $225,953 (2007 – nil).

One sale consisted of outright sale of mortgages, including all rights and risks, to a third party. The Credit Union's obligation regarding these mortgages is only to service them until maturity. Other sales included the sales of mortgages with the Credit Union maintaining retained rights in excess cash flows produced by the pools of mortgages after payment of required principal and interest amounts to investors. The Credit Union also has an obligation to service the mortgages sold. Since these receivables are sold on a serviced basis, the Credit Union has a servicing liability of $850 (2007 – nil) included in Accounts payable and accrued liabilities on the Consolidated Balance Sheet.

Loan sale activity

	2008	2007
Principal value of loan receivables sold	$284,083	$ –
Net cash proceeds	284,197	–
Retained rights to future excess spread	8,400	–
Premiums	(942)	–
Retained servicing liability	(1,119)	–
Direct transaction costs	(863)	–
Gain on sale before income taxes	6,452	–

($ Thousands except per share amounts)

6. SALES OF MEMBER LOANS (cont'd)

The retained rights to future excess spread is classified as a held for trading financial instrument and is recorded in Other assets on the Consolidated Balance Sheet. The fair value is measured by calculating the present value of forecasted cash flows using the key economic assumptions noted below. The fair value approximates book value at October 31, 2008.

Key economic assumptions

The key economic assumptions used to value the retained rights to future excess spread as at the date of sale are:

Unscheduled prepayment rate (annual %)	15.00%
Residual cash flow discount rate	4.42%
Weighted average life of loans (years)	3.73
Excess spread	1.30%

Assumptions used to value the servicing liability are based on administrative activity, management estimates and corporate cost structures.

Cash flows related to loan sales

The figures below summarize the cash flows related to the sale of Loans for 2008.

Proceeds from loan sales	$284,197
Cash flows remitted on collections	$68,211
Cash flows received on retained rights to excess spread	$1,793

Sensitivity to key assumptions

The value of the Retained rights to future excess spread is primarily impacted by changes in the actual prepayment rate on the loans compared to the estimate originally used. An increase in the actual prepayment rate would cause a reduction in the calculated value of this retained interest while a lower prepayment rate would increase the calculated value. The Credit Union estimates the future prepayment rate based on historic experience, adjusted for the expected impact of current factors such as prevailing interest rates.

	Prepayment Rate	Change in value
Prepayment rate 10% higher	16.50%	$(255)
Prepayment rate 20% higher	18.00%	$(500)

A 10% and 20% change in the discount rate would have no significant impact to the value of the Retained rights to future excess spread.

($ Thousands except per share amounts)

7. AVAILABLE FOR SALE ASSETS

The Credit Union has classified the following assets as held for sale: a building with land and a parcel of land. The Credit Union decided to sell these assets because of excess space in buildings available for its operations.

These assets were accounted for at the lower of cost and estimated fair value. These assets are no longer needed for operations and it is expected that they will be sold during 2009.

8. PREMISES AND EQUIPMENT

	Cost	Accumulated Depreciation	Net
2008			
Land	$19,558	$ –	$19,558
Buildings	79,703	16,347	63,356
Leasehold improvements	11,866	5,843	6,023
Furniture and equipment	21,170	11,564	9,606
Computer equipment	22,222	19,191	3,031
Leased equipment	1,269	148	1,121
Real estate investment properties	810	73	737
	$156,598	$53,166	$103,432

	Cost	Accumulated Depreciation	Net
2007			
Land	$13,754	$ –	$13,754
Buildings	43,422	14,584	28,838
Leasehold improvements	10,928	4,638	6,290
Furniture and equipment	21,470	11,735	9,735
Computer equipment	22,523	19,437	3,086
Leased equipment	–	–	–
Real estate investment properties	810	46	764
	$112,907	$50,440	$62,467

At October 31, 2008, the Credit Union had $1,419 (2007 – $1,990) of assets under construction and not yet placed into service.

