servus
credit union

Management's Discussion and Analysis
Consolidated Financial Statements

For the year ended October 31, 2009

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SERVUS CREDIT UNION LTD.
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This document is part of a two-part publication. This section focuses on Servus Credit Union's 2009 financial and operating results. For a more general overview of your credit union, please refer to our 2009 Corporate Profile. Both documents can also be accessed at servus.ca.

Introduction

Servus Credit Union Ltd. (Servus or the Credit Union) is a member-owned, community-based financial institution with roots dating back to 1938.

On November 1, 2008, Servus became Canada's first province-wide credit union when Community Credit Union Ltd., Common Wealth Credit Union Limited and Edmonton-based Servus Credit Union Ltd. amalgamated. Today Servus is Alberta's largest credit union. It serves 400,000 member-owners from 100 locations in 62 communities across the province and has assets of over $10 billion.

Based in Edmonton with regional offices in Lloydminster and Red Deer, Servus provides a complete line of financial services including loans, deposits, investments, telephone and Internet banking, ATMs, debit and credit cards, financial planning, insurance, trust, agricultural and business services.

Servus is part of an international system of credit unions that share a common philosophy of member-ownership—the greater the credit union's success, the more member-owners benefit through profit sharing, new products and services, and community support.

One of our major strengths is our focus on exceptional member service. In 2009 Servus received outstanding scores for member service excellence from Synovate's Customer Service Index—an ongoing survey of personal banking in Canada. In a sample of 1,300 Servus member-owners from across Alberta, members rated their satisfaction with the overall quality of service at 86%, online banking at 81% and service at their local branches at 86%. These scores indicate a high level of satisfaction with our member service and speak to the great job done by the employees of Servus.

Values, Vision and Mission

In 2009 all Servus employees and the Board participated in the development and confirmation of a set of values to guide the new credit union. The top values identified by Servus employees include:

Member Service	Integrity	Life/Work Balance
Community	Teamwork	Fairness
Investing in Our People		

These values will be used on an ongoing basis to focus our efforts and guide our operations. During 2010 Servus will develop a vision and mission statement for the new credit union.

Integration

Fiscal 2009 was a transition year for our new credit union. By bringing together three of the largest credit unions in Alberta we created an organization of significant size, strength and stability. As a result, we can be more competitive, increase access for members and offer expanded career opportunities to employees. The advantages of this new credit union have also helped us successfully weather the economic fluctuations of the past year while still working to enhance our value to members. Change is never easy, but we now have an opportunity to operate our new credit union in a way that brings the most value to our members, employees and the organization.

Market and Economic Environment

Predictable, boring or typical are not words anyone is likely to use to describe 2009. The world experienced one of the most challenging periods since the great depression of the 1930s. The financial meltdown rooted in the US became clearly evident during the fall of 2008 and rippled around the globe. Key factors that fuelled the bubble in the US prior to the economic recession were inflated housing prices, poor lending practices by many American banks, and the creation of complex financial instruments by the investment industry. The subsequent impacts were numerous and extreme including frozen liquidity and credit markets worldwide, falling equity markets, falling resource prices and housing prices, rapidly rising unemployment, and deflationary forces.

Canada and Alberta were noticeably impacted, although not to the same extent as the US and Europe. In fact, the Canadian financial system won global praise for its strength and sound business practices. Central Canada was hit hard in the auto sector and manufacturing industries. Western Canada was affected by the dramatic drop in commodity prices such as oil, natural gas and agricultural products.

In response to the financial calamity, central banks lowered interest rates to historic low levels—injecting significant liquidity into the system. Governments provided major fiscal stimuli to recharge the economies and avert a potential catastrophe. With access to liquidity very tight around the world the cost of raising deposits was much higher relative to benchmarks such as government bonds or the Prime Rate than markets had seen in previous years—despite the lowering of central bank rates.

Servus managed these challenges in 2009 by developing a budget that anticipated declining interest rates and revenues, working toward more modest growth expectations, controlling costs diligently, and taking aggressive action to ensure sufficient liquidity. We balanced the pressure from competition and markets with the need to ensure sustainable long-term financial performance and still invested in what was needed to build a new, successful credit union.

The end result was very sound performance in 2009, continuation of the work required to join the three credit unions and very strong member satisfaction ratings.

Key Performance Drivers

Balanced Scorecard

Servus has adopted a Balanced Scorecard system for performance measurement. The Balanced Scorecard includes both financial and non-financial measures against which we evaluate and measure our progress. It provides Servus employees with a clear view of what success means for our organization and how successful we are at achieving our organizational objectives.

In 2009 our focus was to build and implement processes and measurements to ensure we achieved the four strategic imperatives in our balanced approach: Financial, Employee Experience, Member Experience, and Business Processes.

Objective	Strategy	Target	Actual Results
Financial Top quartile financial performance	Operating Income (millions) [1]	$84.4	$90.0
	Other income as a percentage of average assets [2]	0.74%	0.75%
	Operating Efficiency Ratio [2,3]	73.0%	68.5%
	Return on Average Assets (ROA) [2]	0.82%	0.96%
Employee Experience Our employees take pride, feel valued and are highly satisfied with our credit union and the role they play in it	All employees contribute to the development of corporate values and listing of desired behaviours	Corporate values developed	Completed
	Ensure all employees complete performance plans for 2009 using predecessor credit union templates	Employee performance plans for 2009 completed	Completed
	Develop the new Servus performance management strategy and learning and development framework that integrates performance management, incentive pay, succession planning and the Human Resources Information System	Performance management framework developed	Completed
	Design employee engagement survey and establish benchmark	Survey designed and benchmarking completed	Completed
	Develop employee incentive plan for implementation in 2010	Incentive plan developed	Completed

Objective	Strategy	Target	Actual Results
Member Experience Build differentiation through superior member and internal services	Develop a member satisfaction program including satisfaction measurement tool and establish benchmark	Member satisfaction program developed and benchmark established	Completed
	Identify departmental service level standards (three to five key items) and build into performance management program when feasible	Departmental service level standards identified	Completed
Business Processes Ensure our resources are deployed effectively and efficiently	Operating Expense as a percentage of Average Assets [2]	2.46%	2.33%
	Build a corporate inventory of core processes and identify five key processes to map and review	Inventory completed and five key processes mapped and reviewed	Completed

1. Income before patronage and income taxes.
2. Results are before patronage, taxes, employee incentives and extraordinary items.
3. The Operating Efficiency Ratio is a ratio of expenses to revenues. In essence it measures how much the credit union spent to earn a dollar of revenue.

Results and Outlook

Servus members can take great pride in what was accomplished by the people who served them in 2009. In the midst of an economic storm that brought about the end of some financial institutions the employees of this credit union:

- Successfully completed a large, complex credit union amalgamation never seen before in Canada
- Managed through a global liquidity crisis
- Continued to grow and support members in a declining economic environment
- Met all the objectives set out by the Board of Directors regarding financial performance, employee experience, member experience and business processes.

While meeting these challenges, Servus also invested in the success of the amalgamation during this crucial first year of operations. Spending priorities in 2009 included work on a single banking system, branch signage, a common email system, and a single solution for accounting and human resources software. Integration of employees into a cohesive team was essential and we relied on communications, shared priorities and the choosing of new corporate values. Major progress was made in the development of new polices in areas such as governance, human resources, credit and operations.

Financial Results at a Glance

- Capital position improved from capital of 7.28% of assets at the end of 2008 to 7.52% at the end of 2009
- Liquidity improved with borrowings from Credit Union Central Alberta falling from $80 million at the end of 2008 to only $13 million at the end of 2009
- Loan growth of 6.6% was slightly weaker than forecast
- The weaker economy resulted in Provision for Credit Losses rising from $4.3 million in 2008 to $10.7 million in 2009
- Net interest income came under downward pressure (falling from 2.89% of average assets in 2008 to 2.67% in 2009), but was offset by lower operating costs (down to 2.40% of average assets from 2.70% the year before)
- Operating income was similar to 2008 at $90.0 million
- Profit share (patronage and dividends) with our members was $42.2 million in 2009, up $9.1 million (28%) from 2008.

None of this would have been possible without the effort and support of our employees and the strong relationship Servus enjoys with its members. Our success this past year is the result of every person in the credit union playing a role, whether it was in serving a member in the middle of a financial crisis, aiding growth during a liquidity crisis, helping manage delinquency in a recession, promoting our new credit union to members or managing our processes as effectively as possible.

Outlook for 2010

Although uncertainty and risk still exist, especially with a fragile US economy, a widespread recovery appears to be starting. Leading indicators in North America show positive signs. Equity markets have risen significantly since the lows in March 2009, evidence of investor confidence. Commodity prices are firming, largely in response to anticipated demand from rapidly growing emerging markets.

Over the longer term, resource prices are expected to show strength. This is a positive sign for western Canada and Alberta. Inflation should be contained over the next year but may start to rise by 2011. We expect that the US housing problems are close to bottom and may start improving. As well, the global banking system is starting to stabilize and liquidity is flowing again, which is a major factor in recovery. Unfortunately unemployment is forecast to remain relatively high and meaningful job creation may not become visible until 2011.

The projection is for a gradual economic recovery as corporations and individuals generally remain cautious, deleveraging their balance sheets and reducing debt. Emerging markets will play an increasingly important role in future global growth. The US debt problem is massive and they will need to get it under control in the near future. A high Canadian dollar will restrain inflationary pressures but also create an obstacle to achieving significant national growth.

In Alberta long-term economic growth prospects are quite positive, including projections for a relatively low unemployment rate, strong real estate market, an accommodating interest rate environment, and solid energy and commodity prices in response to anticipated increased demand from global and emerging markets.

For fiscal 2010 the business environment will remain challenging as economic risks still exist. Servus projects moderate improvement in economic fundamentals. Liquidity and credit market conditions are steadily improving and volatility in financial markets should subside relative to 2009.

Servus' expectations for 2010

- Moderate growth in line with the Alberta economy
- Increased competition for loan and deposit business
- Net interest income remaining lower until interest rates begin to rise, which is not expected until later in 2010
- Continued investment in services for our members and employees, which may result in slightly lower income in the first half of 2010 until net interest income improves.

2010 will be the very beginning of the recovery phase. Servus expects to see improvement in growth and financial performance through 2011 and beyond as the Alberta and Canadian economies strengthen.

The Canadian environment is extremely attractive compared to international markets. Accordingly, Servus' major competitors are expected to focus their growth efforts on domestic markets. We expect pricing competition to increase and, with a low short-term interest rate environment, the organization will be challenged with net interest margin performance pressures. Credit quality, with loan delinquency as a key metric and lagging indicator, may weaken moderately in fiscal 2010 and the credit union has set up loan allowances for this purpose. Servus will continue to remain focused on effectively managing operating expenses to ensure adequate levels of financial performance. Expecting increased competition, the organization remains committed to solid growth through effective means including exceptional member service, our unique Profit Share program and innovative product line.

