servus credit union

Management's Discussion and Analysis
Consolidated Financial Statements

For the year ended October 31, 2010

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SERVUS CREDIT UNION LTD.
Management's Discussion and Analysis
For the year ended October 31, 2010

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Management's Discussion and Analysis
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Servus Credit Union's 2010 annual report consists of two documents:

1. Management's Discussion and Analysis & Consolidated Financial Statements for the year ended October 31, 2010—our credit union's 2010 financial and operating results
2. 2010 Corporate Profile—a more general overview of Servus Credit Union

Both documents are available in print from any of our service locations or online at servus.ca.

Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements about the operations, objectives, and expected financial performance of Servus Credit Union. These statements are subject to risks and uncertainties. Actual results may differ depending on a number of factors including, but not limited to, legislative or regulatory changes, interest rates and general economic conditions in Alberta and Canada. These issues should be given careful consideration and readers should not place undue reliance on Servus' forward-looking statements.

Overview

About Servus Credit Union

Servus Credit Union and its predecessors have been providing service to Albertans for 72 years. Our credit union's 2300 employees serve 390,000 members from more than 100 locations in 62 communities across the province. Servus is headquartered in Edmonton with regional administration offices in Lloydminster and Red Deer. We are Alberta's largest credit union and the first credit union in Canada to offer service locations across an entire province.

Our credit union provides a complete line of personal, business and agricultural financial services including loans, deposits, investments, telephone and online banking, ATMs, debit and credit cards, financial planning, insurance, and trust services.

Servus is part of an international system of financial cooperatives that share a common philosophy of member-ownership. The greater our credit union's success, the more our member-owners benefit through profit sharing, new products and services, and community support. Our service consistently ranks higher in independent customer satisfaction surveys than other financial institutions and our members deposits are 100% guaranteed by the Credit Union Deposit Guarantee Corporation (CUDGC).

Vision, Mission and Values

In 2009 Servus employees and Board of Directors participated in the identification and adoption of a set of corporate values. As part of this process a wealth of information was collected on what our employees believe Servus should be and represent. In 2010 the Board and management used this information to define a vision and mission for the credit union. Together, our vision, mission and values provide a clear direction for our credit union. They focus our efforts and guide our operations.

Our Vision

Servus Credit Union builds a better world—one member at a time.

SERVUS CREDIT UNION LTD.
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Our Mission
Servus Credit Union provides sound, advice-based financial products and services. We are here for our members through all stages of their lives. We help them achieve personal satisfaction, enjoy financial stability and a good quality of life, and we are committed to making a difference in the communities where they live and work.

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

Integration
2010 was the second year of integration following the 2008 amalgamation of three of Alberta's largest credit unions. We made significant progress along the path to creating a single, unified credit union including:

- Selecting and beginning the implementation of a new banking system
- Defining a vision and mission
- Re-branding for consistency across all locations
- Launching a new website
- Harmonizing policies and procedures
- Implementing a core service philosophy called Members First

As our integration progresses we will realize even greater efficiencies, increased access for members and more opportunities for employees. The result will be a strong, stable, competitive credit union that is focused on providing the highest standard of member service.

Market and Economic Environment
2010 was a year of greater economic stability than the previous year but there were still many concerns weighing on the world. Recovery, while positive and an improvement from 2009, was subdued and varied across the globe.

Overall, global recovery was weak and vulnerable, as demonstrated by concerns about the debt issues of a number of countries that arose during 2010. Canada began the year with better than expected economic results and, even though the Canadian economy slowed as we moved through 2010, our economic performance was significantly better than much of the developed world. Servus observed a reasonable recovery across most of the province of Alberta during 2010 which, from our perspective, was stronger and more stable than what was being experienced in the majority of Canada. We continue to feel very positive about the opportunities in Alberta and our experience in 2010 supports that view.

Interest rates remained at historic lows through much of 2010, with the Bank of Canada increasing rates by ¾% later in the year in response to signs of economic improvement in the country.

As the year progressed, the competition for top quality lending opportunities increased with competitors becoming comfortable returning to the Alberta market. This was a positive development for borrowers and the Alberta economy and did not have a significant negative impact on the financial results of our credit union.

Key Performance Drivers

2010 Balanced Scorecard
The balanced scorecard is an at-a-glance summary of Servus Credit Union's performance on a mix of financial and non-financial measures against specified targets.

Objective	Strategy	2010 Target	2010 Results
Financial Performance			
Financial growth	Operating income (millions) [1]	$82.8	$93.7
Reduced dependency on interest based income	Other income as a percentage of average assets [1]	0.71%	0.69%
Leveraging assets profitably	Return on average assets [1]	0.74%	0.89%
Employee Experience			
High-level employee satisfaction	Employee engagement score as reported by employee survey	80%	79%[3]
Dedicated to life-long learning	Percent of employees attending development programs	Establish benchmark	Benchmark: 60% in FY2011[4]
Future-focused strategic staffing	Percent of executive leadership and senior leadership with a succession plan	100%	100%
Member Experience			
Determine Servus' Value Proposition and target market	Establish and communicate Servus' "One Value Proposition"	Value Proposition defined and communicated	Not Completed
Provide a consistent member experience	Member satisfaction score as reported by member survey	75%	77.3%
Invest in delivery channels	Launch unified corporate website	Website launched	Completed
Business Processes			
Corporate-wide methodology and structure to review business processes for effectiveness and efficiency	Operating efficiency ratio[1,2]	74.18%	71.01%
	Operating expenses as a percentage of average assets[1]	2.39%	2.41%
	Establish a business process framework	Framework defined	Not Completed

1. Results are before patronage, taxes, employee incentives and extraordinary items.
2. 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.
3. Servus achieved its 2010 target as the year-end result was within the confidence interval of +/- 2.5%.
4. Benchmark participation rates of 63% and 66% for FY2012 and FY2013 respectively were also established.

2010 Results

For Servus, fiscal 2010 was a year of improving revenues and continuing investments, and the results show that this approach is making a difference for our credit union. During the year Servus:

- Opened new branches in Lethbridge and Edmonton to better serve our members
- Opened the Servus Corporate Centre and moved 400 employees to the new head office location
- Boosted public awareness of Servus Credit Union from 49% to 70% in Alberta through investments in marketing and our communities (source: Ipsos ASI Servus Credit Union KPI Summary December 7, 2010)
- Increased our members' rating of overall quality of member service from 72.7% (excellent/very good) to 77.3% thanks to the outstanding work of the people in our branches and the departments who support them; Servus continues to lead Alberta in this rating (source: Synovate CSI 2010)
- Re-qualified as a member of the Platinum Club of Canada's 50 Best Managed Companies
- Increased to $43 million the profits shared with our members, just one example of how our credit union is building a better world—one member at a time

We provide a detailed analysis of our credit union's results in a number of areas below.

Loans and Deposits
Servus experienced moderate loan and deposit growth through 2010, which was consistent with the Alberta economy. We experienced some challenges raising deposits in a low rate environment but, by maintaining a strong focus on this area, were able to fund all loan demand comfortably.

Loan growth in 2010 of 5.3% was sound but not as strong as Servus had experienced in prior periods.

Deposit growth started out slowly but, with the help of special offers like the 2.25% 16-month GIC (available June to August 2010), finished with an increase of 6.2% for the year. This solid performance positions Servus well to support our members and communities with funds available to lend when opportunity presents itself.

Capital
Fiscal 2010 was another year of excellent progress for Servus' capital position. We now hold almost twice the regulatory minimum requirement in terms of leverage (7.81% versus a regulatory requirement of 4%) and in terms of risk weighted assets (14.34% versus a regulatory requirement of 8%). Retained earnings, which Servus views as its primary source of capital, increased from 3.52% of assets in 2009 to 3.64% of assets at the end of 2010.