($ Thousands except per share amounts)

9. OTHER ASSETS

	Notes	2008	2007
Accounts receivable		$4,386	$3,560
Prepaid items		4,055	1,673
Retained rights to future excess spread	6	7,904	–
Equity-linked derivative contracts	21	2,288	5,384
Future income tax assets		803	1,562
Due from amalgamated credit unions	24d	596	–
Other		651	619
		$20,683	$12,798

10. MEMBER DEPOSITS

	2008	2007
Chequing	$1,048,966	$899,535
Savings	445,807	382,013
Term deposits	2,015,970	1,703,644
Registered plans	731,385	668,877
Accrued interest	44,609	43,458
	$4,286,737	$3,697,527

Refer to Note 19 on interest rate risk for a summarization of member deposit amounts by maturity dates and weighted average effective interest rates.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Notes	2008	2007
Cheques and other items in transit		$8,576	$12,292
Accounts payable		25,092	25,124
Mortgage securitization liabilities	6	6,822	–
Deferred income		3,618	2,488
Pension liability	18	2,887	2,653
Current income tax payable		420	1,243
Other		3,294	107
		$50,709	$43,907

($ Thousands except per share amounts)

12. OBLIGATIONS UNDER CAPITAL LEASE

	2008	2007
Capital lease, secured by equipment with a net book value of $1,121, interest at 3.89%, blended monthly repayment of $23, maturing March 2013	$1,133	$ –

During 2008, the Credit Union incurred $27 in interest expense. The current portion of the obligation under capital lease repayable within 1 year is $240. For the purpose of the Consolidated Statement of Cash Flows, the acquisition financed through the capital lease has been treated as a non-cash item.

Commitments of future minimum lease payment under the capital lease are $280 for years 2009, 2010, 2011 and 2012 and $117 for 2013. Commitments of payment for maintenance are $228 for years 2009, 2010, 2011 and 2012 and $57 for 2013.

13. TERM LOANS PAYABLE

The Credit Union has a credit facility agreement with Central in the aggregate amount of $600,000 comprising a revolving demand operating line of credit (line of credit), a letter of credit and revolving term loans. Interest on the line of credit is payable monthly at Central's prime rate for Canadian dollar advances and Central's US base rate on US dollar advances, in both cases plus or minus the applicable discount or margin of Central in effect from time to time.

Revolving term loans are due on demand or repayable in terms of 1 to 24 months for each advance with interest calculated at Central's prime rate plus or minus the applicable discount or margin of Central in effect from time to time or at the option of the Credit Union for terms of more than 30 days a fixed rate equal to Central's money market deposit rate or the equivalent paid fixed swap rate for the term minus the applicable discount or margin. A general assignment of book debts and hypothecation of investments with Central are pledged as collateral.

At October 31, 2008, the Credit Union had $20,000 (2007 – $280,000) outstanding in revolving term loans with $12 (2007 – $814) in accrued interest. The entire $20,000 is repayable within 1 month.

The Credit Union has a letter of credit with Central for US $3,000 (Cdn $3,644) in favor of MasterCard International, Inc. as part of a card issuer agreement. Fees consist of 1/2 of 1% annually, or US $15 (Cdn $15).

($ Thousands except per share amounts)

14. SHARE CAPITAL

	Number of Shares			
	Common Shares	Series A Investment Shares	Series B Investment Shares	Total
Issued and outstanding as at October 31, 2006	64,156	16,127	23,070	103,353
Distribution of dividends declared in 2006	7,109	850	1,214	9,173
Issued and redeemed for cash in 2007, net	(2,336)	(366)	(418)	(3,120)
Issued and outstanding as at October 31, 2007	68,929	16,611	23,866	109,406
Distribution of dividends declared in 2007	9,192	942	1,252	11,386
Issued and redeemed for cash in 2008, net	(2,359)	(886)	(1,146)	(4,391)
Issued and outstanding as at October 31, 2008	75,762	16,667	23,972	116,401
Value	$75,762	$16,667	$23,972	$116,401

Common shares

Common shares have the following characteristics:

(a) issuable in unlimited number;
(b) a par value of $1, but issuable as fractional shares;
(c) transferable in restricted circumstances;
(d) non-assessable;
(e) redeemable at par value, subject to the Credit Union's redemption policy which includes approval of the Board of Directors and restrictions contained in the Credit Union Act and Regulations, including limitation to 10% of outstanding balances.
(f) adult members must hold a minimum of 50 shares to retain membership in the Credit Union; and
(g) carries right to vote at a general meeting.