2010 Strategic Plan

Our objective for fiscal 2010 is to truly become “one credit union.”

With our new values firmly in place we will continue to solidify our direction through the development of a corporate vision and mission statement early in 2010. Our goal is to ensure that everyone in our organization has a common understanding of where our credit union is going and can articulate it clearly and succinctly.

Over the next few years we will bring the three amalgamated organizations together on the same banking, accounting, human resource, and loans systems. These consolidated systems will enable our credit union to take advantage of the efficiencies and opportunities that exist for a credit union of our size.

Servus will continue to use a Balanced Scorecard system. Not only does it allow us to measure and track our success, it is an effective and comprehensive forward-looking tool providing all credit union employees with a clear line of sight as to what success means for our credit union and our progress at achieving the plan.

Member Experience
We will continue to enhance member experience by providing the most appropriate products, programs and services to meet members' expectations, diverse needs and changing lifestyles.

Employee Experience
We are proud that employees feel Servus provides a positive, safe, rewarding and engaging work environment. We will continue to invest in our employees through on-the-job-experience, career opportunities, mentoring and leadership development programs to meet the future plans of the credit union and to help employees reach their potential.

Financial Performance
A credit union is a generational trust and must be operated with a plan to ensure long-term financial viability so that we are able to help the next generation of members. The greater our profits, the more our member-owners stand to gain through investment in products, services, our communities and our employees. In order to succeed in the long term we must reduce our dependency on interest-based income, broaden other sources of revenue and leverage our assets profitably.

Business Processes
We will continue to review and improve our business processes as measured by the Operating Efficiency Ratio and Operating Expenses as a Percentage of Average Assets to ensure we are ready to successfully address ongoing competition in price and service levels.

Governance
Our Board of Directors is committed to providing guidance and direction through a superior governance model. As an organization we are committed to being a leader in providing support and guidance to the entire credit union system.

Risk Management

Servus has a strong risk management structure. While the failure of many financial institutions around the world in 2009 brought the management of risk to the forefront of discussions on how financial institutions operate, we benefited from our investment of time and resources in this area. (Note: Please see Note 25 of the 2009 Consolidated Financial Statements for more details on the management of financial risk at Servus).

Enterprise Risk Management
Servus uses an enterprise-wide approach to identify, measure, monitor and manage risk. This approach is based on the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the recognized risk management control standard in the financial services sector.

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are predictable and consistent with the credit union's objectives and risk tolerance, and that there is an appropriate balance between risk and reward to maximize value for member-owners.

We believe that effective enterprise risk management is a journey and not a destination, so we continue to grow, evolve and adapt our risk management program. The framework we use provides processes to identify risks, assess the likelihood of their occurrence along with the impact of the risk, the potential impact on Servus operations, and to establish policies, procedures and controls to ensure that risk is managed within acceptable tolerances.

Servus' enterprise risk management governance model begins with oversight by the Board of Directors, either directly or through its committees, as shown in Figure 1.

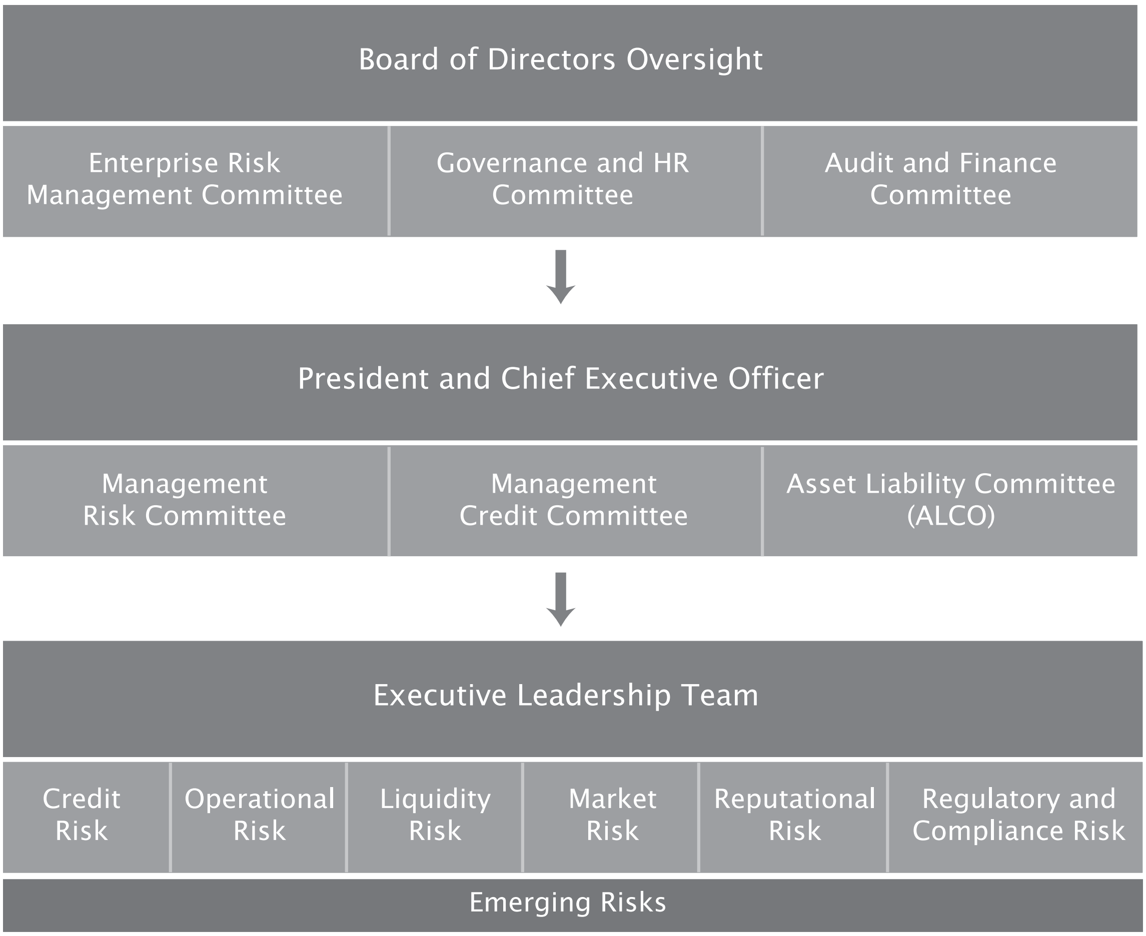

Figure 1—Servus Credit Union's enterprise risk management governance model

The President and Chief Executive Officer is responsible and accountable for risk management. Day-to-day responsibility is delegated to the Chief Risk Officer. Three management committees, the Asset Liability Committee, the Management Credit Committee and the Management Risk Committee identify, assign and monitor risks through their work. Ownership of key risks is delegated to the appropriate Executive Leadership Team (ELT) member.

Risk Management Framework

Traditional risk management solutions tend to focus on negative events and often depend on diligent corporate compliance programs. Servus Credit Union's Enterprise Risk Management framework proactively elevates material risk issues to senior management and the Board. This helps Servus find a better balance between loss prevention, risk mitigation efforts, and entrepreneurial risk taking.

The Servus risk management framework has four cornerstones (shown in Figure 2). Each is reviewed and updated at least annually to ensure consistency with risk taking activities and relevance to Servus business and financial strategies, to the Credit Union Deposit Guarantee Corporation (CUDGC) Standards of Sound Business Practices, and within the legislative environment.

Policies, Strategies and Limits

The governance, risk management direction and extent of Servus' risk taking activities are established through policies, strategies and limits. Policies are also developed based on the requirement of regulators (e.g. CUDGC) and require input from the Board of Directors and senior management.

Guidelines

Guidelines are the directives provided to implement the policies. Generally these describe types of risks and exposures, whether geographic or industry related.

Processes and Standards

Processes are the activities associated with identifying, evaluating, documenting, reporting and controlling risk. Standards define the breadth and quality of information required to make a decision and the expectations in terms of quality of analysis and presentation.

Measurement and Reporting

Servus monitors its risk exposure to ensure it is operating within approved limits or guidelines. Breaches, if any, are reported to senior management or Board committees (depending on the limit or guideline). Internal Audit independently monitors the effectiveness of risk management policies, procedures and internal controls.

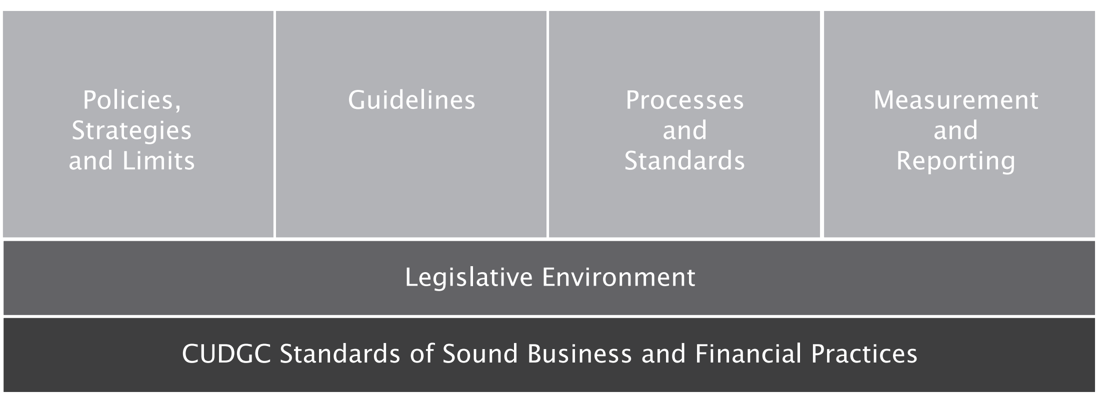

Figure 2—Servus Credit Union risk management framework

These four cornerstones, layered on the CUDGC framework and legislative environment, form the foundation of the Servus Risk Management Framework.

Types of Risk

Servus has grouped its major risks into seven categories.

1. Credit Risk

Credit risk is defined in Servus policy as the risk of financial loss resulting from the failure of an individual or business to honour an obligation to the credit union. Credit risk arises any time credit union funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements. Credit risk is primarily found in the lending portfolio but is also present in other transactions.

Servus manages credit risk through policies and limits to ensure broad diversification across Alberta and within various industries and product mixes. The risk is also managed by maximum limits on individual and connected accounts, participation in syndicated loans and minimum standards for loan quality. As well, Servus manages this risk through experienced and skilled lenders who have demonstrated experience, education and clearly documented decision-making authority, and through approval processes that include a Management Credit Committee.

2. Operational Risk

Operational risk is the possibility that Servus may not be able to offer its products and services to members or continue to operate its business. It is also the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. While operational risk cannot be completely eliminated, proactive operational management is a key strategy to mitigate this risk.