Net Interest Income
Net interest income improved by $24.2 million during 2010, a 9.2% increase from 2009. Expressed as a percent of average assets this area rose to 2.74% compared to 2.52% in 2009. Factors contributing to this improvement include:

- Positioning Servus to benefit from the rise in interest rates experienced during 2010
- An increase in members holding their investments in lower yield, shorter-term deposits as they waited for higher deposit rates

We expect that as interest rates rise in the future these members will shift their deposits into longer-term investments, which may put downward pressure on net interest income. Net interest income is low by historical measures and leaves room for improvement.

Provision for Credit Losses
Servus expected the provision for credit losses to rise in 2010 as the impact of the severe economic slowdown worked its way through the financial system. At $11.4 million, the provision for credit losses was slightly higher than forecast for 2010 but at just over one-tenth of 1% of assets it represents a very manageable level.

Servus forecasts a similar level of provision for 2011 based on experience with previous economic cycles where loan losses continue even after the economy has begun to recover. We expect that after 2011 losses will revert to lower historic average rates.

Other Income
Excluding gains on the sale of mortgage pools of $4.6 million in 2009, other income was largely unchanged in 2010. Our plan called for an increase in this item during 2010 to provide a more stable base of income than is realized through net interest income. During 2011 and beyond we will invest more in services such as wealth management (through Servus Wealth Strategies) to meet the needs of members and to grow our base of other income as planned.

Servus did see improvement in areas such as foreign exchange that performed better than forecast as the strong Canadian dollar presented attractive opportunities to Alberta businesses and members in general.

Operating Expenses
Operating expenses increased 10.2% in 2010 due largely to changes in personnel costs and general expenses as a result of the amalgamation and ongoing integration.

Personnel expenses rose 10% in 2010 reflecting an increase in staffing, annual changes in compensation and the inclusion of Servus Wealth Strategies employee salaries that we had previously netted against the income from this group. Some areas of our credit union have realized efficiencies from the amalgamation, but for many other areas we continue to invest in resources to support the work of integration. Full value from the amalgamation is not expected to be realized until all three regions are on a single banking system.

General expenses rose 17.2% in 2010 due to:
- An increase in marketing costs of $2.4 million, the result of an intensified effort to raise brand awareness and an increase in donations and sponsorships to the communities we serve
- A provision for costs to address contracts negotiated before our amalgamation
- An increase in employee training which led to a rise in travel costs
- An increase in some general insurance costs

Despite these increases, costs in 2010 are below the figures forecast in our original business case for the amalgamation. Management and the Board share a common objective to improve the operating effectiveness of our credit union. They are working together to realize the greatest possible efficiencies while ensuring sufficient investment to support the needs of members and facilitate the banking system and other integration activities.

Patronage and Dividends
As part of living our corporate values and demonstrating the difference a credit union can make for members and community, Servus paid $23.6 million in cash patronage in December 2010 back to the

members who do business with us, an increase from the $22.5 million shared in 2009. Patronage was paid on the basis of interest income earned or paid as well as a rebate of commercial fees.

Servus also paid $19.2 million in common share and investment share dividends based on rates of 4.50% and 5.50% respectively. Servus pays these dividends each year at the discretion of the Board of Directors.

Membership Base
Harmonizing our operations and methods of counting resulted in Servus adjusting its membership base from 400,000 to approximately 390,000. This includes an increase of 7,000 member-owners in 2010.

Operating Net Income
Operating net income fell $4 million compared to 2009 due to sales of mortgages for a one-time gain in 2009, higher operating expenses and increased patronage to members. Our credit union's financial position improved during 2010 with retained earnings growing both in terms of dollars (up $34 million) and expressed as a percent of assets (to 3.64% from 3.52% in 2009). Similarly our total capital position increased by $66 million (7.81% of regulatory capital to assets compared to 7.72% in 2009). The plans approved by the Board for 2011 call for Servus to deliver income in excess of what was seen in both fiscal 2010 and 2009.

Outlook for 2011

Servus expects that global and local economic recovery will continue to be modest but solid in 2011, which is a material improvement from conditions just a year ago. Alberta is well positioned to benefit from global and emerging market demand for raw materials, which, although subject to volatility due to rapid increases in value in many areas in 2010, look to have sound fundamental support through 2011. We believe Alberta has the potential to see stronger than average growth in Canada and continue to see this province as one of the more attractive places to do business.

Our credit union does not see material risks within Alberta, but does foresee continued volatility in the global economy as slow economic growth puts substantial strain on countries with high debt levels. The drive for countries to address their growth and employment challenges by finding means to increase exports and reduce imports may also create more trade and currency tension through 2011. Consumer debt, government debt and trade tensions will likely remain in the headlines throughout the year. Despite these concerns our perspective on the overall global economy, and particularly the Alberta economy, remains positive for 2011. We acknowledge the need to manage the associated risks, but believe the end result will be positive progress for the world and Alberta.

We see subdued inflation for the next few years, with some concerns about inflation potential beyond that point. If correct, the implications are that short-term rates should remain closer to historic lows through 2011 but could start rising toward the end of the year. Longer-term rates will likely be volatile as markets balance concerns about future inflation due to large amounts of liquidity against current data indicating little inflationary pressure. Over the course of the year, longer-term rates are expected to trend higher, in conjunction with the expected economic progress. Servus Credit Union is positioned to increase net interest income in a rising rate environment.

Servus' Expectations for 2011

1. A higher level of loan and deposit growth than seen in 2010 resulting from modestly stronger economic growth in Alberta than was experienced last year.
2. Increasing competition for loan business as financial institutions that had pulled back from the lending markets return and conventional competition seeks higher growth rates.
3. Another year of sound revenue growth with increases of approximately 6%.
4. Provisions for credit losses that are consistent with 2010, tapering off as we move into 2012 and the stronger economy improves the financial situation of members and Alberta businesses.
5. Increased costs from the operation and integration of our three banking systems, tempered by the realization of greater efficiencies once complete.
6. Net income increasing from the levels seen in 2010.
7. Continued improvements in our credit union's financial stability and capital position.

2011 — 2013 Strategic Plan

This past year at Servus Credit Union was a year of growing together to truly become "one credit union."

The finalization of our vision and mission in 2010, and the adoption of a set of corporate values in 2009, ensures that everyone in our organization has a common understanding of where our credit union is going and can articulate it clearly and succinctly.

Our vision and mission are critical strategic pieces that will help to frame the future direction of our credit union. Defining these key pieces enabled Servus to develop a three-year strategic plan spanning 2011 to 2013. Our key strategic priorities include:

- Members First (our core service philosophy)
- Value proposition completion
- Long-term delivery strategy
- Leadership development strategy
- Project Fusion (our banking system conversion)

Servus selected its new banking system platform in 2010 and has embarked on the project to redesign our banking processes to better serve our members through this new platform. The implementation of the banking system is not simply a conversion to a new computer program. Rather it is an opportunity to bring our three legacy credit unions together under one operating process. The name Project Fusion is indicative of the impact this will have on our operations. The banking system will create efficiencies to help us become more competitive and responsive to our members. We view this as a long-term solution to our banking system needs. The project is expected to take more than 30 months to complete. The preliminary cost estimates indicate that the annual impact to operations will not be significantly higher than our current cost structure. We will finalize the plan structure and implementation timelines in the second quarter of 2011.