Series A and B Investment shares

Series A and B Investment shares have the following characteristics:

(a) no par value;
(b) no voting rights;
(c) non-assessable;
(d) transferable under limited circumstances;
(e) callable at the discretion of the Credit Union upon 5 years written notice;
(f) dividends are non-cumulative and subject to the Credit Union's dividend policy and approval of the Board of Directors; and
(g) redeemable at $1 subject to the Credit Union's redemption policy, which includes redemption once per year, no more than 10% of outstanding balance and approval of the Board of Directors.

($ Thousands except per share amounts)

14. SHARE CAPITAL (cont'd)

Common shares and Series A and B Investment shares represent at-risk capital not guaranteed by the Corporation.

The Board of Directors declared an $8,268 Profit$hare Dividend, a common share dividend of 2.5%, or $1,648, (payable on shares in excess of a member's minimum required holdings), a Series A Investment Share dividend of 5.29% and a Series B Investment Share dividend of 5.29% for a total of $2,146. Profit$hare and common share dividends are paid to members by the issuance of additional common shares and are allocated to members' accounts as determined by the Board of Directors. Series A and B Investment Share dividends are paid in additional Series A and B Investment Shares. Dividends were paid in December 2008.

15. OTHER INCOME

	Notes	2008	2007
Account service charges		$13,094	$13,166
Commissions and fees		8,556	8,088
Insurance commission income		6,583	6,315
Gain on sale of member loans	6	6,452	–
Foreign exchange gains		1,701	1,543
Other		2,318	1,392
		$38,704	$30,504

16. INCOME TAXES

	2008	2007
Current	$8,047	$7,603
Future	574	(158)
	$8,621	$7,445

Full provision for income taxes is made in the determination of net income. Income tax recoveries arising from common share dividends and investment share dividends are reflected in retained earnings. Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 38.19% (2007 – 39.12%) to income before Profit$hare Dividends and income taxes. The reasons for the differences are as follows:

	2008	2007
Income taxes calculated at the statutory rate	38.19%	39.12%
Income taxes adjusted for the effect of:		
Reduction for credit unions	-16.84%	-16.00%
Tax recovery from Profit$hare Dividends	-3.68%	-4.28%
Non-deductible expenses and other	0.32%	0.13%
	17.99%	18.97%

17. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

(a) **Guarantees**

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on i) changes in an underlying interest rate or other variable, including the occurrence or non-occurrence of an event, that is related to an asset or liability held by the guaranteed party, ii) an indemnification provided to the third party with the characteristics listed above, (iii) another entity's failure to perform under an obligation agreement, or (iv) another entity's failure to perform related to its indebtedness. The various guarantees and indemnifications that the Credit Union provides to its members and other third parties but cannot be recorded in the Consolidated Financial Statements are presented below.

b) **Standby letters of credit and letters of guarantee**

Standby letters of credit and letters of guarantee are issued at the request of a Credit Union 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 pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the member. Generally the term of these guarantees does not exceed three years. The types and amounts of collateral security held by the Credit Union for these guarantees is generally the same as for loans.

As at October 31, 2008, standby letters of credit and letters of guarantee outstanding were $9,605 ($2007 – $10,820). This represents' the maximum potential amount of future payments that can be quantified and excludes other guarantees that cannot be quantified.

c) **Indemnification of directors and officers**

The Credit Union has director and officer insurance coverage that limits its exposure to certain events or occurrences while the director or officer is or was serving at the Credit Union's request. The maximum potential amount of future payments is unlimited. This insurance coverage enables the Credit Union to recover a portion of any future amounts paid.

d) **Other indirect commitments**

In the normal course of business, various other indirect commitments are outstanding which are not reflected on the Consolidated Balance Sheet. These may include:

i) Commercial letters of credit which require the Credit Union to honour drafts presented by a third party when specific activities are completed.

ii) Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to specific conditions.

($ Thousands except per share amounts)

17. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (cont'd)

These financial commitments are subject to the Credit Union's normal credit standards, financial controls and monitoring procedures. The table below provides a detailed breakdown of the Credit Union's other indirect commitments expressed in terms of the contractual amounts of the related commitment or contract which are not reflected on the Consolidated Balance Sheet.