Servus manages operational risk through a knowledgeable and experienced management team who are committed to the risk management policies and to promoting an ethical culture with clear communication. Regular meetings of the Servus Credit Union Asset Liability Committee (ALCO) and Operations Committee (made up of supervisory and management personnel from all banking operational areas and chaired by a member of senior management) reinforce and guide our operational risk taking activities. Our implementation of supporting policies and procedural controls include (among others) segregation of duties and built-in systemic checks and balances. Additional controls include an established "whistleblower" process, an employee code of conduct, regular internal audits by an independent audit team and continual review and upgrade of systems and procedures.

3. Liquidity Risk

Liquidity risk is the possibility that Servus is unable to meet its financial obligations as they fall due. It entails:

- The sufficiency of the deposit base and/or other funding sources to maintain the asset base
- The risk of having insufficient liquid resources to meet the credit union's cash or funding requirements
- The risk of having insufficient liquid investments to meet statutory liquidity requirements.

Servus liquidity policies include the measurement and forecast of cash flows, a stable base of core deposits from retail and commercial customers, limits on single deposits and sources of deposits, and monitoring of wholesale demand and term deposits. The Servus liquidity management strategy includes the daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position of the credit union on a forward 90-day rolling basis.

4. Market Risk

Market risk is the risk of financial loss resulting from changes to the value of assets or liabilities of Servus, most commonly through interest rate changes.

To effectively manage interest rate risk, Servus Credit Union's ALCO establishes policy guidelines and meets regularly to monitor the Bank of Canada's position and to decide future strategies. Interest rate risk policies are approved and reviewed at least annually by the Board of Directors, with regular reporting provided to the Board's Enterprise Risk Management and Audit and Finance Committees.

5. Reputation Risk

Reputation risk is the risk to earnings and capital arising from negative public or stakeholder opinion. This can result from actual or alleged conduct in any number of activities, but often involves questions about business ethics and integrity, competence, corporate governance practices, quality and accuracy of financial reporting disclosures, or quality of products and service. Negative public or stakeholder opinion could adversely affect the ability to attract and keep members and could expose Servus to legal or regulatory action.

Servus manages and measures reputation risk by monitoring the external media environment, conducting regular surveys of members, non-members and employees, and through regular reporting by the Management Risk Committee. In addition, an employee code of conduct and corporate values enhance awareness of the types of behaviour that have the potential to harm our reputation and reinforce the standards and sound business practices we believe are essential to maintaining our reputation.

6. Regulatory and Compliance Risk

Regulatory and compliance risk is the risk of Servus not fulfilling the requirements of external or internal regulatory functions. Regulatory risk differs from other banking risks such as credit risk or market risk in that it is typically not a risk actively or deliberately assumed by management in expectation of a return. Rather, it occurs as part of the normal course of operating our credit union.

The Servus philosophy is to manage regulatory risk through a strong culture of integrity and sound controls. Business units and corporate areas are responsible for managing day-to-day regulatory and legal risk, while the compliance departments assist them by providing advice and oversight. Again, our code of conduct and corporate values help set the tone for a culture of integrity. The code stipulates that concern for what is right, including compliance with the law, should be the first consideration in all business decisions and actions. All directors, officers and employees are required to attest annually that they understand the code of conduct and comply with its provisions.

7. Emerging Risks

Servus also monitors and reports to both the Management Risk Committee and the Board Enterprise Risk Management Committee on risks that, although not fitting in any of the previous risk categories, may have an impact on credit union operations. These include changing economic conditions, impacts of geographic concentration within single industry locations, fraud and crime trends, and issues relating to the continuing consolidation through amalgamations.

Although the use of metrics to measure emerging risk is relatively new and there are few proven methods for detecting leading indicators, we are working on developing qualitative and quantitative measures. Meanwhile, Servus uses measures such as personal bankruptcy rates, increases in unemployment and layoffs, changes in oil prices, housing starts and prices, and other indicators to identify issues and trends.

Corporate Governance

The Servus Credit Union Board of Directors is a governance board. Its responsibility is to set policy and govern activities according to the Credit Union Act and Servus Credit Union bylaws. It oversees and monitors strategy to ensure organizational objectives are met. The Servus Board of Directors consists of 12 members from across the province. They are elected by the membership for a three-year term. For more detailed information regarding Servus governance please refer to this publication's companion document, our 2009 Corporate Profile.

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 and 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 and Finance Committee. Their audit report outlines the scope of their examination and their opinion.

Garth Warner
President & Chief Executive Officer

Ian Glassford, MBA, CMA
Chief Financial Officer

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, 2009 and the consolidated statements of income and comprehensive income, members' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits 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 respects, the financial position of the Credit Union as at October 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of Common Wealth Credit Union Limited and Community Credit Union Ltd. for the year ended October 31, 2008, which are included in the pooled comparative figures in the consolidated financial statements, were audited by other auditors, whose reports, dated November 28, 2008 and December 5, 2008 respectively, expressed an unqualified audit opinion on those consolidated financial statements.

Deloitte & Touche LLP

Chartered Accountants

Edmonton, Alberta
December 21, 2009

SERVUS CREDIT UNION LTD.
Consolidated Balance Sheet
As at October 31, 2009

(thousands of dollars)	Notes	**2009**	2008
ASSETS			
Cash		**$ 175,487**	$85,291
Investments	2, 5	**833,375**	878,264
Member loans	6, 7, 8	**8,901,715**	8,351,454
Property and equipment	9	**197,519**	184,641
Property and land available for sale	9	**7,820**	6,623
Intangible assets	2, 10	**6,016**	7,395
Other assets	11	**41,616**	34,905
		$ 10,163,548	$ 9,548,573
LIABILITIES			
Member deposits	12	**$ 9,252,672**	$ 8,652,089
Accounts payable and other liabilities	13	**133,037**	121,401
Term loans payable	14	**13,186**	79,882
		9,398,895	8,853,372
Guarantees, commitments and contingent liabilities	20		
MEMBER EQUITY			
Share capital	15	**406,740**	381,615
Retained earnings		**357,913**	312,797
Accumulated other comprehensive income		—	789
		764,653	695,201
		$ 10,163,548	$ 9,548,573

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

APPROVED ON BEHALF OF THE BOARD

William J. Anhorn
Chair, Board of Directors

Peter Galloway
Chair, Audit and Finance Committee

SERVUS CREDIT UNION LTD.
Consolidated Statement of Income and Comprehensive Income
For the year ended October 31, 2009

(thousands of dollars)	Notes	**2009**	2008
Interest income			
Member loans		**$ 417,776**	$ 468,885
Investments		**18,540**	37,051
Total interest income		**436,316**	505,936
Interest expense			
Member deposits		**171,186**	233,100
Term loans		**2,459**	11,178
Total interest expense		**173,645**	244,278
Net interest income		**262,671**	261,658
Provision for credit losses	7	**10,720**	4,302
Net interest income after provision for credit losses		**251,951**	257,356
Other income	17	**74,697**	77,526
Net interest and other income		**326,648**	334,882
Operating expenses			
Personnel		**133,542**	143,288
General	18	**48,324**	46,686
Occupancy		**18,286**	21,766
Member security		**16,799**	13,447
Depreciation		**13,638**	11,712
Organization		**3,621**	4,929
Amortization	2	**2,459**	2,533
Total operating expenses		**236,669**	244,361
Income before patronage allocation to members and income taxes		**89,979**	90,521
Patronage allocation to members	15	**22,496**	14,913
Income before income taxes		**67,483**	75,608
Income taxes	19	**13,972**	16,185
Operating net income		**53,511**	59,423
Extraordinary gain	5	**7,349**	—
Net income		**60,860**	**59,423**
Other comprehensive income			
Unrealized gains and losses on investments available for sale (net of future income taxes of $nil; 2008 – $210)		—	789
Realized to net income (net of future income taxes of $nil; 2008 – $23)		—	(88)
Other comprehensive income		—	701
Total comprehensive income		**$ 60,860**	**$ 60,124**

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, 2009

(thousands of dollars)	Notes	**2009**	2008
Share Capital			
Balance, beginning of year		**$ 381,615**	$ 361,242
Common Shares			
Balance, beginning of year	15	**281,194**	262,612
Issued and redeemed for cash, net	15	**8,819**	6,314
Provision for dividends distributable	15	**13,937**	12,268
Balance, end of year	15	**303,950**	281,194
Investment Shares			
Balance, beginning of year	15	**100,421**	98,630
Issued and redeemed for cash, net	15	**(2,697)**	(3,136)
Provision for dividends distributable	15	**5,066**	4,927
Balance at the end of the year	15	**102,790**	100,421
Share Capital, end of year		**406,740**	381,615
Retained earnings			
Balance, beginning of year		**312,797**	267,549
Net income		**60,860**	59,423
Provisions for dividends on common shares		**(13,937)**	(12,268)
Provisions for dividends on investment shares		**(5,734)**	(5,822)
Income tax recovery thereon		**3,927**	3,915
Retained Earnings, end of year		**357,913**	312,797
Accumulated other comprehensive income			
Balance, beginning year		**789**	88
Reclassification of gains and losses on investments available for sale (net of future income taxes of $nil; 2008 – $23)		—	(88)
Change in accounting policy (net of future income taxes of $210)	2	**(789)**	—
Other comprehensive income for the year (net of future income taxes of nil; 2008 – $210)		—	789
Accumulated Other Comprehensive Income, end of year		—	789
Total Member's Equity		**$ 764,653**	$ 695,201

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, 2009

(thousands of dollars)	Notes	**2009**	2008
Cash Flows From (Used in) Operating Activities:			
Operating net income		**$ 53,511**	$ 59,423
Adjustments for:			
Depreciation		**13,638**	11,712
Amortization		**2,459**	2,533
Future income taxes	19	**1,015**	365
Provision for credit losses	7	**10,720**	4,302
Provision for patronage allocation to members	15	—	14,913
Realized loss on investments available for sale		**975**	999
Investment income from equity method investments	5	**(3,098)**	—
Loss on sale of property and equipment		**11**	108
Gain on securitization of residential mortgages	8	**(4,585)**	(6,452)
Net change in other assets and accounts payable and other liabilities		**4,360**	9,336
Net change in accrued interest on member loans		**2,247**	1,006
Net change in accrued interest on member deposits		**(8,510)**	7,348
Net change in accrued interest on investments		**4,325**	4,024
Operating Activities		**77,068**	109,617
Cash Flows From (Used in) Investing Activities			
Additions to intangible assets		**(1,080)**	—
Additions to property and equipment		**(28,160)**	(68,030)
Proceeds on disposal of property and equipment		**436**	1,467
Member loans, net		**(598,999)**	(1,050,458)
Purchase of residential mortgages	8	**(18,938)**	—
Investments, net		**49,037**	(71,563)
Investing Activities		**(597,704)**	(1,188,584)
Cash Flows From (Used in) Financing Activities			
Advances of term loans payable		**395,000**	(155,000)
Repayment of term loans payable		**(461,696)**	(158,694)
Proceeds from securitization of residential mortgages	8	**59,294**	284,197
Member deposits		**609,093**	1,162,510
Repayment of obligation under capital lease	13	**(240)**	(136)
Dividends paid on investment shares	15	**(668)**	(895)
Shares, issued and redeemed, net	15	**6,122**	3,178
Income tax recovery		**3,927**	3,915
Financing Activities		**610,832**	1,139,075
Increase in Cash		**90,196**	60,108
Cash, beginning of year		**85,291**	25,183
Cash, End of year		**$ 175,487**	$ 85,291
Supplementary cash flow information			
Interest paid during the year		**$ 182,206**	$ 239,205
Interest and dividends received during the year		**439,790**	469,891
Income taxes paid during the year		**17,967**	18,386

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, 2009

1. INCORPORATION AND GOVERNING LEGISLATION

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 across 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.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (thousands of dollars)

During 2009, the Credit Union adopted the following new Canadian Institute of Chartered Accountant (CICA) standards:

CICA Handbook Section 3064, Goodwill and Intangible Assets (Section 3064)—
On November 1, 2008, the Credit Union adopted the guidance of Section 3064, Goodwill and Intangible Assets (Section 3064). Section 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, provides clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized. As a result of adopting Section 3064, the Credit Union has reclassified $6,016 (2008 – $7,395) (Note 10) of net book value of Computer software and technology development from Property and Equipment to Intangible assets on the Consolidated Balance Sheet and corresponding amortization of $2,459 (2008 – $2,533) from Depreciation – Operating Expenses to Amortization – Operating expenses on the Consolidated Statement of Income and Comprehensive Income.