Servus will continue to use a balanced scorecard system. Such a system allows us to measure and track our success. Also an effective and comprehensive forward-looking tool, the balanced scorecard provides Servus employees with a clear line of sight to what success means for our organization and our progress on achieving the plan under the following categories:

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. We will continue developing our employees to meet the plans of our credit union and to help them 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 available 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 percent of average assets to ensure we can 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 risk management structure in place that enables us to adapt to changes in economic and operational environments. The following is an overview of this structure and the types of risk we are typically exposed to. (See Note 25 on Financial Risk Management in the 2010 Consolidated Financial Statements for more details.)

Enterprise Risk Management
Servus uses an enterprise-wide approach to identify, measure, monitor and manage risk. We based this approach on the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission, 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 our credit union's objectives and risk tolerance, and that there is an appropriate balance between risk and reward to maximize value for our 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 our operations, and to establish policies, procedures and controls to ensure that we manage risk 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.

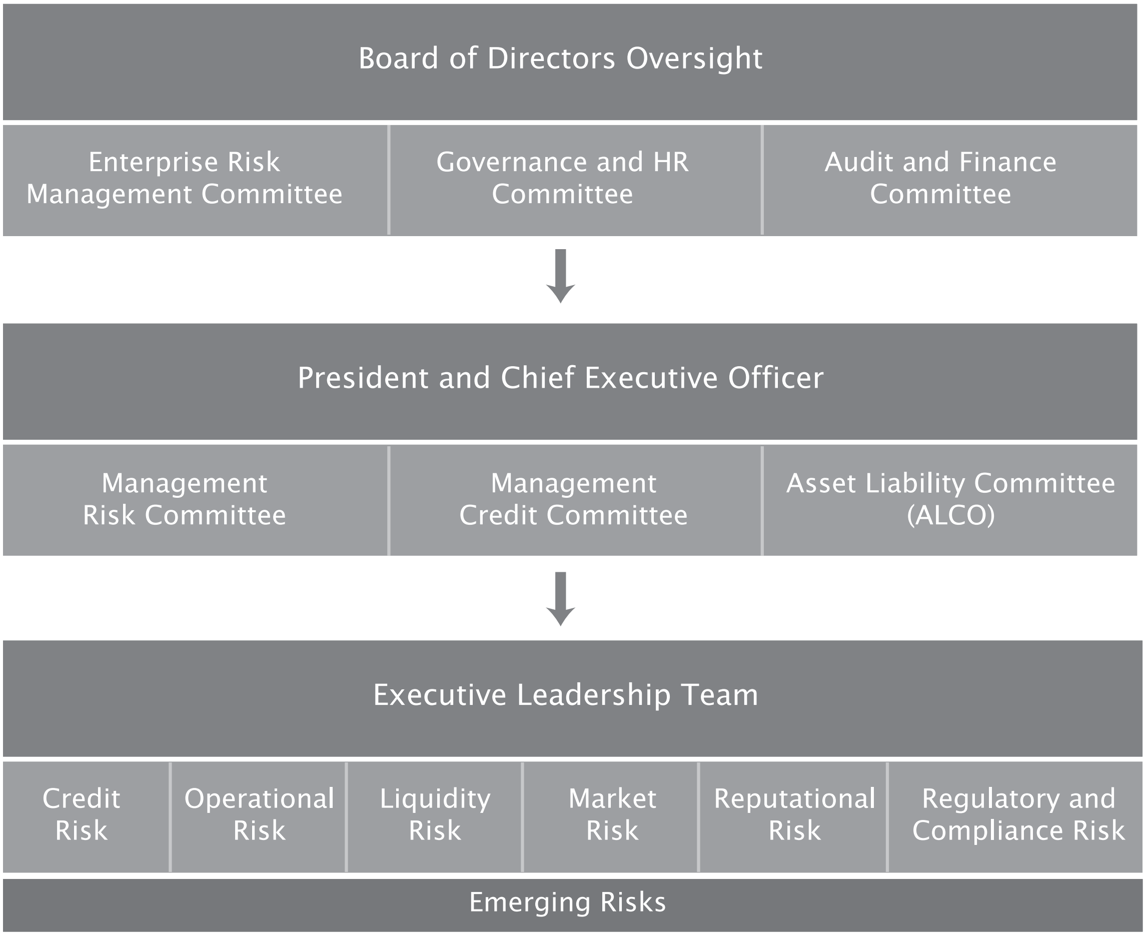

Figure 1—Servus Credit Union's Enterprise Risk Management Governance Model

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 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.

Servus Credit Union's risk management framework has four cornerstones (see Figure 2). We review and update each cornerstone at least annually to ensure consistency with risk taking activities and relevance to our business and financial strategies, the CUDGC Standards of Sound Business Practices, and the legislative environment.

Policies, Strategies and Limits
The governance, risk management direction and extent of Servus Credit Union's 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). Servus' internal audit department independently monitors the effectiveness of risk management policies, procedures and internal controls.

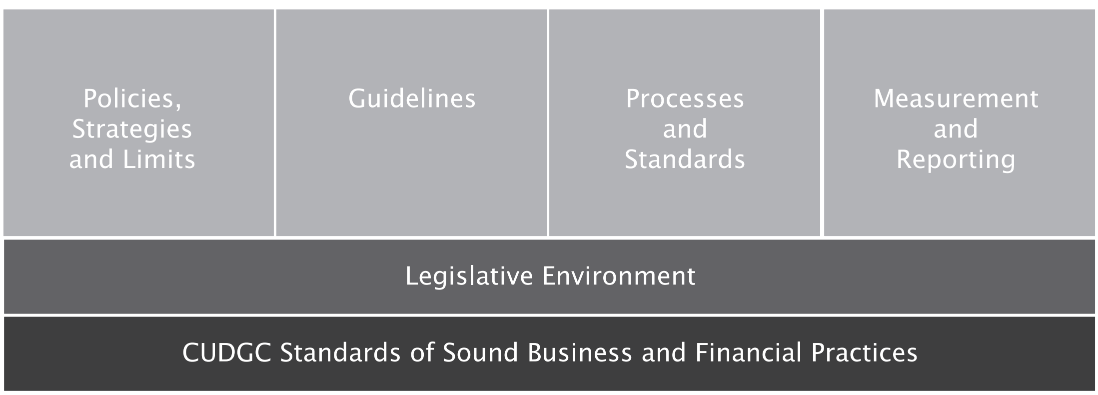

Figure 2—Servus Credit Union's Risk Management Framework

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

Types of Risk

Servus groups its major risks into seven categories:

1. Credit Risk

Credit risk is the risk of financial loss resulting from the failure of an individual or business to honour an obligation to our 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 found primarily 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. We also manage risk through 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 the 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 Servus Credit Union's 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) the 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 our 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 our 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 manage interest rate risk effectively, ALCO establishes policy guidelines and meets regularly to monitor the Bank of Canada's position and to determine future strategies. The Board of Directors approves and reviews interest rate risk policies at least annually, 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 our 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 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 its 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 through in-branch voting. Directors are elected for a three-year term.

For more detailed information regarding Servus' governance, please refer to this publication's companion document, our 2010 Corporate Profile.

Future Changes in Accounting Policies

International Financial Reporting Standards
In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises would be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Servus Credit Union meets the criteria of a publicly accountable enterprise and will be required to transition its basis of accounting accordingly for the fiscal year ending October 31, 2012, as well as the October 31, 2011 comparative data.

IFRS uses a conceptual framework similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings on the first comparative balance sheet. Transitional adjustments relating to those standards where comparative figures are required to be restated and applied retrospectively, will only be made as of the first day of the year of adoption. IFRS 1, "First-Time adoption of International Financial Reporting Standards," provides entities adopting IFRS for the first time with a number of both optional and mandatory exceptions in certain areas to the general requirement for full retrospective application of IFRS.