	2008	2007
Commitments to extend credit:		
Original term to maturity of one year or less	$988,612	$1,015,800
Original term to maturity of more than one year	22,327	27,800
	$1,010,939	$1,043,600

e) **Lease commitments and other executory contracts**

Minimum future rental commitments for buildings and equipment under long term non-cancellable operating leases are as follows:

Year ending October 31, 2009	$2,261
2010	2,203
2011	2,170
2012	1,884
2013	1,500
2014 and thereafter	6,735
	$16,753

The Credit Union has various building construction projects underway for a total estimated cost of $2,179, and to date has paid $1,210 and recorded $304 of those costs in accounts payable and accrued liabilities. The remaining $665 is the anticipated cost to complete these construction projects.

(f) **Legal contingencies**

In the normal course of its business activities, the Credit Union is subject to claims and legal actions that may be made by former employees, members, suppliers and others. An accrual is made in the Consolidated Financial Statements if it can be reasonably estimated and it is likely that a future event will confirm that the liability has been incurred. Accruals are not made if the occurrence of the confirming future event is not determinable.

($ Thousands except per share amounts)

18. EMPLOYEE BENEFIT PLANS

The Credit Union provides pension benefits to employees through defined contribution and defined benefit plans. Other post-retirement benefits, including life insurance, health care and dental benefits are provided to eligible retired employees. All amounts expensed in the year are included in Salaries and employee benefits in the Consolidated Statement of Income and Comprehensive Income.

	Pension Plans	Other Benefit Plans	Total 2008	Total 2007
Total employee benefit plan expense				
Defined benefit plans				
Current service cost	$49	$162	$211	$306
Interest cost	75	152	227	238
Curtailment loss	–	–	–	683
Expected return on plan assets	(45)	–	(45)	(28)
Amortization of past service costs	80	–	80	803
Amortization of transitional obligation	–	103	103	103
Amortization of (gain) on plan benefit change	–	(54)	(54)	(54)
Amortization of net actuarial loss	197	31	228	28
	356	394	750	2,079
Defined contribution registered retirement savings plan—Credit Union contributions	2,008	–	2,008	1,836
	$2,364	$394	$2,758	$3,915

($ Thousands except per share amounts)

18. EMPLOYEE BENEFIT PLANS (cont'd)

Information regarding the Credit Union's defined benefit plans as at October 31 is as follows:

	Notes	Pension Plans	Other Benefit Plans	Total 2008	Total 2007
Accrued benefit obligation					
Balance at beginning of year		$3,248	$2,437	$5,685	$3,494
Current service cost		49	162	211	306
Interest cost		75	152	227	238
Expected benefits paid		(168)	(40)	(208)	(27)
Actuarial loss		–	(673)	(673)	138
Plan amendments		30	–	30	853
Settlements		(2,450)	–	(2,450)	–
Curtailments		(40)	–	(40)	683
Balance at end of year		744	2,038	2,782	5,685
Defined benefit plan assets					
Fair value at beginning of year		2,234	–	2,234	360
Actual return on plan assets		(52)	–	(52)	60
Employer contributions		268	–	268	1,814
Settlements		(2,450)	–	(2,450)	–
Fair value at end of year		–	–	–	2,234
Accrued benefit obligation not funded		$744	$2,038	$2,782	$3,451
Percentage of fair value of plan assets					
Equity securities		–	–	–	100%
Accrued benefit (liability)					
Funded status-plan (deficit)		$(744)	$(2,038)	$(2,782)	$(3,451)
Unamortized net actuarial loss		(24)	(124)	(148)	656
Unamortized past service costs		–	–	–	50
Unamortized (gain) on plan benefit change		–	(165)	(165)	(219)
Unamortized transitional obligation		–	208	208	311
Recorded (liability)	11	$(768)	$(2,119)	$(2,887)	(2,653)

($ Thousands except per share amounts)

18. EMPLOYEE BENEFIT PLANS (cont'd)

	2008	2007
Significant assumptions		
Weighted average discount rate	5.95%	5.24%
Rate of compensation increase	3.75%	3.75%
Expected rate of return on plan assets	7.50%	7.50%

Effect of change in assumed health care cost trend rates

The annual health insurance inflation rate is assumed to be 6.0%. The following shows the effect on the Credit Union's post retirement benefits plan of a change in the assumed health care cost trend rates for the period ending October 31, 2008:

	1% increase	1% decrease
Effect on:		
Net benefit cost	$13	$(12)
Accrued benefit obligation	150	(127)

Actuarial valuations

The most recent actuarial valuation on the defined benefit pension plan for funding purposes was completed as at October 31, 2008.