EIC 173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities (EIC 173)—
In January 2009, the Emerging Issues Committee (EIC) issued Abstract No. 173. EIC 173 requires an entity to take into account its own credit risk and that of the relevant counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments. Management has concluded that there is no material impact on the Consolidated Financial Statements.

CICA Handbook Section 3062, Financial Instrument Disclosures (Section 3062)—In June 2009, the CICA issued amendments to Section 3862 which require enhanced disclosures over the value measurements and liquidity risks of financial instruments. All financial instruments recognized at fair value on the Consolidated Balance Sheet must be classified in three fair value hierarchy levels, which are as follows:

Level 1 – valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means;

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Level 3 – valuation techniques with significant unobservable market inputs.

The additional disclosures over liquidity risks require greater clarification over the application of liquidity risk as well as maturity analysis for derivative financial liabilities. Refer to Note 23 Fair Value of Financial Instruments for classification within fair value hierarchy levels and Note 25 Financial Risk Management for liquidity risk information.

CICA Handbook Section 3855, Financial Instruments Recognition and Measurement (Section 3855)—In June 2009, the CICA provided a clarification to Section 3855 with respect to the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. Management has concluded that the impact of the clarification is not material to the Consolidated Financial Statements.

In August 2009, the CICA issued various amendments to Section 3855 which reduces differences with International Financial Reporting Standards (IFRS). The amendments include changing the categories into which debt instruments are required and permitted to be classified and eliminating the distinction between debt securities and other debt instruments. As a result, debt instruments not quoted in an active market may be classified as loans and receivables, and impairment would be assessed using the same model for impaired loans. Loans and receivables that we intend to sell immediately or in the near term must be classified as held-for-trading and loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available-for-sale.

The amendments also permit reclassifying financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category under specific circumstances. They also require reversing an impairment loss relating to an available-for-sale debt instrument when, in a subsequent period, the fair value of the instruments increases and the increase can be objectively related to an event occurring after the loss was recognized.

The Credit Union adopted these amendments in the Consolidated Financial Statements which required retroactive application to November 1, 2008 without restatement. The impacts on the Consolidated Financial Statements were:

- Transfer of the Credit Union Central of Alberta (Alberta Central) term deposit investments amounting to $735,207 (Note 5) classified as available-for-sale to loans and receivables.
- Transfer of mortgage pool investments amounting to $26,735 (Note 5) classified as held-to-maturity to loans and receivables.
- Transfer of gains amounting to $789 on investments available-for-sale from accumulated other comprehensive income due to change in accounting policy.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
Effective November 1, 2008, Servus Credit Union Ltd. of Edmonton, Alberta amalgamated with Common Wealth Credit Union Limited of Lloydminster, Alberta and Community Credit Union Ltd. of Red Deer, Alberta to form the amalgamated entity, Servus Credit Union Ltd.

On amalgamation, all common and investment shares of each predecessor credit union were converted share for share into an equal number of common or investment shares with a par value of one dollar each of the amalgamated Credit Union. In these Consolidated Financial Statements, the amalgamation has been accounted for as pooling of interests and, as result, the Consolidated Balance Sheet, Consolidated Statement of Income and Comprehensive Income, the Consolidated Statement of Members' Equity and Consolidated Statement of Cash Flows have been prepared as though Servus Credit Union Ltd., Common Wealth Credit Union Limited and Community Credit Union Ltd had been combined since inception. Under this method, the Consolidated Financial Statements reflect the combined historical carrying values of the credit union for each of the periods presented. All intercompany balances and transactions were eliminated upon amalgamation. Comparative figures have been presented as if the predecessor credit unions were amalgamated prior to that period.

The Consolidated Financial Statements of the Credit Union have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) on a going concern basis.

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosures at year end. Certain estimates, including allowance for credit losses, fair value of financial instruments, income taxes, accounting for securitizations, defined benefit pension plans, post-retirement benefits, contingent liabilities, and the useful life of property, equipment, and intangible assets and accrued liabilities require management to make subjective or complex judgements. Accordingly, actual results could differ from those estimates.

The significant accounting policies and practices used by the Credit Union are:

Basis of Consolidation
The Consolidated Financial Statements include the assets, liabilities, income and expenses of subsidiaries, and variable interest entities of which the Credit Union is determined to be the primary beneficiary. All intercompany balances and transactions are eliminated on consolidation.

Included in the Consolidated Financial Statements are the accounts of the Credit Union and the following entities:

Subsidiaries
The Credit Union currently has 100% ownership in Home Start Financial Ltd., Community Agencies Ltd. operating as All Source Mortgages and Common Quest Financial Ltd. These entities provide mortgage brokerage and wealth management services to a number of lenders, including the Credit Union.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Variable Interest Entities
The Credit Union is considered to be the primarily beneficiary of three registry services which have been consolidated.

Financial Instruments – Recognition and Measurement
Financial assets and financial liabilities, including derivatives, are recognized on the Consolidated Balance Sheet when the Credit Union becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. The Credit Union recognizes financial instruments at the trade date. All financial instruments are initially measured at fair value. Subsequent measurement is dependent upon the financial instrument's classification. Transaction costs are capitalized on initial recognition, except for financial instruments designated as held for trading where transaction costs are expensed.

Held-For-Trading
Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recorded in Interest income.

Held-To-Maturity Investments
If the Credit Union has positive intent and ability to hold the investment 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, 2009.

Available-For-Sale Investments
Debt securities that the Credit Union may 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. These instruments are measured at cost.

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

Loans and Receivables
Loans and receivables include Alberta Central term deposits, mortgage pools, bonds and member loans. They are measured at amortized cost.

Financial Liabilities
Financial liabilities include member deposits, accounts payable, loan payable and other liabilities. They are measured at amortized cost.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of Financial Assets

Financial assets (other than loans and receivables) are assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Financial assets are 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 financial assets measured at amortized cost is calculated as the difference between the 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 year. Any cumulative loss in respect of available-for-sale financial assets recognized previously in Accumulated other comprehensive income is transferred to the Net income. The Credit Union has not recorded any impairment on financial assets as of October 31, 2009.

Cash

Cash is comprised of cash on hand, the current account with Alberta Central and items in transit and is designated as held-for-trading.

Investments under Equity Method

Investments in entities over which the Credit Union exercises significant influence are accounted for using the equity method and are presented in Investments in the Consolidated Balance Sheet. The Credit Union's share of income (loss) from these entities is included in Interest income-investments in the Consolidated Statement of Income and Comprehensive Income. Dividends received are recorded as a reduction in Investments.

Investment Income

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.

Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices. The Credit Union does not use derivative financial instruments for trading or speculative purposes. The Credit Union uses quotations based on current observable market data to estimate the fair value of all derivative financial instruments.

Derivative financial instruments are measured at fair value and are recorded on the Consolidated Balance Sheet. Derivatives with a positive fair value are recorded in Other assets. Derivatives with a negative fair value are recorded in Accounts payable and other liabilities. Gains and losses on derivative financial instruments are recorded in Other income on the Consolidated Statement of Income and Comprehensive Income.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derivative financial instruments may also be embedded in other financial instruments. Derivative financial instruments embedded in other financial instruments are separated from the host contracts and are accounted for as a derivative financial instrument when their economic characteristics and risks are not closely related to those host contracts, it meets the definition of a derivative financial instruments and the host contract is not accounted for as held-for-trading.

Term deposit obligations that are linked to the performance of certain equity indexes are embedded derivatives and are measured at fair value with changes to those fair values recorded 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 and these derivatives are measured at fair value.

Foreign currency forward agreements are used to manage the foreign exchange rate exposure from foreign currency denominated assets and liabilities. These derivative financial instruments are recorded at fair value and changes in those fair values are recorded in Other income on the Consolidated Statement of Income and Comprehensive Income.

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.

Member Loans

Member loans are recorded at amortized cost, less of any allowance for credit losses plus accrued interest. Member loans considered uncollectible are written off.

Interest income from loans is recorded on an accrual method, except when a loan is impaired. A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Loans where interest or principal is contractually 90 days past due, are recognized as impaired unless management determines that the loan is fully secured and in the process of collection. Fully secured loans are classified as impaired after a delinquency period of 180 days. Once a loan is classified as impaired, all previously accrued interest is reversed and charged against current income, except for loans fully secured.

Loan fees are deferred and recorded as Interest income over the terms of the underlying loans using the effective interest method. Mortgage prepayment penalties are included in income when charged.

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 the Consolidated Statement of Income and Comprehensive Income, and reduced by write-offs net of recoveries.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The allowance for credit losses consists of specific allowances and a general allowance, 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 these 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 the loss experience during economic cycles, 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.

Mortgage Securitizations

The Credit Union periodically securitizes groups of residential mortgages by selling them to unrelated third parties. These transactions are accounted for as sales and the related mortgages are removed from the Consolidated Balance Sheet when control over the mortgages is surrendered and consideration other than beneficial interests in the transferred mortgages is received in exchange. The third parties, as holders of the securitized mortgages, have recourse only to cash flows for the securitized mortgages. The investors and the third parties have no recourse to the Credit Union's other assets.

The fair values of mortgages sold and retained interests are determined using pricing models based on key assumptions such as expected losses, prepayments and discount rates that are commensurate with the risks involved. The carrying value of retained interests is reviewed annually for impairment and adjusted as required. These financial instruments are designated as available-for-sale and are measured at fair value.