Servus Credit Union's project plan includes three phases: (1) Scope and Plan, (2) Design and Build, and (3) Implement and Review. Servus completed the Scope and Plan phase in the second quarter of 2010 and identified the standards that we expect will have a significant impact on the recognition, measurement, presentation and disclosure of our financial statements. Our focus for 2011 will continue to be the implementation and review of the IFRS impact on our business processes and systems, executing our formal training plan, completing the restatement of comparative period figures and producing IFRS compliant financial statements and notes.

Based on the work completed to date, Servus Credit Union remains on the path to a successful, timely and complete conversion from GAAP to IFRS for Fiscal 2012.

SERVUS CREDIT UNION LTD.
Consolidated Financial Statements

For the year ended October 31, 2010

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 ability 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 (CEO)

Ian Glassford, MBA, CMA
Chief Financial Officer (CFO)

January 14, 2011

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, 2010 and the consolidated statements of income and comprehensive income, members' equity and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at October 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Edmonton, Alberta
January 14, 2011

SERVUS CREDIT UNION LTD.
Consolidated Balance Sheet
As at October 31, 2010

(thousands of dollars)	Notes	**2010**	2009
ASSETS			
Cash		**$ 144,231**	$ 175,487
Investments	5	**1,005,724**	831,047
Member loans	6, 7, 8	**9,367,391**	8,899,584
Foreclosed assets	6	**7,326**	2,131
Property and equipment	9	**198,322**	197,519
Property and land available for sale	9	**9,352**	7,820
Intangible assets	10	**13,112**	6,016
Other assets	11	**41,290**	43,944
		$ 10,786,748	$ 10,163,548
LIABILITIES			
Member deposits	12	**$ 9,831,908**	$ 9,259,627
Accounts payable and other liabilities	13	**122,645**	126,082
Term loans payable	14	—	13,186
		9,954,553	9,398,895
Guarantees, commitments and contingent liabilities	20		
MEMBER EQUITY			
Share capital	15	**439,967**	406,740
Retained earnings		**392,228**	357,913
		832,195	764,653
		$ 10,786,748	$ 10,163,548

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

Approved on behalf of the Board of Directors

Peter Elzinga
Chair, Board of Directors

Alison Starke
Chair, Audit and Finance Committee

SERVUS CREDIT UNION LTD.
Consolidated Statement of Income and Comprehensive Income
For the year ended October 31, 2010

(thousands of dollars)	Notes	**2010**	2009
Interest income			
Member loans		**$ 419,648**	$ 417,776
Investments		**9,449**	18,540
Total interest income		**429,097**	436,316
Interest expense			
Member deposits		**140,286**	171,186
Term loans		**1,916**	2,459
Total interest expense		**142,202**	173,645
Net interest income		**286,895**	262,671
Provision for credit losses	7	**11,405**	10,720
Net interest income after provision for credit losses		**275,490**	251,951
Other income	17	**70,562**	74,697
Net interest income and other income		**346,052**	326,648
Operating expenses			
Personnel		**146,801**	133,542
General	18	**56,628**	48,324
Member security		**18,719**	16,799
Occupancy		**17,667**	18,286
Depreciation	9	**14,694**	13,638
Organization		**4,198**	3,621
Amortization	10	**2,048**	2,459
Total operating expenses		**260,755**	236,669
Income before patronage allocation to members and income taxes		**85,297**	89,979
Patronage allocation to members	15	**23,642**	22,496
Income before income taxes		**61,655**	67,483
Income taxes	19	**12,135**	13,972
Operating net income		**49,520**	53,511
Extraordinary gain	5	**—**	7,349
Net income		**49,520**	60,860
Other comprehensive income		**—**	—
Total comprehensive income		**$ 49,520**	$ 60,860

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, 2010

(thousands of dollars)	Notes	**2010**	2009
Share Capital			
Common Shares			
Balance, beginning of year	15	**$ 303,950**	$ 281,194
Issued and redeemed for cash, net	15	**17,156**	8,819
Provision for dividends distributable	15	**13,639**	13,937
Balance, end of year	15	**334,745**	303,950
Investment Shares			
Balance, beginning of year	15	**102,790**	100,421
Issued and redeemed for cash, net	15	**(2,484)**	(2,697)
Provision for dividends distributable	15	**4,916**	5,066
Balance, end of year	15	**105,222**	102,790
Share Capital, end of year		**439,967**	406,740
Retained Earnings			
Balance, beginning of year		**357,913**	312,797
Net income		**49,520**	60,860
Provisions for dividends on common shares		**(13,639)**	(13,937)
Provisions for dividends on investment shares		**(5,606)**	(5,734)
Income tax recovery thereon		**4,040**	3,927
Retained Earnings, end of year		**392,228**	357,913
Accumulated Other Comprehensive Income, end of year		—	—
Total Member's Equity		**$ 832,195**	$ 764,653

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, 2010

(thousands of dollars)	Notes	**2010**	2009
Cash Flows From (Used in) Operating Activities:			
Operating net income		**$ 49,520**	$ 53,511
Adjustments for:			
Depreciation	9	**14,694**	13,638
Amortization	10	**2,048**	2,459
Impairment on property and equipment	9	**725**	—
Future income taxes	19	**1,511**	1,015
Provision for credit losses	7	**11,405**	10,720
Realized loss on investments available for sale		**—**	975
Investment income from equity method investments	5	**(4,463)**	(3,098)
Loss on acquisition of Apex Credit Union Ltd.		**1,550**	—
(Gain)/Loss on sale of property and equipment		**(535)**	11
Gain on sale of member loans	8	**—**	(4,585)
Net change in other assets and accounts payable and other liabilities		**(1,360)**	4,360
Net change in accrued interest on member loans		**(3,467)**	2,247
Net change in accrued interest on member deposits		**(11,027)**	(8,510)
Net change in accrued interest on term loans		**(4)**	—
Net change in accrued interest on investments		**24**	4,325
Operating Activities		**60,621**	77,068
Cash Flows From (Used in) Investing Activities			
Additions to intangible assets		**(9,144)**	(1,080)
Additions to property and equipment		**(23,410)**	(28,160)
Acquisition of 1358938 Alberta Ltd.		**(535)**	—
Proceeds on disposal of property and equipment		**9,073**	436
Member loans, net		**(411,323)**	(598,999)
Purchase of residential mortgages	8	**—**	(18,938)
Cash acquired from business combinations		**355**	—
Investments, net		**(161,324)**	49,037
Investing Activities		**(596,308)**	(597,704)
Cash Flows From (Used in) Financing Activities			
Advances of term loans payable		**284,050**	395,000
Repayment of term loans payable		**(303,608)**	(461,696)
Proceeds from securitization of residential mortgages	8	**—**	59,294
Member deposits		**508,937**	609,093
Repayment of obligation under capital lease	13	**(249)**	(240)
Dividends paid on investment shares	15	**(690)**	(668)
Shares, issued and redeemed, net	15	**11,951**	6,122
Income tax recovery		**4,040**	3,927
Financing Activities		**504,431**	610,832
Increase in Cash		**(31,256)**	90,196
Cash, beginning of year		**175,487**	85,291
Cash, End of year		**$ 144,231**	$ 175,487
Supplementary cash flow information			
Interest paid during the year		**$ 153,233**	$ 182,206
Interest and dividends received during the year		**422,169**	439,790
Income taxes paid during the year		**14,125**	17,967

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

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

On November 1, 2009, the Credit Union adopted three new accounting standards: Business Combinations (Section 1582), the Consolidated Financial Statements (Section 1601) and Non-controlling Interests (Section 1602).