($ Thousands except per share amounts)

19. 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 the maturities of its financial assets. The table below summarizes amounts by maturity dates and weighted average effective interest rates.

2008	Floating Rate	1 to 3 months	3 Months to 1 Year	1 to 5 Years	Non-rate Sensitive	Total
Assets						
Cash	$31,837	$ –	$ –	$ –	$8,828	$40,665
Investments	42,547	131,411	223,546	–	4,983	402,487
Effective yield	*3.00%*	*2.95%*	*3.24%*			3.08%
Member loans	1,857,241	178,686	410,100	1,598,259	5 ,504	4,049,790
Effective yield	*4.39%*	*6.11%*	*5.94%*	*5.99%*	–	5.25%
Other	–	–	–	–	130,738	130,738
Effective yield						
	$1,931,625	$310,097	$633,646	$1,598,259	$150,053	$4,623,680
Liabilities and members' equity						
Member deposits	$1,040,312	$1,048,671	$626,554	$1,155,550	$415,650	$4,286,737
Effective yield	*1.60%*	*3.05%*	*3.14%*	*3.07%*		
Loans payable	20,000	–	–	–	12	20,012
Effective yield	*2.81%*					
Other	–	–	–	–	316,931	316,931
	$1,060,312	$1,048,671	$626,554	$1,155,550	$732,593	$4,623,680
Balance sheet gap	$871,313	$(738,574)	$7,092	$442,709	$(582,540)	$ –
Notional value of derivative financial instruments	–	–	–	–	–	–
Net gap	$871,313	$(738,574)	$7,092	$442,709	$(582,540)	–

($ Thousands except per share amounts)

19. INTEREST RATE RISK (cont'd)

2007	Floating Rate	1 to 3 Months	3 Months to 1 Year	1 to 5 Years	Non-rate Sensitive	Total
Assets						
Cash	$(5,077)	$ –	$ –	$ –	$9,914	$4,837
Investments	41,607	145,561	134,261	–	5,639	327,068
Effective yield	*4.75%*	*4.79%*	*4.36%*			*4.52%*
Member loans	1,500,117	141,348	415,759	1,779,918	6,592	3,843,734
Effective yield	*6.66%*	*6.13%*	*5.98%*	*5.80%*		*6.15%*
Other	–	–	–	–	75,265	75,265
Effective yield						
	$1,536,647	$286,909	$550,020	$1,779,918	$97,410	$4,250,904
Liabilities and members' equity						
Member deposits	$1,225,283	$840,225	$562,177	$697,428	$372,414	$3,697,527
Effective yield	*2.29%*	*4.47%*	*3.85%*	*3.89%*		
Loans payable	280,814	–	–	–	–	280,814
Effective yield	*5.19%*					
Other	–	–	–	–	272,563	272,563
Effective yield						
	$1,506,097	$840,225	$562,177	$697,428	$644,977	$4,250,904
Balance sheet gap	$30,550	$(553,316)	$(12,157)	$1,082,490	$(547,567)	$ –
Notional value of derivative financial instruments	20,000	(10,000)	(10,000)	–	–	–
Net gap	$50,550	$(563,316)	$(22,157)	$1,082,490	$(547,567)	$ –

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the table below represent the fair values of the Credit Union's financial instruments using the valuations and assumptions described below. The amounts do not include the fair value of items that are not considered financial assets, such as premises and equipment.

The estimated fair values approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. However, many of the Credit Union's financial instruments lack an available trading market and are intended to be held to maturity. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the

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

amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

	2008			2007		
($ thousands)	**Book Value**	**Fair Value**	**Favourable/ (Unfavourable)**	**Book Value**	**Fair Value**	**Favourable/ (Unfavourable)**
Assets						
Cash	$40,665	$40,665	$ –	$4,837	$4,837	$ –
Investments	402,487	402,487	–	327,068	327,068	–
Member loans	4,049,790	4,047,263	(2,527)	3,843,734	3,813,077	(30,657)
Other assets	15,826	15,826	–	7,815	7,815	–
Liabilities						
Member deposits	4,286,737	4,302,705	(15,968)	3,697,527	3,691,375	6,152
Other liabilities	51,842	51,842	0	43,907	43,907	–
Term loans payable	20,012	20,012	–	280,814	280,814	–
Total fair value adjustment			$(18,495)			$(24,505)