Gains and losses on these transactions are recorded in Other income in the Consolidated Statement of Income and Comprehensive Income and are recorded on the date of the transaction. The amount of these gains or losses are based on the present value of expected future cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, credit losses and discount rates. Gains and losses on these transactions that have retained interest are based on the carrying value of the mortgages transferred allocated between the assets sold and the retained interests in proportion to their fair value at the date of transfer. Gain and losses on transactions that do not have a retained interest are based on the proceeds of the sale compared with the carrying value of the mortgages at the date of the sale.

The premiums and retained servicing liability are recorded in Accounts payable and other liabilities on the Consolidated Balance Sheet and are amortized over the term of the transferred mortgages to Other income.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property and Equipment

Land is carried at cost. Buildings, furniture, office equipment, leased equipment, leasehold improvements and real estate investment properties 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 office equipment	3 to 20 years
Leasehold improvements	Term of lease
Computer equipment	3 to 5 years
Leased equipment	3 to 5 years
Real estate investment properties	30 years

Depreciation is recorded commencing in the month after the acquisition; no depreciation is recorded in the month of the disposal. Gains and losses on disposal are recorded in Other income in the Consolidated Statement of Income and Comprehensive Income.

Property and Land Available-For-Sale

Property and land 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.

Intangible Assets

Intangibles with an indefinite life are not amortized, but are subject to a fair value impairment test at least annually. Intangible assets with a finite life are amortized to the Consolidated Statement of Income and Comprehensive Income over their expected lives not exceeding five years. These intangible assets are tested for impairment whenever circumstances indicate that the carrying amount may not be recoverable. Any impairment of other intangible assets will be charged to Operating expenses – general in the Consolidated Statement of Income and Comprehensive Income in the period of impairment.

Leases

Leases that transfer substantially all the benefits and inherent risks of ownership of the property to the Credit Union are recorded as capital leases. The present value of the payments under the leases is included in Property and Equipment and obligation under capital lease included in Accounts payable and accrued liabilities on the Consolidated Balance Sheet. All other leases are classified as operating leases, in which case the total expense to be paid over the lease term is amortized on a straight line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 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. The Credit Union has not recorded any impairment as of October 31, 2009.

Employee Future Benefits

The Credit Union provides certain pension and other benefits to employees as follows:

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.

Defined Benefit Plan

The Credit Union provides 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.

Variable Interest Entities

Variable interest entities (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. 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.

Income Taxes

The Credit Union follows the asset and liability method of accounting for income taxes whereby future income taxes are determined based on the difference between the carrying values of assets or liabilities and their tax basis using the substantially enacted tax rates expected to be in effect when the asset or liability is expected to be settled. Future income taxes are reported in Other assets or Accounts payables and other liabilities on the Consolidated Balance Sheet.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Income 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.

Comparative Figures

Certain comparative figures are reclassified, where appropriate, to conform to the current year's Consolidated Financial Statement presentation.

4. FUTURE ACCOUNTING CHANGES

CICA Handbook Section 1582, Business Combinations (Section 1582), CICA Handbook Section 1601, Consolidated Financial Statements (Section 1601), and CICA Handbook Section 1602, Non-Controlling Interests (Section 1602)—In January 2009, the CICA issued three new accounting standards: Business Combinations (Section 1582), Consolidated Financial Statements (Section 1601) and Non-Controlling Interests (Section 1602).

Section 1582 provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Acquisition-related costs must be expensed in the periods they are incurred, except for costs incurred to issue debt or share capital. This new standard will be applied for acquisitions the Credit Union completes on or after November 1, 2009. Section 1601 establishes standards for preparing consolidated financial statements after the acquisition date; Section 1602 established standards for the accounting and presentation of non-controlling interest. These new standards must be adopted concurrently with section 1582. Early application is permitted provided Section 1582 is applied at the same time. These new standards will be applicable to the Credit Union on November 1, 2011, although adoption in 2010 is permitted to facilitate the transition to International Financial Reporting Standards (IFRS) in 2011. The Credit Union is currently assessing the impact of adopting these amendments to the Consolidated Financial Statements.

CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement (Section 3855)—In June 2009, the CICA provided a clarification to Section 3855 with respect to the embedded prepayment option. An embedded prepayment option is an interest-only or principal-only strip that is closely related to the host contract, provided the host contract initially resulted from separating the right to receive contractual cash flows of a financial instrument that, in and of itself, did not contain an embedded derivative; and does not contain any terms not present in the original host debt contract. This new standard will be applicable to the Credit Union on November 1, 2011, although adoption in 2010 is permitted to facilitate the transition to International Financial Reporting Standards (IFRS) in 2011. The Credit Union is currently assessing the impact of adopting this amendment to the Consolidated Financial Statements.

4. FUTURE ACCOUNTING CHANGES (cont'd)

International Financial Reporting Standards—In March 2009, the Canadian Accounting Standard Board (AcSB) reconfirmed in its second omnibus Exposure Draft that IFRS will replace Canadian GAAP for publicly accountable enterprises for interim and annual periods beginning on or after January 1, 2011, including the restatement of the comparative period financial statements on the same basis. As a credit union we are specifically scoped into the definition of a publicly accountable enterprise. As such, we will be required to prepare the Fiscal 2012 Consolidated Financial Statements including comparative information for 2011 in compliance with IFRS.

The Credit Union's project plan includes three phases: (1) Scope and Plan; (2) Design and Build; and (3) Implement and Review. The Scope and Plan is underway and the standards that are expected to have a significant impact on the Credit Union's recognition, measurement, presentation and disclosure of its financial statements will be assessed in 2010.

The Credit Union is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada and have begun an analysis of the expected areas of impact on the Credit Union. The Credit Union expects to complete the detailed Diagnostic and Impact assessment with respect to IFRS conversion in 2010.

Significant changes to IFRS accounting standards are expected to be issued by the International Accounting Standard Board (IASB) throughout 2010 and 2011. As a result, there is uncertainty regarding the expected accounting standards that will ultimately be in place in 2012, and therefore applicable to the first Consolidated Financial Statements, including comparatives and opening IFRS balance sheet. The IFRS project plan includes activities to ensure the Credit Union monitors these changes. At this point in the project, the Credit Union is not able to reasonably estimate the quantitative impact of transitioning to IFRS on the Consolidated Financial Statements.

5. INVESTMENTS

The 2009 total investments amounting to $833,375 (2008 – $878,264) include:

Investments

(thousands of dollars)	**2009**	2008
Alberta Central term deposits (Note 27)	**$ 709,584**	$ 735,207
Mortgage pools	**15,014**	26,735
Other	**359**	419
Bonds	—	13,607
	$ 724,957	$ 775,968
Accrued interest and dividends	**858**	5,183
Total	**$ 725,815**	$ 781,151

As required by the Act, the Credit Union maintains its statutory liquidity investments in Alberta Central.

5. INVESTMENTS (cont'd)

Investments Accounted under Equity Method

(thousands of dollars)	**2009**	2008
Alberta Central shares (Note 27)	**$ 105,464**	$ 94,756
Investment in Travelers Acceptance Corporation (TAC)	**1,403**	1,573
1358938 Alberta Ltd	**693**	784
Total	**$ 107,560**	$ 97,113

With the amalgamation on November 1, 2008, the Credit Union now owns 51.9% of the common shares outstanding of Alberta Central. Due to the governance structure of Alberta Central, management has determined that the Credit Union has significant influence, but not control, over Alberta Central. Therefore, beginning on November 1, 2008, the investment in Alberta Central shares was accounted for using the equity method. As a result of using the equity method, on November 1, 2008, the Credit Union's share of Alberta Central's net financial assets exceeded the carrying value of the common share investment in Alberta Central, resulting in an extraordinary gain of $7,349 in the Consolidated Statement of Income and Comprehensive Income. Included in Interest income investments on the Consolidated Statement of Income and Comprehensive Income is equity income of $3,359 (2008 – $nil) from the investment in Alberta Central.

The Credit Union's 36% interest in TAC and 50.0% interest in 1358938 Alberta Ltd are recorded using the equity method. Included in Interest income Investments for 2009 are a net loss of $167 (2008 – gain of $243) from TAC's investment and a net loss of $91 (2008 – loss of $151) from 1358938 Alberta Ltd.

Refer to Note 22 Interest Rate Sensitivity for a summarization of amounts of investments by maturity dates and weighted average effective rates and refer to Note 27 Related Party Transactions for a summarization of related party transactions of Investments accounted for under equity method.

6. MEMBER LOANS AND IMPAIRED LOANS

		Allowance for credit losses			
(thousands of dollars)	**Gross Amount**	**Specific**	**General**	**Net Amount**	**Gross Impaired Loans**
2009					
Residential mortgages	**$ 5,028,673**	**$ 84**	**$ 1,220**	**$ 5,027,369**	**$ 22,743**
Commercial mortgages and loans	**2,700,382**	**6,325**	**5,220**	**2,688,837**	**21,112**
Consumer loans	**900,618**	**3,263**	**5,922**	**891,433**	**14,457**
Agricultural mortgages and loans	**262,528**	**96**	**163**	**262,269**	**5,516**
Foreclosed assets	**2,131**	**—**	**—**	**2,131**	**2,131**
	8,894,332	**9,768**	**12,525**	**8,872,039**	**65,959**
Accrued interest	**29,676**	**—**	**—**	**29,676**	**—**
Total	**$ 8,924,008**	**$ 9,768**	**$ 12,525**	**$ 8,901,715**	**$ 65,959**

		Allowance for credit losses			
(thousands of dollars)	Gross Amount	Specific	General	Net Amount	Gross Impaired Loans
2008					
Residential mortgages	$ 4,667,242	$ 108	$ 2,340	$ 4,664,794	$ 11,418
Commercial mortgages and loans	2,504,095	3,073	3,347	2,497,675	9,610
Consumer loans	885,004	2,010	6,337	876,657	10,497
Agricultural mortgages and loans	280,333	32	347	279,954	5,098
Foreclosed assets	451	—	—	451	451
	8,337,125	5,223	12,371	8,319,531	37,074
Accrued interest	31,923	—	—	31,923	—
Total	$ 8,369,048	$ 5,223	$ 12,371	$ 8,351,454	$ 37,074

The total amount of loans delinquent over 30 days but not impaired is $89,045 (2008 – $64,338). Refer to Note 22 Interest Rate Sensitivity for interest rate risk.

7. ALLOWANCE FOR CREDIT LOSSES

(thousands of dollars)	**2009**	2008
Balance, beginning of year	**$ 17,594**	$ 16,917
Loans written off	**(6,628)**	(4,592)
Recoveries of amounts written in prior years	**607**	967
Provisions for credit losses	**10,720**	4,302
Balance, end of year	**$ 22,293**	$ 17,594

Refer to Note 25 Financial Risk Management for credit risk information.