Business combinations are accounted for using the acquisition method, applied on a prospective basis. The acquisition method requires that the acquirer recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at the acquisition date. Acquisition costs directly attributable to the acquisition are expensed in the period. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair values at the date of the acquisition, irrespective of the extent of any non-controlling interest.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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, accrued liabilities, and the useful life of property, equipment, and intangible assets 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Subsidiaries
The Credit Union 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. The Credit Union also has 100% ownership of 135938 Alberta Ltd. which provides the Credit Union with air transportation services.

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 designated as Held for Trading are those that an entity designates on initial recognition as instruments that the Credit Union will measure these assets at fair value with changes in those fair values recorded in Other income or Interest income. Cash, retained rights to future excess spread on securitized residential mortgages and derivative financial instruments are classified as held for trading.

Held-To-Maturity
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 as held-to-maturity as of October 31, 2010.

Available-For-Sale
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.

Other investments (Note 5) include investments in companies that are not traded on an active market are classified as available-for-sale. These investments are carried at cost, gains, losses and realized sales are recognized in the Net income when the investment is derecognized or impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost. Loans and receivables include Credit Union Central of Alberta (Alberta Central) term deposits, debentures, mortgage pools, accounts receivable and member loans.

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

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 other than temporary impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Any cumulative loss in respect of available-for-sale financial assets recognized previously in Accumulated other comprehensive income is transferred to the Net income. All impairment losses are recognized in the Net income for the year. The Credit Union has not recorded any impairment on financial assets other than Member loans as of October 31, 2010.

Cash
Cash is comprised of cash on hand, the current account with Alberta Central and items in transit.

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
Interest is recorded on an accrual basis using the effective interest method. Dividends are recorded as declared. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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 contain 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.

Foreclosed assets are recorded initially at the lesser of outstanding principal or loan and fair value less costs to sell. Any subsequent decline in fair value impacts the specific provision for foreclosed assets.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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 which is charged to Consolidated statement of income and comprehensive income. These financial instruments are designated as held-for-trading and are measured at fair value changes in fair value are recognized to Other income.

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Property and Equipment

Land is carried at cost. Buildings, furniture, office equipment, vehicles, equipment under capital lease, 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, office equipment and vehicles	3 to 20 years
Leasehold improvements	Term of lease
Computer equipment	3 to 5 years
Equipment under capital lease	5 years
Airplane	10 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

Intangible assets 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. No amortization is calculated on software under development until the assets are placed in use.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 the obligation under capital lease is 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.

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 discounted cash flows of the asset group.

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 Plans
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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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's year Consolidated Financial Statement presentation.

4. FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards—The Canadian Institute of Chartered Accountant (CICA) is transitioning from Canadian GAAP to International Financial Reporting Standards (IFRS). The Credit Union's consolidated financial statements will be prepared in accordance with IFRS for the fiscal year commencing November 1, 2011 and will include comparative 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 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.

5. INVESTMENTS

The investments amounting to $1,005,724 (2009 – $831,047) include:

(thousands of dollars)	**2010**	2009
Alberta Central term deposits (Note 27)	**$ 879,635**	$ 709,584
Mortgage pools	**8,034**	15,014
Debentures	**1,250**	—
Other investments	**894**	359
	$ 889,813	$ 724,957
Accrued interest	**834**	858
Total	**$ 890,647**	$ 725,815

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

Investments Accounted under Equity Method

(thousands of dollars)	**2010**	2009
Alberta Central shares (Note 27)	**$ 113,439**	$ 103,136
Investment in Crelogix (Note 27)	**1,638**	1,403
1358938 Alberta Ltd (Note 27 & 29)	—	693
Total	**$ 115,077**	$ 105,232

As of October 31, 2010, the Credit Union owned 54.7% 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. The investment in Alberta Central shares was accounted for using the equity method.

As a result of changing to 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 recorded in the 2009 Consolidated Statement of Income and Comprehensive Income.

During 2010, the Credit Union bought $5,185 in Alberta Central shares, acquired additional Alberta Central shares from the Apex acquisition totalling of $2,080 and received a dividend of $1,350.

The Credit Union's 36.0% interest in Crelogix (formerly Traveller Acceptance Corporation) and 54.7% interest in Alberta Central are recorded using the equity method. Included in Interest income Investments for 2010 is net income of $235 (2009 – loss of $167) from Crelogix's investment and net income of $4,388 (2009 –$3,098) from Alberta Central.

From November 1, 2009 to April 30, 2010, the 50% interest in 1358938 Alberta Ltd recorded a net loss of $160, which is included in Interest income investments. On April 30, 2010, the Credit Union acquired the remaining 50% interest in 1358938 Alberta Ltd for cash proceeds of $535. Refer to Note 29 Business Combinations for a summarization of the transaction.

5. INVESTMENTS (cont'd)

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 the equity method.

6. MEMBER LOANS AND IMPAIRED LOANS

		2010 Allowance for credit losses			
(thousands of dollars)	**Member Loans Gross Amount**	**Specific**	**General**	**Member Loans Net Amount**	**Gross Impaired Member Loans**
Residential mortgages	**$ 5,335,956**	**$ 570**	**$ 754**	**$ 5,334,632**	**$ 39,271**
Commercial mortgages and loans	**2,792,662**	**7,083**	**4,616**	**2,780,963**	**41,485**
Consumer loans	**965,164**	**4,630**	**5,096**	**955,438**	**14,647**
Agricultural mortgages and loans	**263,651**	**23**	**413**	**263,215**	**4,509**
Sub-total	**9,357,433**	**12,306**	**10,879**	**9,334,248**	**99,912**
Accrued interest	**33,143**	—	—	**33,143**	—
Total	**$ 9,390,576**	**$ 12,306**	**$ 10,879**	**$ 9,367,391**	**$ 99,912**

		2009 Allowance for credit losses			
(thousands of dollars)	Member Loans Gross Amount	Specific	General	Member Loans Net Amount	Gross Impaired Member Loans
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
Sub-total	8,892,201	9,768	12,525	8,869,908	63,828
Accrued interest	29,676	—	—	29,676	—
Total	$ 8,921,877	$ 9,768	$ 12,525	$ 8,899,584	$ 63,828

The total amount of loans delinquent over 30 days but not impaired is $123,651 (2009 – $89,045). Refer to Note 22 Interest Rate Sensitivity for interest rate risk.

6. MEMBER LOANS AND IMPAIRED LOANS (cont'd)

The total amount of the foreclosed assets are:

(thousands of dollars)	**2010**	2009
Foreclosed assets–gross	**$ 9,575**	$ 2,130
Impairment	**(2,249)**	—
Foreclosed assets–net	**$ 7,326**	$ 2,130

The impairment of the foreclosed assets is recognized in the Provision for credit losses in the Consolidated Statement of Income and Comprehensive Income.

7. ALLOWANCE FOR CREDIT LOSSES

(thousands of dollars)	**2010**	2009
Balance, beginning of year	**$ 22,293**	$ 17,594
Loans written off	**(11,165)**	(6,628)
Recoveries of amounts written off in prior years	**652**	607
Provisions for credit losses	**11,405**	10,720
Balance, end of year	**$ 23,185**	$ 22,293

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 in 2009:

(thousands of dollars)	2009
Principal value of mortgages sold	$ 58,996
Net cash proceeds received	59,294
Retained rights to future excess spread	4,747
Premiums	(556)
Retained servicing liability	(268)
Direct transaction costs	(258)
Gain on sale before income taxes	4,585

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

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 in 2009:

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

The following table summarizes cash flows related to securitized mortgages:

(thousands of dollars)	**2010**	2009
Cash flows remitted on collections	**$ 69,976**	$ 128,594
Cash flows received on retained rights to excess spread	**3,135**	3,770

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	30.80%	(287)
Prepayment rate 20% higher	33.60%	(560)

The discount rates vary between 2.05% and 4.53%. 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%	(801)
Discount rate 20% higher	2.460% – 5.436%	(1,591)

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.