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

(a) The fair values of cash, investments, and other financial assets and liabilities are assumed to approximate book values, due to their short term nature.
(b) The estimated fair value of floating rate member loans and member deposits are assumed to equal book value as the interest rates automatically reprice to market.
(c) The estimated fair value of fixed rate member loans and fixed rate member deposits is determined by discounting the expected future cash flows of these loans and deposits at current market rates for products with similar terms and credit risks.
(d) The fair value of derivative financial instruments are calculated based on market conditions at a specific point in time and may not be reflective of future fair values.

($ Thousands except per share amounts)

21. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union enters into derivative transactions for risk management purposes.

(a) **Interest rate swaps and interest rate caps**

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

Derivative financial instruments that are not designated for hedge accounting are marked to market through income. This resulted in a $58 decrease in Other income in 2008 (2007 – $10). The fair value of these instruments are $nil (2007 – $58) and included in other assets.

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

	1 to 3 Months	3 Months to 1 Year	1 to 5 Years	Total 2008	Total 2007
Interest rate swaps					
Receive floating, pay fixed	$ –	$ –	$ –	$ –	$20,000
Receive fixed, pay floating	–	–	–	–	–
Interest rate caps	$ –	$ –	$ –	$ –	$ –
	$ –	$ –	$ –	$ –	$20,000

(b) **Equity-linked call options**

Equity-linked call options are used to fix costs on term deposit products which are linked to movements in equity market indexes. Both the embedded derivative in the term deposit product as well as the call option derivatives are marked to market through income. This resulted in a $13 increase in other income in 2008 (2007 – $29). The fair value of the equity-linked derivative contracts is $2,288 (2007 – $5,384) and included in Other assets. The fair value of the embedded derivatives is $2,299 (2007 – $5,404) and included in member deposits.

The notional amounts of equity-linked derivative contracts maturing at various times are summarized as follows:

	1 to 3 Months	3 Months to 1 Year	1 to 5 Years	Total 2008	Total 2007
Equity-linked option contracts	$ –	$4,183	$20,981	$25,164	$21,317

21. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

c) **Foreign Currency Forward**

The notional amount of foreign currency forward contracts is as follows:

	1 to 3 Months	3 Months to 1 Year	1 to 5 Years	Total 2008	Total 2007
Foreign currency forward	$ –	$ –	$ –	$ –	$20,955

The foreign currency forward has no fair value.

22. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

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 the exposure to them.

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 principally in lending activities that lead to loans and advances, and 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 is measured by reviewing exposure to individual borrowers, and by reviewing qualitative and quantitative factors that impact the loan portfolios. Qualitative and quantitative analysis of a borrower's financial information are important factors used in determining the financial state of 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 for our counter-parties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

Credit quality performance

Refer to Note 5 for additional information on the credit quality performance of our Members' loans.

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

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 risk approval limits includes 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.

Market Risk
Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's income from its loan and deposit portfolios. The Credit Union's objective is to earn an acceptable return on these portfolios, without taking unreasonable risk, while meeting member-owner needs.

Risk Measurement
The Credit Union's risk position is measured based on rates charged to member-owners. The Treasury department manages day-to-day market risk within approved policies and reports weekly to management's Asset Liability Committee (ALCO) to ensure policy compliance. Management provides monthly reports on these matters to the Board's Audit Finance committee. 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
Corporate Treasury is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and compliance with policies. The Credit Union manages market risk by developing and implementing asset and liability management policies. The policies are approved by the Board and monitored by the ALCO. The Credit Union's goal is to achieve satisfactory and consistent profits, liquidity and stability. The Credit Union makes use of financial modeling based on possible interest rate scenarios and matching analysis to measure and manage its market risk. At least annually, the Board's Audit Finance Committee reviews the Credit Union's investment and asset liability management policies.

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

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

The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income. These measures are based on assumptions made by senior management and validated by experience. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives.