8. SECURITIZATION AND PURCHASE OF RESIDENTIAL MORTGAGES

Securitization of Residential Mortgages
The following table summarizes the Credit Union's securitization activity for the year:

(thousands of dollars)	**2009**	2008
Principal value of mortgages sold	**$ 58,996**	$ 284,083
Net cash proceeds received	**59,294**	284,197
Retained rights to future excess spread	**4,747**	8,400
Premiums	**(556)**	(942)
Retained servicing liability	**(268)**	(1,119)
Direct transaction costs	**(258)**	(863)
Gain on sale before income taxes	**4,585**	6,452

The following table summarizes cash flows related to sale of mortgages for the year:

(thousands of dollars)	**2009**	2008
Cash flows remitted on collections	**$128,594**	$68,211
Cash flows received on retained rights to excess spread	**3,770**	1,793

Key Economic Assumptions for Securitization Activity
The key economic assumptions used to value the retained rights to future excess spread at the date of sale for the year were:

	2009	2008
Unscheduled prepayment rate (annual %)	**15.00%**	15.00%
Residual cash flow discount rate	**2.34%**	4.42%
Weighted average life of loans (years)	**3.73**	3.73
Excess spread	**3.53%**	1.30%

8. SECURITIZATION AND PURCHASE OF RESIDENTIAL MORTGAGES (cont'd)

As of October 31, 2009, the total retained rights to future excess spread on all previous securitizations were $8,499 (2008 – $7,904) and are 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 above. During 2009, the Credit Union has increased its prepayment rate from 15% to 22% which resulted in a decrease in retained rights to future excess spread of $738 which had been recognized in the Consolidated Statement of Income and Comprehensive Income as a reduction to Other income.

As of October 31, 2009, the mortgage securitization liabilities, premium and servicing liability were respectively $6,517 (2008 – $6,822), $706 (2008 – $784) and $620 (2008 – $850) and are recorded in Accounts payable and accrued liabilities on the Consolidated Balance Sheet.

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 residential mortgages 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.

(thousands of dollars)	Prepayment Rate	Change in value
Prepayment rate 10% higher	24.20%	(242)
Prepayment rate 20% higher	26.40%	(416)

The discount rates vary between 2.55% to 5.436%. A 10% and 20% change in the discount rate would have the following impact to the value of the Retained rights to future excess spread.

(thousands of dollars)	Discount Rate	Change in value
Discount rate 10% higher	2.255% – 4.983%	(1,027)
Discount rate 20% higher	2.46% – 5.4360%	(1,986)

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a variation of assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of retained interests is calculated without changing any other assumption; generally, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

Purchase of Residential Mortgages

During 2009, the Credit Union purchased $18,938 (2008 – $nil) of residential mortgages. The impact of the purchase of these mortgages was a fair value adjustment of $617 which had been recognized in the Consolidated Balance Sheet as Member loans and is to be amortized over the term of the residential mortgages using the effective interest method.

8. SECURITIZATION AND PURCHASE OF RESIDENTIAL MORTGAGES (cont'd)

The following table summarizes the Credit Union's purchase activity for the year:

(thousands of dollars)	**2009**	2008
Principal value of mortgages purchased	**$18,938**	—
Net cash proceeds paid	**18,938**	—
Fair value adjustment of mortgages purchased	**735**	—
Retained servicing liability	**88**	—

9. PROPERTY AND EQUIPMENT

(thousands of dollars)	**Cost**	**Accumulated Depreciation**	**Net**
2009			
Land	**$ 37,063**	**$ —**	**$ 37,063**
Buildings	**149,220**	**29,140**	**120,080**
Furniture and office equipment	**44,409**	**27,402**	**17,007**
Leasehold improvements	**27,503**	**12,338**	**15,165**
Computer equipment (a)	**25,147**	**18,521**	**6,626**
Leased equipment	**1,269**	**402**	**867**
Real estate investment properties	**810**	**99**	**711**
Total	**$ 285,421**	**$ 87,902**	**$ 197,519**

(thousands of dollars)	Cost	Accumulated Depreciation	Net
2008			
Land	$ 38,261	$ —	$ 38,261
Buildings	139,996	26,822	113,174
Furniture and office equipment	44,212	26,386	17,826
Computer equipment (a)	23,012	17,785	5,227
Leasehold improvements	17,734	9,439	8,295
Leased equipment	1,269	148	1,121
Real estate investment properties	810	73	737
Total	$ 265,294	$ 80,653	$ 184,641

(a) As a result of the adoption of CICA Handbook Section 3064, Goodwill and Intangible Assets, the net carrying value of $6,016 (2008 – $7,395) for computer software and technology development was reclassified from Property and equipment—computer equipment item to Intangible assets—computer software and technology development item in the Consolidated Balance Sheet.

9. PROPERTY AND EQUIPMENT (cont'd)

At October 31, 2009, the Credit Union had $9,157 (2008 – $4,281) of assets under construction not yet placed into service, and therefore, depreciation has not been recorded on these assets.

At October 31, 2009, the Credit Union has a total of $7,820 (2008 – $6,623) in property and land available-for-sale. These assets are accounted for at the lower of cost and estimated fair value, are no longer depreciated and are recorded in the Consolidated Balance Sheet. These assets are no longer needed for operations and it is expected that they will be sold during 2010.

10. INTANGIBLE ASSETS

(thousands of dollars)	**Cost**	**Accumulated Amortization**	**Net**
2009			
Computer software and technology development (a)	**$ 26,439**	**$ 20,423**	**$ 6,016**

(thousands of dollars)	Cost	Accumulated Amortization	Net
2008			
Computer software and technology development (a)	$ 25,359	$ 17,964	$ 7,395

(a) As a result of the adoption of CICA Handbook Section 3064, Goodwill and Intangible Assets, the net carrying value of $6,016 (2008 – $7,395) for computer software and technology development was reclassified from the Property and equipment—computer equipment item to Intangible assets—computer software and technology development item in the Consolidated Balance Sheet.

11. OTHER ASSETS

(thousands of dollars)	**2009**	2008
Corporate tax receivable	**$ 10,272**	$ 2,279
Prepaid items	**9,327**	9,217
Derivative instrument assets (Note 24)	**8,985**	2,983
Retained rights to future excess spread (Note 8)	**8,499**	7,904
Accounts receivable	**4,533**	11,719
Future income tax asset	—	803
Total	**$ 41,616**	$ 34,905

12. MEMBER DEPOSITS

(thousands of dollars)	2009	2008
Demand accounts	$ 4,285,384	$ 3,394,831
Term deposits	3,458,199	3,898,642
Registered plans	1,425,119	1,267,014
Other deposits	7,313	6,435
	9,176,015	8,566,922
Accrued interest	76,657	85,167
Total	$ 9,252,672	$ 8,652,089

Refer to Note 22 Interest Rate Sensitivity for a summarization of member deposit amounts by maturity dates and weighted average effective interest rates.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(thousands of dollars)	2009	2008
Cheques and other items in transit	$ 40,020	$ 38,929
Accounts payable	37,232	41,119
Dividend and patronage allocation to members (Note 15)	23,164	14,824
Derivative instrument liabilities (Note 24)	10,750	5,655
Mortgage securitization liabilities (Note 8)	6,517	6,822
Pension liability (Note 21)	5,489	6,417
Current income tax payable	3,403	420
Deferred income	3,286	3,657
Premium and servicing liability (Note 8)	1,326	1,634
Future income tax liability	957	791
Obligation under capital lease	893	1,133
Total	$ 133,037	$ 121,401

Included in Accounts Payable and accrued liabilities are obligations under capital lease as follow:

(thousands of dollars)	2009	2008
Total obligations under capital lease, secured by equipment with a net book value of $867 (2008 – $1,121), interest at 3.89% (2008 – 3.89%), blended monthly repayment of $23 (2008 – $23), maturing March 2013)	$ 893	$ 1,133

The Credit Union incurred $40 (2008 – $27) in interest expense on the capital lease. The current portion of the obligation repayable within 1 year is $240. For the purpose of the 2008 Consolidated Statement of Cash Flows, the acquisition financed through the capital lease was treated as a non-cash item.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (cont'd)

Commitments of future minimum lease payments under the capital lease are $280 for years 2010, 2011 and 2012 and $117 for 2013. Commitments of payment for maintenance are $285 for years 2010, 2011 and 2012 and $71 for 2013.

14. TERM LOANS PAYABLE

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

(thousands of dollars)	**2009**	2008
Term loans payable	**$ 12,712**	$ 60,220
Alberta Central—line of credit	**474**	19,662
Total	**$ 13,186**	$ 79,882

At October 31, 2009, the Credit Union had $13,186 (2008 – $79,882) outstanding in term loans and line of credit with $4 (2008 – $55) in accrued interest. The entire $12,712 of term loans is repayable within 6 months.

The Credit Union has a letter of credit with Alberta Central for US $100 (Cdn $109) in favour of MasterCard International, Inc. as part of a card issuer agreement. Fees consist of 1/2 of 1 % annually.

15. SHARE CAPITAL

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 1 share to retain membership in the Credit Union; and
g) Carries right to vote at a general meeting.

15. SHARE CAPITAL (cont'd)

Series A to E Investment Shares

Series A to E 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 not 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 by the Board of Directors.

	Number of Shares							
	Common	Investment Shares					Investment	Share
	Shares	Series A	Series B	Series C	Series D	Series E	Share	Capital
	Total	(a)	(b)	(c)	(c)	(b)	Total	Total
Issued and outstanding as at October 31, 2007	262,612	41,967	8,562	17,553	25,153	5,395	98,630	361,242
Issued and redeemed for cash in 2008, net	6,314	(765)	(95)	(886)	(1,181)	(209)	(3,136)	3,178
Provision for dividends distributable in 2008	12,268	2,781	—	975	1,171	—	4,927	17,195
Issued and outstanding as at October 31, 2008	281,194	43,983	8,467	17,642	25,143	5,186	100,421	381,615
Issued and redeemed for cash in 2009, net	8,819	(1,443)	(396)	(456)	(237)	(165)	(2,697)	6,122
Provision for dividends distributable in 2009	13,937	2,552	—	1,026	1,488	—	5,066	19,003
Issued and outstanding as at October 31, 2009	303,950	45,092	8,071	18,212	26,394	5,021	102,790	406,740
(thousands of dollars)	**$ 303,950**	**$ 45,092**	**$ 8,071**	**$ 18,212**	**$ 26,394**	**$ 5,021**	**$ 102,790**	**$ 406,740**

(a) Former Common Wealth Credit Union Limited Investment shares Series A are now Series A.
(b) Former Community Savings Credit Union Ltd Investment shares Series A and B are now Series B and E.
(c) Former Servus Credit Union Ltd Investment shares Series A and B are now Series C and D.

15. SHARE CAPITAL (cont'd)

Common shares and investment shares represent at-risk capital not guaranteed by the Corporation.