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

As of October 31, 2010, the total retained rights to future excess spread on all previous securitizations were $4,601 (2009-$8,499) 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 2010, the Credit Union has increased its prepayment rate from 22% to 28% which resulted in a decrease in retained rights to future excess spread of $710 which had been recognized in the Consolidated Statement of Income and Comprehensive Income as a reduction to Other income.

As of October 31, 2010, the mortgage securitization liabilities, premium and retained servicing liability were respectively $4,402 (2009 – $6,517), $311 (2009 – $706) and $277 (2008 – $620) and are recorded in Accounts payable and accrued liabilities on the Consolidated Balance Sheet.

Purchase of Residential Mortgages

In 2009, the Credit Union purchased $18,938 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 was to be amortized over the term of the residential mortgages using the effective interest method.

The following table summarizes the Credit Union's purchase activity in 2009:

(thousands of dollars)	2009
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

2010 (thousands of dollars)	**Cost**	**Accumulated Depreciation**	**Net**
Land	**$ 32,004**	**$ —**	**$ 32,004**
Buildings	**143,858**	**28,247**	**115,611**
Furniture, office equipment and vehicles	**49,064**	**31,207**	**17,857**
Leasehold improvements	**40,208**	**16,854**	**23,354**
Computer equipment	**25,291**	**17,988**	**7,303**
Equipment under capital lease	**1,269**	**656**	**613**
Airplane	**975**	**67**	**908**
Real estate investment properties	**798**	**126**	**672**
Total	**$ 293,467**	**$ 95,145**	**$ 198,322**

9. PROPERTY AND EQUIPMENT (cont'd)

2009 (thousands of dollars)	Cost	Accumulated Depreciation	Net
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	25,147	18,521	6,626
Equipment under capital lease	1,269	402	867
Real estate investment properties	810	99	711
Total	$ 285,421	$ 87,902	$ 197,519

Depreciation expense recorded in to the Consolidated Statement of Income and Comprehensive Income for the year ended October 31, 2010 for property and equipment was $14,694 (2009 – $13,638).

Rental income recognized in the Consolidated Statement of Income and Comprehensive Income for the year ended October 31, 2010 from operating leases was $813 (2009 – $675).

There was an impairment loss of $725 (2009 – $nil) recognized in the Operating expenses general during the year ended October 31, 2010. The impairment loss is due to changes in circumstances indicating that the carrying value of a building was not recoverable.

At October 31, 2010, the Credit Union had $3,408 (2009 – $9,157) of buildings and leases under construction not yet placed into service, and therefore, depreciation has not been recorded on these assets.

At October 31, 2010, the Credit Union has a total of $9,352 (2009 – $7,820) in property and land available for sale. It is expected that these assets will be sold during 2011.

The Credit Union has various properties of which portions have been leased to tenants. The cost of these buildings is $25,962 (2009 – $25,962) with accumulated depreciation of $12,861 (2009 – $11,530).

10. INTANGIBLE ASSETS

2010 (thousands of dollars)	**Cost**	**Accumulated Amortization**	**Net**
Computer software	**$ 12,830**	**$ 10,976**	**$ 1,854**
Computer software internally developed	**13,532**	**12,677**	**855**
Computer software under development	**10,403**	—	**10,403**
	$ 36,765	**$ 23,653**	**$ 13,112**

2009 (thousands of dollars)	Cost	Accumulated Amortization	Net
Computer software	$ 12,161	$ 8,591	$ 3,570
Computer software internally developed	14,278	11,832	2,446
Computer software under development	—	—	—
	$ 26,439	$ 20,423	$ 6,016

Amortization expense recorded in the consolidated statement of income and comprehensive income for the year ended October 31, 2010 for intangible assets was $2,048 (2009 – $2,459).

11. OTHER ASSETS

(thousands of dollars)	**2010**	2009
Corporate tax receivable	**$ 13,774**	$ 10,272
Derivative instrument assets (Note 24)	**9,165**	8,985
Prepaid items	**7,369**	9,327
Accounts receivable	**4,782**	4,533
Retained rights to future excess spread (Note 8)	**4,601**	8,499
Accounts receivable Dividend from Alberta Central (Notes 5 & 7)	**1,350**	2,328
Future income tax asset	**249**	—
Total	**$ 41,290**	$ 43,944

12. MEMBER DEPOSITS

(thousands of dollars)	2010	2009
Demand accounts	$ 4,431,594	$ 4,285,384
Term deposits	3,763,576	3,458,199
Registered plans	1,556,194	1,425,119
Other deposits	7,959	7,313
Sub-total	9,759,323	9,176,015
Accrued interest	72,585	83,612
Total	$ 9,831,908	$ 9,259,627

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 OTHER LIABILITIES

(thousands of dollars)	2010	2009
Accounts payable and accrued liabilities	$ 48,359	37,232
Cheques and other items in transit	35,260	$ 40,020
Dividend and patronage allocation to members (Note 15)	24,332	23,164
Pension liability (Note 21)	5,627	5,489
Mortgage securitization liabilities (Note 8)	4,402	6,517
Deferred income	1,825	3,286
Future income tax liability	1,536	957
Obligations under capital lease	644	893
Premium and retained servicing liability (Note 8)	588	1,326
Derivative instrument liabilities (Note 24)	73	3,795
Corporate tax payable	—	3,403
Total	$ 122,646	$ 126,082

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

(thousands of dollars)	2010	2009
Total obligations under capital lease, secured by equipment with a net book value of $613, interest at 3.89% blended monthly repayment of $23 maturing March 2013	$ 644	$ 893

Commitments of future minimum lease payments under the capital lease are $280 for years 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 $400,000 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)	**2010**	2009
Term loans payable	**$ —**	$ 12,712
Alberta Central—line of credit	—	474
Total	**$ —**	$ 13,186

At October 31, 2010, the Credit Union had $nil (2009 – $4) in accrued interest on outstanding term loans payable and line of credit.

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 the right to vote at a general meeting.

($ thousands, except for per share amounts)

15. SHARE CAPITAL (cont'd)

Series A to G Investment Shares

Series A to G 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.

	Issued and Outstanding as at October 31 2009	Issued and Redeemed in 2010	Provision for Dividends Distributable 2010	Issued and Outstanding as at October 31 2010
Common Shares Total	**303,950**	**17,156**	**13,639**	**334,745**
Investment Shares				
Series A	**45,092**	**(1,935)**	**2,475**	**45,632**
Series B	**8,071**	**(368)**	**—**	**7,703**
Series C	**18,212**	**(392)**	**975**	**18,795**
Series D	**26,394**	**(481)**	**1,418**	**27,331**
Series E	**5,021**	**(176)**	**—**	**4,845**
Series F (a)	**—**	**523**	**29**	**552**
Series G (a)	**—**	**345**	**19**	**364**
Investment Shares Total	**102,790**	**(2,484)**	**4,916**	**105,222**
Share Capital Total	**406,740**	**14,672**	**18,555**	**439,967**

(a) Former Apex Credit Union Investment shares Series A and B are now Series F and G. Refer to Note 29, Business Combinations—Apex Credit Union.