($ thousands)	**2008**	**2007**
Before tax impact of:		
1% increase in rates	$5,544	$1,121
1% decrease in rates	$(6,123)	$(1,200)

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 and market conditions and the related behaviour of its members and counterparties. We measure and manage our liquidity position from three 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 illiquid assets;
- Tactical liquidity risk, which addresses our day-to-day funding requirements that are managed by imposing prudential limits on net fund outflows.
- Contingent liquidity risk, which assesses the impact of and our intended responses to sudden stressful events.

Objectives, policies and processes
The acceptable amount of risk is defined by policies approved by the Board and monitored by the ALCO.

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 customers;
- Limits on single deposits and sources of deposits;
- Monitoring of wholesale demand and term deposits; and
- Diversification of funding sources.

The Credit Union manages liquidity by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. The Treasury department manages day-to-day liquidity within these policies and reports regularly to the ALCO to ensure policy compliance. Management provides monthly reports on these matters to the Board's Audit Finance Committee.

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

Key features of liquidity management include:

- Daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position, including the flows from off-balance sheet items, on at least a two-month rolling basis; and
- Consideration of the term structure of loans and deposits, with emphasis on deposit maturities, as well as expected loan funding and other commitments to ensure the Credit Union can maintain, required levels of liquidity while meeting obligations.

Policy changes in the current year include clarification in the following areas:

- Deposit concentration;
- Wholesale funding;
- Cashflow management; and
- References to and strengthening the role of the management ALCO.

23. EXECUTIVE MANAGERS' REMUNERATION AND BENEFITS

($ thousands)	Salary	Bonus	Benefits	2008 Total	2007 Total
Chief Executive Officer (1)	$ –	$ –	$ –	$ –	$2,163
Chief Executive Officer (2)	188	–	25	213	485
Chief Executive Officer Amalgamation (2)	219	3,653	42	3,914	–
Acting Chief Executive Officer (3)	118	41	24	183	–
Senior Vice President Operations (3)	96	191	23	310	286
Chief Financial Officer	197	224	48	469	288

Benefits include employer's share of all executive managers' benefits and allowances and contributions or payments made on behalf of executive managers including pension, health care, dental coverage, vision coverage, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short term disability plans, professional memberships, concessionary loans, car allowances, club memberships, and automobiles provided.

1) Chief Executive Officer retired as of May 1, 2007 and assumed new duties until the end of the year.
2) Chief Executive Officer assumed responsibilities of amalgamation as of May 1, 2008.
3) Senior Vice President Operations assumed responsibilities as Acting Chief Executive Officer as of May 1, 2008.

24. RELATED PARTY INFORMATION

(a) Directors, management and staff had $110,660 in loans outstanding at October 31, 2008 (2007 – $92,522). It is the policy of the Credit Union to grant certain management and staff loans at rates ranging from 1.5% to 2.5% below member rates. Director loans are at member rates. All loans are in good standing and are granted in accordance with the Credit Union's standard credit practices.

(b) The aggregate remuneration paid to directors during the year was $947 (2007 – $339). Amounts paid to directors range from $8 (2007 – $6) to $103 (2007 – $38) with an average of $59 (2007 – $18). Reimbursement of expenses was $93 (2007 – $69).

(c) Directors and management of the Credit Union have deposits with the Credit Union totalling $69,212 (2007 – $59,938). Staff also have access to personal chequing accounts which do not incur service charges.

(d) Certain costs incurred to bring the three credit unions together as of October 31, 2008 were shared equally. As of October 31, 2008, the total costs incurred, which were mainly for legal and consulting activities, were $1,333 of which $596 were recorded as due from amalgamated credit unions.

25. SEGMENTED INFORMATION

The Credit Union manages its business as one integrated operating segment as it operates principally in personal and commercial banking in north central Alberta.

26. SUBSEQUENT EVENT

Effective November 1, 2008, the Credit Union amalgamated with Community Savings and Credit Union of Red Deer, Alberta and Common Wealth Credit Union of Lloydminster, 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 $9,517,000 of assets.

The amalgamation will be accounted for as a pooling of interests. 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.

27. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

28. FUTURE ACCOUNTING CHANGES

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The Credit Union will begin reporting the financial statements in accordance with IFRS on November 1, 2011.

In mid-2008, Credit Union Central of Canada initiated a national project to assist credit unions and Centrals prepare for their transition to IFRS. The Credit Union is actively involved in this national project and has initiated planning its transition but the impact on the consolidated financial statements has not yet been determined.

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