In 2009, the Credit Union paid patronage to members in cash. In 2008, the Credit Union paid patronage to members in cash and common shares. Patronage is payments made to members to share profits and reward them for having their banking business with the Credit Union. Patronage and common and investment share dividends are accrued based on an estimate of amounts that are paid annually at the discretion of the Credit Union.

The Board of Directors declared a $22,496 (2008 – $14,913) patronage allocation to members, a common share dividend of 5.0% or $13,937 (2008 – 5.29%, $12,268) (payable on shares in excess of a member's minimum required holdings), a Series A, C and D investment share dividend of 6.0% for a total of $5,066 (2008 – $4,927). 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, C and D investment share dividends are paid in additional Series A, C, D investment shares. Series B and E investment share dividends for $668 (2008 – $895) were paid in cash and are recorded in Accounts payable and accrued liabilities in the Consolidated Balance Sheet. Total patronage and dividends paid in cash or shares were $42,167 (2008 – $33,003) and were paid in December 2009.

16. CAPITAL MANAGEMENT

The Credit Union provides financial services to its members and is subject to capital requirements set out in the Act. During 2009, the Credit Union complied with these capital requirements.

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

- Retaining earnings;
- Common shares;
- Investment shares;
- General allowance for credit losses; and
- The Credit Union's portion of qualifying Retained earnings of Alberta Central as calculated and provided by Alberta 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.

16. CAPITAL MANAGEMENT (cont'd)

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 an efficient level of capital deemed sufficient to protect against unanticipated losses.
- To comply at all times with the capital requirements set out in the Act.

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 9.5% of risk weighted assets. A 9.5% 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, 2009 for regulatory purposes the Credit Union's total capital as a percent of assets was 7.83% (2008 – 7.99%) and the total capital as percent of risk weighted assets was 13.81% (2008 – 13.59%), therefore, the Credit Union has exceeded its minimum capital requirement.

16. CAPITAL MANAGEMENT (cont'd)

Elements of risk weighted capital at the year end are:

(thousands of dollars)	**2009**	2008
Retained earnings	**$ 357,913**	$ 312,797
Common shares (Note 15)	**303,950**	281,194
Investment shares (Note 15)	**102,790**	100,421
General allowance for credit losses (Note 6)	**12,525**	12,371
Qualifying Alberta Central retained earnings	**7,161**	36,016
Future income tax liability (Note 13)	**957**	791
Future income tax asset (Note 11)	—	(803)
Total	**$ 785,296**	$ 742,787

Retained earnings increased as result of net income in excess of dividend and patronage 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.

17. OTHER INCOME

(thousands of dollars)	**2009**	2008
Account service charges	**$ 50,203**	$ 33,847
Commissions and fees	**12,558**	22,091
Gain on sale of member loans (Note 8)	**4,585**	6,452
Other	**4,128**	11,502
Foreign exchange income	**3,223**	3,634
Total	**$ 74,697**	$ 77,526

18. GENERAL OPERATING EXPENSES

(thousands of dollars)	2009	2008
Administration fees and expenses	$ 26,235	$ 25,421
Computer processing cost	9,387	8,494
Marketing and advertising	9,263	9,258
Consulting fees	3,439	3,513
Total	$ 48,324	$ 46,686

19. INCOME TAXES

(thousands of dollars)	2009	2008
Current	$ 12,957	$ 15,820
Future	1,015	365
Total	$ 13,972	$ 16,185

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 15.53% (2008 – 17.88%) to income before profit share dividends and income taxes. The reasons for the differences are as follows:

	2009	2008
Income taxes calculated at the statutory rate	38.00%	38.41%
Income taxes adjusted for the effect of:		
Reduction for credit unions	-17.00%	-16.84%
Tax recovery from patronage dividends	-5.61%	-3.68%
Non-deductible expenses and other	0.14%	-0.01%
	15.53%	17.88%

20. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

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 a 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 fulfill their related debt obligations.

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

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.

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 documented 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. Standby letters of credit and letters of guarantee outstanding were:

(thousands of dollars)	**2009**	2008
Total	**$ 44,336**	$ 48,529

This represents the maximum potential amount of future payments that can be quantified and excluded other guarantees that cannot be quantified.

Indemnification of Directors and Officers

The Credit Union has Directors and Officers 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 limited. This insurance coverage enables the Credit Union to recover a portion of any future amounts paid.

Other Indirect Commitments

In the normal course of business, various 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.

The 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.

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

(thousands of dollars)	2009	2008
Commitments to extend credit:		
Original term to maturity of one year or less	**$ 1,683,683**	$ 1,514,559
Original term to maturity of more than one year	**1,128,862**	996,186
Total	**$ 2,812,545**	$ 2,510,745

Lease Commitments and Other Contracts

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

(thousands of dollars)	
2010	$ 4,851
2011	4,746
2012	4,049
2013	2,996
2014	2,221
2015 and thereafter	7,993
Total	$ 26,856

The Credit Union has various building construction projects underway for a total estimated cost of $9,106, and to date has incurred costs of $7,581. The remaining $1,525 is the anticipated cost to complete these construction projects.

Retail Banking System

The Credit Union is currently operating on three different banking systems. Management has embarked on a project to bring all operations onto a single banking system. Depending on the final decision, this could result in write-offs of intangible assets and contractual commitments between $200 and $5,896. As of October 31, 2009 the Credit Union has not recorded any write-offs of these amounts.

Contingent Liabilities

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.

21. 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 Operating expenses personnel in the Consolidated Statement of Income and Comprehensive Income.

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

(thousands of dollars)	**Pension Plans**	**Other Benefit Plans**	**Total 2009**	Total 2008
Net benefit plan cost				
Current service cost employer portion	**$ 168**	**$ 37**	**$ 205**	$ 211
Interest cost	**192**	**148**	**340**	227
Curtailment gain	—	**(934)**	**(934)**	—
Expected return on plan assets	—	—	—	(45)
Amortization of past service costs	—	—	—	80
Amortization of transitional obligation	—	**103**	**103**	103
Amortization of gain on plan benefit change	—	**(54)**	**(54)**	(54)
Amortization of net actuarial loss	—	—	—	228
Total net benefit plan cost	**$ 360**	**$ (700)**	**$ (340)**	750
Defined contribution registered retirement savings plan—Credit Union contributions	**6,720**	—	**6,720**	4,392
Total	**$ 7,080**	**$ (700)**	**$ 6,380**	$ 5,142

21. EMPLOYEE BENEFIT PLANS (cont'd)

Effect of Change in Assumed Heath Care Cost Trend Rates

The annual health insurance inflation rate is assumed to be 6%. The following shows the effect on the Credit Union's post-retirement benefit plan of a change in the assumed health care cost trend rates for the period ending October 31:

(thousands of dollars)	**Pension Plans**	**Other Benefit Plans**	**Total 2009**	2008 Pension Plans
Accrued Benefit Obligation				
Balance, Beginning of Year	**$ 4,274**	**$ 2,038**	**$ 6,312**	$ 8,850
Current service cost	**168**	**37**	**205**	269
Interest cost	**219**	**148**	**367**	410
Expected benefit paid	**(560)**	**(55)**	**(615)**	(302)
Actuarial loss (gain)	**347**	**1,281**	**1,628**	(455)
Plan amendments	—	—	—	30
Settlements	—	—	—	(2,450)
Curtailments	—	**(934)**	**(934)**	(40)
Accrued Benefit Obligation, End of Year	**$ 4,448**	**$ 2,515**	**$ 6,963**	$ 6,312
Defined benefit plan assets				
Fair value at beginning of year	—	—	—	$ 2,234
Actual return on plan assets	—	—	—	(52)
Employer contributions	—	—	—	268
Settlements	—	—	—	(2,450)
Fair Value, End of Year	—	—	—	—
Accrued Benefit Obligation Not Funded	**$ 4,448**	**$ 2,515**	**$ 6,963**	$ 6,312

21. EMPLOYEE BENEFIT PLANS (cont'd)

Accrued Benefit Liability				
Funded status-plan deficit	**$ (4,448)**	**$ (2,515)**	**$ (6,963)**	$ (6,312)
Unamortized net actuarial loss (gain)	**323**	**1,157**	**1,480**	(148)
Unamortized gain on plan benefit change	—	**(111)**	**(111)**	(165)
Unamortized transitional obligation	—	**105**	**105**	208
Accrued Benefit Liability	**(4,125)**	**(1,364)**	**(5,489)**	(6,417)
Valuation allowance	—	—	—	—
Accrued Benefit Liability Net of Valuation Allowance (Note 13)	**(4,125)**	**(1,364)**	**(5,489)**	(6,417)

	2009	2008
Significant Assumptions		
Weighted average discount rate	**4.09%**	5.95%
Rate of compensation increase	**4.00%**	3.75%
Expected rate of return on plan assets	—	7.50%

Effect of Change in Assumed Health Care Cost Trend Rates

The annual health insurance inflation rate is assumed to be 6%. The following shows the effect on the Credit Union's post retirement benefit plan of a change in the assumed health care cost trend rates for the period ending October 31:

(thousands of dollars)	1% increase	1% decrease
Effect on:		
Net benefit cost	**$ 2**	**$ (1)**
Accrued benefit obligation	**45**	**(43)**

Actuarial Valuations

The most recent actuarial valuation on the defined benefit pension plan for funding purposes was completed as at October 31, 2009.

22. INTEREST RATE SENSITIVITY

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.

	2009				
(thousands of dollars)	Floating Rate	Within 1 Year	More Than 1 Year	Non Interest Sensitive	Total
Assets					
Cash	$ 146,668	$ —	$ —	$ 28,819	$ 175,487
Investments	359	707,484	17,114	108,418	833,375
Effective yield	2.31%	3.00%	3.98%	—	3.10%
Member loans	3,997,854	1,294,963	3,601,515	7,383	8,901,715
Effective yield	3.12%	5.59%	5.90%	—	4.87%
Other	—	—	—	252,971	252,971
	4,144,881	2,002,447	3,618,629	397,591	10,163,548
Liabilities and Equity					
Member deposits	2,708,427	3,730,244	2,064,487	749,514	9,252,672
Effective yield	1.28%	2.31%	1.95%	—	1.85%
Other Liabilities	—	—	—	133,037	133,037
Term loans payable	474	12,708	—	4	13,186
Effective yield	3.54%	3.40%	—	—	3.47%
Equity	—	—	—	764,653	764,653
	2,708,901	3,742,952	2,064,487	1,647,208	10,163,548
Off Balance Sheet Notional value of assets derivative financial instruments	40,000	65,000	201,360	—	306,360
Notional value of liabilities derivative financial instruments	(30,000)	(220,000)	(56,360)	—	(306,360)
	10,000	(155,000)	145,000	—	—
Net 2009 Position	$ 1,445,980	$ (1,895,505)	$ 1,699,142	$ (1,249,617)	$ —

SERVUS CREDIT UNION LTD.
Notes to Consolidated Financial Statements
For the year ended October 31, 2009

22. INTEREST RATE SENSITIVITY (cont'd)

	2008				
(thousands of dollars)	Floating Rate	Within 1 Year	More Than 1 Year	Non Interest Sensitive	Total
Assets					
Cash	$ 62,235	$ —	$ —	$ 23,056	$ 85,291
Investments	97,521	642,991	35,456	102,296	878,264
Effective yield	3.49%	2.90%	3.16%	—	3.18%
Member loans	3,468,300	1,305,888	3,562,937	14,329	8,351,454
Effective yield	4.88%	8.77%	9.94%	—	7.86%
Other	—	—	—	233,564	233,564
	3,628,056	1,948,879	3,598,393	373,245	9,548,573
Liabilities and Equity					
Member deposits	2,709,249	3,334,778	1,824,836	873,526	8,742,389
Effective yield	1.49%	4.73%	9.00%	—	5.07%
Other liabilities	7,920	—	—	23,128	31,048
Effective yield	3.54%	—	—	—	3.54%
Term loans payable	51,404	28,423	—	55	79,882
Effective yield	2.69%	1.14%	—	—	1.92%
Equity	—	—	—	695,254	695,254
	2,768,573	3,363,201	1,824,836	1,591,963	9,548,573
Off Balance Sheet Notional value of assets derivative financial instruments	—	120,000	215,000	—	335,000
Notional value of liabilities derivative financial instruments	—	(120,000)	(215,000)	—	(335,000)
	—	—	—	—	—
Net 2008 Position	$ 859,483	$ (1,414,322)	$ 1,773,557	$ (1,218,718)	$ —

23. 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 Property and equipment and Investment accounted under equity method.