($ thousands, except for per share amounts)

15. SHARE CAPITAL (cont'd)

	Issued and Outstanding as at October 31 2008	Issued and Redeemed in 2009	Provision for Dividends Distributable 2009	Issued and Outstanding as at October 31 2009
Common Shares Total	281,194	8,819	13,937	303,950
Investment Shares				
Series A	43,983	(1,443)	2,552	45,092
Series B	8,467	(396)	—	8,071
Series C	17,642	(456)	1,026	18,212
Series D	25,143	(237)	1,488	26,394
Series E	5,186	(165)	—	5,021
Series F (a)	—	—	—	—
Series G (a)	—	—	—	—
Investment Shares Total	100,421	(2,697)	5,066	102,790
Share Capital Total	381,615	6,122	19,003	406,740

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

The Board of Directors declared a $23,642 (2009 – $22,496) patronage allocation to members, a common share dividend of 4.5% or $13,639 (2009 – 5.00%, $13,937) (payable on shares in excess of a member's minimum required holdings), a Series A, C, D, F and G investment share dividend of 5.5% for a total of $4,916 (2009 – $5,066). Patronage allocation to members is calculated based on the volume of business the member has with the Credit Union.

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, D, F and G investment share dividends are paid in additional Series A, C, D, F and G investment shares. Series B and E investment share dividends for $690 (2009 – $668) were paid in cash and are recorded in Accounts payable and other liabilities in the Consolidated Balance Sheet. Total patronage and dividends paid in cash or shares were $42,887 (2009 – $42,167) and were paid in December 2010.

16. CAPITAL MANAGEMENT

The Credit Union provides financial services to its members and is subject to capital requirements set out in the Act. During 2010, there have been no changes to the capital requirements and 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.

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.

16. CAPITAL MANAGEMENT (cont'd)

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, 2010 for regulatory purposes the Credit Union's total capital as a percent of assets was 7.81% (2009 – 7.72%) and the total capital as percent of risk weighted assets was 14.35% (2009 – 13.65%), therefore, the Credit Union has exceeded its minimum capital requirement.

Elements of risk weighted capital at the year-end are:

(thousands of dollars)	**2010**	2009
Retained earnings	**$ 392,228**	$ 357,913
Common shares (Note 15)	**334,745**	303,950
Investment shares (Note 15)	**105,222**	102,790
General allowance for credit losses (Note 6)	**10,879**	12,525
Qualifying Alberta Central retained earnings	**7,022**	7,161
Future income tax liability (Note 13)	**1,536**	957
Future income tax asset (Note 11)	**(249)**	—
Total	**$ 851,383**	$ 785,296

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)	**2010**	2009
Account service charges, commissions and fees	**$ 63,353**	$ 64,486
Foreign exchange income	**3,953**	3,223
Other	**3,256**	2,403
Gain on sale of member loans (Note 8)	**—**	4,585
Total	**$ 70,562**	$ 74,697

18. GENERAL OPERATING EXPENSES

(thousands of dollars)	**2010**	2009
Administration fees and expenses	**$ 31,428**	$ 24,598
Marketing and advertising	**11,656**	9,263
Computer processing cost	**11,374**	10,017
Consulting fees	**2,170**	4,446
Total	**$ 56,628**	$ 48,324

19. INCOME TAXES

(thousands of dollars)	**2010**	2009
Current income tax expense	**$ 10,624**	$ 12,957
Future income tax expense	**1,511**	1,015
Total	**$ 12,135**	$ 13,972

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 14.23% (2009 – 15.53%) to income before profit share dividends and income taxes. The reasons for the differences are as follows:

	2010	2009
Income taxes calculated at the statutory rate	**38.00%**	38.00%
Income taxes adjusted for the effect of:		
Reduction for credit unions	**-17.00%**	-17.00%
Tax recovery from patronage dividends	**-5.77%**	-5.61%
Non-deductible expenses and other	**-1.00%**	0.14%
	14.23%	15.53%

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.

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)	**2010**	2009
Standby letters of credit	**$ 51,686**	$ 44,336

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.

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

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.

(thousands of dollars)	**2010**	2009
Commitments to extend credit:		
Original term to maturity of one year or less	**$ 1,397,858**	$ 1,385,929
Original term to maturity of more than one year	**606,673**	550,069
Total	**$ 2,004,531**	$ 1,935,998

Contractual Obligations

The Credit Union has various obligations under long-term non-cancellable contracts, which include service contracts, operating leases for buildings and equipment and other leases. The future minimum payments for such obligations for each of the next five fiscal years and thereafter are as follows:

(thousands of dollars)	Operating leases for buildings	Other contractual obligations	Total
2011	$ 5,691	$ 5,323	$ 11,014
2012	5,261	1,637	6,898
2013	4,730	1,249	5,979
2014	4,221	854	5,075
2015	3,400	854	4,254
2016 and thereafter	13,935	8,539	22,474
Total	$ 37,238	$ 18,456	$ 55,694

The Credit Union has various building construction projects underway for a total estimated cost of $3,207 (2009 – $9,106), and to date has incurred costs of $1,770 (2009 – $7,581). The remaining $1,437 (2009 – $1,525) is the anticipated cost to complete these construction projects.

During the year, the Credit Union selected a single banking system platform which will form the basis of operations in the future. The Credit Union currently operates on three different banking system platforms. The project to move to the new banking system will span many years. The Credit Union has already entered into contracts to effect this transition. Costs associated with these commitments are included in the Consolidated financial statements and notes.

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 2010	Total 2009
Net benefit plan cost				
Current service cost employer portion	$ 129	$ 41	$ 170	$ 205
Interest cost	189	80	269	340
Curtailment gain	—	—	—	(934)
Amortization of transitional obligation	—	105	105	103
Amortization of (loss) on plan benefit change	—	(54)	(54)	(54)
Amortization of net actuarial loss	28	129	157	—
Total net benefit plan costs	$ 346	$ 301	$ 647	$ (340)
Defined contribution registered retirement savings plan— Credit Union contributions	6,705	—	6,705	6,720
Total	$ 7,051	$ 301	$ 7,352	$ 6,380

(thousands of dollars)	Pension Plans	Other Benefit Plans	Total 2010	Total 2009
Accrued Benefit Obligation				
Balance, Beginning of Year	$ 4,448	$ 2,515	$ 6,963	$ 6,312
Current service cost	129	41	170	205
Interest cost	189	80	269	367
Expected benefit paid	(431)	(78)	(509)	(615)
Actuarial loss	144	229	373	1,628
Curtailments	—	—	—	(934)
Accrued Benefit Obligation, End of Year	$ 4,479	$ 2,787	$ 7,266	$ 6,963

21. EMPLOYEE BENEFIT PLANS (cont'd)

(thousands of dollars)	Pension Plans	Other Benefit Plans	Total 2010	Total 2009
Accrued Benefit Liability				
Funded status-plan deficit	**$ (4,479)**	**$ (2,787)**	**$ (7,266)**	$ (6,963)
Unamortized net actuarial loss	**439**	**1,257**	**1,696**	1,480
Unamortized gain on plan benefit change	—	**(57)**	**(57)**	(111)
Unamortized transitional obligation	—	—	—	105
Accrued Benefit Liability (Note 13)	**$ (4,040)**	**$ (1,587)**	**$ (5,627)**	$ (5,489)
Valuation allowance	—	—	—	—
Accrued Benefit Liability, Net of Valuation Allowance	**$ (4,040)**	**$ (1,587)**	**$ (5,627)**	$ (5,489)

Effect of Change in Assumed Health Care Cost Trend Rates

The annual health insurance inflation rate is assumed to be 9%. 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 year ending October 31:

(thousands of dollars)	1% increase	1% decrease
Effect on:		
Net benefit cost	**$ 2**	**$ (1)**
Accrued benefit obligation	**52**	**(49)**

Actuarial Valuations

The most recent actuarial valuation on the defined benefit pension plan for funding purposes was completed as at October 31, 2010.

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.