The estimated fair value approximates 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 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 judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an intermediate settlement of the instruments.

The fair value of cash recorded on the Consolidated Balance Sheet at fair value was determined using published market prices quoted in an active market (referred to as Level 1). The fair value of member loans, other assets, member deposits and term loans were estimated using a valuation technique based on observable market data (referred to as Level 2). The fair value of derivative assets and liabilities recorded on the Consolidated Balance Sheet was determined using a valuation technique based on observable market data (referred to as Level 2). The Credit Union had other investments of $359 that were measured using unobservable market data (referred to as Level 3).

	2,009			2,008		
(thousands of dollars)	**Book Value**	**Fair Value**	**Fair value difference**	Book Value	Fair Value	Fair value difference
Assets						
Cash (a)	**$ 175,487**	**$ 175,487**	**$ —**	$ 85,291	$ 85,291	$ —
Investments	**725,815**	**721,196**	**(4,619)**	878,264	884,387	6,123
Member loans (b,c)	**8,901,715**	**9,071,826**	**170,111**	8,351,454	8,391,599	40,145
Other Assets (a,d)	**22,017**	**22,017**	—	22,606	22,606	—
Liabilities						
Member deposits (b,c)	**$ 9,252,672**	**$ 9,346,609**	**$ (93,937)**	$ 8,652,089	$ 8,688,681	$ (36,592)
Other liabilities (a,d)	**119,902**	**119,902**	—	110,116	110,116	—
Term loans payable	**13,186**	**13,266**	**(80)**	79,882	80,092	(210)
Total			**$ 71,475**			$ 9,466

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

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

(a) The fair values of cash, and other financial assets and liabilities are assumed to approximate book values, due to their short term in 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 re-price 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 based on yield curves for similar terms and credit risks.

(d) The fair value of derivative financial instruments is calculated on market conditions at a specific point in time and may not be reflective of future fair values.

24. DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of derivative financial instrument contracts maturing at various times are:

(thousands of dollars)	1 to 3 months	3 to 12 months	1 to 5 years	2009	2008
Interest rate swaps					
Receive floating, pay fixed	$ —	$ 20,000	$ 71,360	$ 91,360	$ —
Receive fixed, pay floating	—	—	30,000	30,000	95,000
Interest rate cap options	—	—	185,000	185,000	240,000
Equity-linked options	—	10,415	35,901	46,316	28,514
Forward rate agreement	—	200,000	—	200,000	—
Total	$ —	$ 230,415	$ 322,261	$ 552,676	$ 363,514

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

Interest Rate Swaps and Interest Rate Cap Options

Interest rate swaps and interest rate cap options are used for asset liability management purposes against changes in interest rates. They involve the exchange of interest cash flows between two parties on a specified notional principal. The fair value of these instruments are $960 (2008 – $695) and is recorded in Other assets.

24. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Equity-Linked Options

Equity-linked options are used to fix costs on term deposit products which are linked to movements in equity market indexes. The embedded derivative in the term deposit product as well as the option derivatives are market to market through Other income. The fair value of the equity-linked derivative contract is $7,937 (2008 – $2,288) and is recorded in Other assets. The fair value of the embedded derivatives is $10,750 (2008 – $5,655) and is recorded in Accounts payable and accrued liabilities.

Forward Rate Agreement

The forward rate agreement had a fair value of $88 and is recorded in Other assets.

25. FINANCIAL RISK MANAGEMENT

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 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 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 for counter-parties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

25. FINANCIAL RISK MANAGEMENT (cont'd)

Credit Quality Performance
Refer to Note 6 for additional information on the credit quality performance of the members' 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 risk approval limits included 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 undergone extensive review since October 31, 2008, as a result of the merger, ensuring harmonization of these policies throughout the various regions of the organization.

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 derivative, 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 on a regular basis to management's Asset Liability Committee (ALCO) to ensure policy compliance. Management provides quarterly 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; and income sensitivity analysis.

Objectives, Policies and Processes
The Treasury Department 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. These policies are approved by the Board and monitored by the ALCO. The Credit Union's goal is to achieve adequate profitability, 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 undergone extensive review from October 31, 2008, ensuring harmonization of these policies throughout the various regions of the organization.

25. FINANCIAL RISK MANAGEMENT (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 exposures at a specific time and continuously change as a result of business activities and risk management initiatives.

(thousands of dollars)	**2009**	2008
Before tax impact of:		
1% increase in rates	**$ 8,918**	$ 6,801
1% decrease in rates	**(20,771)**	(11,720)

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 market conditions and the related behaviour of its members and counterparties. The Credit Union measures and manages its liquidity position from three 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 the day-to-day funding requirements that are managed by imposing prudential limits on net fund outflows; and
- Contingent liquidity risk, which assesses the impact of and the 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 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 resources.

25. FINANCIAL RISK MANAGEMENT (cont'd)

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 ALCO to ensure policy compliance. Management provides monthly reports on these matters to the Board's Audit Finance Committee.

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 its obligations.

Policy changes in the current year include clarification in the following areas:
- Deposit concentration;
- Wholesale funding;
- Cash flow management; and
- References to and strengthening the role of the management ALCO.

26. OFFICERS' REMUNERATION AND BENEFITS

(thousands of dollars)	Dates in Office	**Salary**	**Bonus**	**Benefits**	**2009**	2008
Chief Executive Officer (CEO) (a)	Apr 2009 – Oct 2009	**$ 218**	**$ 218**	**$ 116**	**$ 552**	$ —
Chief Executive Officer (CEO) Retired (b)	Nov 2007 – Apr 2009	**212**	**149**	**145**	**506**	4,127
Chief Financial Officer (CFO)	Nov 2007 – Oct 2009	**220**	**73**	**46**	**339**	469
Chief Operating Officer (COO) (c)	Apr 2009 – Oct 2009	**128**	**44**	**26**	**198**	—
Chief Operating Officer (COO) (a)	Nov 2008 – Apr 2009	**100**	**35**	**21**	**156**	—
Senior Vice-President (a)	Nov 2007 – Apr 2008	—	—	—	—	310
Acting CEO —Servus Pre-amalgamation (a)	May 2008 – Oct 2008	—	—	—	—	183

(a) The CEO assumed responsibilities in April 2009 and held different positions over the reporting periods.
(b) The former CEO retired in April 2009.
(c) The COO was appointed in April 2009.

Benefits include employer's share of all officers' benefits and allowances and contributions or payments made on their behalf 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, club memberships and automobiles provided.

27. RELATED PARTY INFORMATION

Directors, Management and Employees

The Credit Union makes loans, primarily residential mortgages, and offers deposits, primarily fixed term deposits, to its management and employees at various preferred rates and terms. Director loans and deposits are at member rates. All loans are in good standing and are granted in accordance with the Credit Union's standard credit practices.

(thousands of dollars)	**2009**	2008
Loans outstanding—directors, management and employees	**$ 205,319**	$ 174,425
Deposits—directors, management and employees	**99,682**	82,403
Shares—directors and management	**6,058**	1,897
Remuneration paid to directors (a)	**404**	1,872
Expenses paid to directors	**107**	360

(a) Remuneration paid to directors range from $1 (2008 – $11) to $47 (2008 – $84) with an average of $29 (2008 – $43).

Alberta Central

As of October 31, 2009, the summary of outstanding balances in the Consolidated Balance Sheet and transactions in the Consolidated Statement of Income and Comprehensive Income with Alberta Central is as follows:

(thousands of dollars)	**2009**	2008
Cash	**$ 153,306**	$ 71,168
Term deposits (Note 5)	**709,584**	735,207
Accrued interest on term deposits	**807**	4,591
Alberta Central shares (Note 5)	**105,464**	94,756
Term loans payable (Note 14)	**13,186**	79,882
Interest income term deposits	**11,541**	28,973
Interest income equity investment (Note 5)	**3,359**	—
Interest expense on term loans	**2,456**	11,176
Data processing, memberships fees and other	**16,039**	14,337
Extraordinary gain (Note 5)	**7,349**	—

27. RELATED PARTY INFORMATION (cont'd)

Travelers Acceptance Corporation

As of October 31, 2009, the summary of outstanding balances in the Consolidated Balance Sheet and transactions in the Consolidated Statement of Income and Comprehensive Income with TAC is as follows:

(thousands of dollars)	**2009**	2008
Loans purchased	**$ 19,998**	$ 10,307
Other assets—accounts receivable	**629**	—
Interest income—loans	**894**	209

1358938 Alberta Ltd

As of October 31, 2009, the summary of outstanding balances in the Consolidated Balance Sheet and transactions in the Consolidated Statement of Income and Comprehensive Income with 1358938 Alberta Ltd is as follows:

(thousands of dollars)	**2009**	2008
Cash advances	**$ 693**	$ 783
Transportation service cost	—	209

These transactions above are in the course of normal operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

28. SEGMENTED INFORMATION

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

29. SUBSEQUENT EVENT

In July 2009, the members of Apex Credit Union Limited (Apex) voted to amalgamate with Servus Credit Union Ltd. effective on November 1, 2009. Apex has a total of assets of approximately $81,235 and is in the business of personal and commercial banking with four locations serving about 5,000 members in Calgary. The amalgamation will be accounted for using the acquisition method. The purchase price allocation has not been completed yet.

NOTES

NOTES

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CANADA'S BEST MANAGED COMPANIES PLATINUM MEMBER

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