	2010				
(thousands of dollars)	Floating Rate	Within 1 Year	More Than 1 Year	Non Interest Sensitive	Total
Assets					
Cash	$ 115,734	$ —	$ —	$ 28,497	$ 144,231
Investments	3,411	884,184	1,324	116,805	1,005,724
Effective yield	*2.04%*	*0.96%*	*5.79%*	—	*0.86%*
Member loans	4,230,953	1,374,924	3,651,644	109,870	9,376,391
Effective yield	*4.02%*	*5.25%*	*5.27%*	—	*4.64%*
Other assets	—	—	—	269,402	269,402
	4,350,098	2,259,108	3,652,968	524,574	10,786,748
Liabilities and Equity					
Member deposits	3,579,885	2,749,304	2,709,675	793,044	9,831,908
Effective yield	*0.84%*	*1.94%*	*2.47%*	—	*1.53%*
Other Liabilities	—	—	—	122,645	122,645
Term loans payable	—	—	—	—	—
Effective yield					
Equity				832,195	832,195
	3,579,885	2,749,304	2,709,675	1,747,884	10,786,748
Off Balance Sheet					
Notional value of assets derivative financial instruments	78,996	65,000	150,000	—	293,996
Notional value of liabilities derivative financial instruments	(30,000)	(55,000)	(208,996)	—	(293,996)
Sub-total off balance sheet	48,996	10,000	(58,996)	—	—
Net 2010 Position	$ 819,209	$ (480,196)	$ 884,297	$ (1,223,310)	$ —

22. INTEREST RATE SENSITIVITY (cont'd)

	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	707,124	17,114	106,450	831,047
Effective yield	*2.31%*	*3.00%*	*3.98%*	—	*2.64%*
Member loans	3,997,854	1,294,963	3,535,556	71,211	8,899,584
Effective yield	*3.12%*	*5.59%*	*5.90%*	—	*4.55%*
Other assets	—	—	—	257,430	257,430
	4,144,881	2,002,087	3,552,670	463,910	10,163,548
Liabilities and Equity					
Member deposits	2,708,427	3,730,244	2,064,487	756,469	9,259,627
Effective yield	*1.28%*	*2.31%*	*1.95%*	—	*1.74%*
Other Liabilities	—	—	—	126,082	126,082
Term loans payable	474	12,708	—	4	13,186
Effective yield	*3.54%*	*3.40%*	—	—	*3.40%*
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	91,360	—	215,000	—	306,360
Notional value of liabilities derivative financial instruments	(30,000)	(20,000)	(256,360)	—	(306,360)
Sub-total off balance sheet	61,360	(20,000)	41,360	—	—
Net 2009 Position	$ 1,497,340	$ (1,760,865)	$ 1,446,823	$ (1,183,298)	$ —

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 immediate 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 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).

	2010			2009		
(thousands of dollars)	**Book Value**	**Fair Value**	**Fair value difference**	Book Value	Fair Value	Fair value difference
Assets						
Cash (a)	**$ 144,231**	**$ 144,231**	**$ —**	$ 175,487	$ 175,487	$ —
Investments	**890,647**	**890,722**	**75**	725,815	721,196	(4,619)
Member loans (b,c)	**9,367,391**	**9,541,366**	**173,975**	8,899,584	9,071,826	172,242
Other Assets (a,d)	**19,898**	**19,898**	—	24,345	24,345	—
Liabilities						
Member deposits (b,c)	**$ 9,831,908**	**$ 9,893,273**	**$ (61,365)**	$ 9,259,627	$ 9,346,609	$ (86,982)
Other liabilities (a,d)	**113,657**	**113,657**	—	112,947	112,947	—
Term loans payable	—	—	—	13,186	13,266	(80)
Total			**$ 112,685**			$ 80,561

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**	**2010**	2009
Interest rate swaps					
Receive floating, pay fixed	**$ 20,000**	**$ —**	**$ 58,996**	**$ 78,996**	$ 91,360
Receive fixed, pay floating	—	**30,000**	—	**30,000**	30,000
Interest rate cap options	**35,000**	—	**150,000**	**185,000**	185,000
Equity-linked options	—	**7,334**	**48,197**	**55,531**	46,316
Forward rate agreement	—	—	—	—	200,000
Total	**$ 55,000**	**$ 37,334**	**$ 257,193**	**$ 349,527**	$ 552,676

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 $202 (2009 – $960) and is recorded in Other assets.

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 marked to market through Other income. The fair value of the equity-linked derivative contract is $8,963 (2009 – $7,937) and is recorded in Other assets. The fair value of the embedded derivatives is $8,637 (2009 – $6,955) and is recorded in Member deposits accrued interest.

24. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Forward Rate Agreement
The forward rate agreement had a fair value of $nil (2009 – $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, derivative counterparties 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.

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 includes credit risk limits and exceptions;
- Credit risk documentation focuses on documentation and administration; and
- Credit review and deterioration includes monitoring and review.

25. FINANCIAL RISK MANAGEMENT (cont'd)

Since October 31, 2009, there were no significant changes of the Credit Union's credit risk policies, processes and methodologies.

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 net 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.

Since October 31, 2009, there were no significant changes of the Credit Union's market risk policies and procedures.

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)	**2010**	2009
Before tax impact of:		
1% increase in rates	**$ 8,693**	$ 8,918
1% decrease in rates	**(24,024)**	(20,771)

25. FINANCIAL RISK MANAGEMENT (cont'd)

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;
- 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.

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.

26. OFFICERS' REMUNERATION AND BENEFITS

(thousands of dollars)	Salary	Bonus	Benefits	2010	2009
Chief Executive Officer (CEO) (a)	**$ 388**	**$ 339**	**$ 195**	**$ 922**	$ 552
Chief Executive Officer (CEO) Retired (b)	—	—	—	—	506
Chief Financial Officer (CFO)	**224**	**61**	**47**	**332**	339
Chief Operating Officer (COO) (c)	**228**	**61**	**47**	**336**	198
Chief Operating Officer (COO) (a)	—	—	—	—	156

(a) The CEO held different positions in 2009.
(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. Board of 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)	2010	2009
Loans outstanding—directors, management and employees	**$ 270,572**	$ 205,319
Deposits—directors, management and employees	**100,124**	99,682
Shares—directors and management	**7,366**	6,058
Remuneration paid to directors (a)	**558**	404
Expenses paid to directors	**145**	107

(a) Remuneration paid to directors range from $15 (2009– $1) to $56 (2009 – $47) with an average of $35 (2009 – $29).

27. RELATED PARTY INFORMATION (cont'd)

Alberta Central

As of October 31, 2010, 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)	2010	2009
Cash	**$ 119,733**	$ 153,306
Term deposits (Note 5)	**879,635**	709,584
Accrued interest on term deposits	**792**	807
Alberta Central shares (Note 5)	**113,439**	103,136
Accounts receivable-Dividend Alberta Central (Note 11)	**1,350**	2,328
Term loans payable (Note 14)	—	13,186
Interest income term deposits	**3,886**	11,541
Interest income equity investment (Note 5)	**4,388**	3,359
Interest expense on term loans	**1,912**	2,456
Data processing, memberships fees and other	**15,453**	16,039
Extraordinary gain (Note 5)	—	7,349

Investment in Crelogix

As of October 31, 2010, the summary of outstanding balances in the Consolidated Balance Sheet and transactions in the Consolidated Statement of Income and Comprehensive Income with Crelogix is as follows:

(thousands of dollars)	2010	2009
Investment in Crelogix (Note 5)	**$ 1,638**	$ 1,403
Loans purchased	**31,626**	19,998
Other assets—accounts receivable	—	629
Interest income—loans	**1,527**	894
Interest income\loss equity investment (Note 5)	**235**	(167)

1358938 Alberta Ltd

As of October 31, 2010, 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)	2010	2009
Cash advances	**$ —**	$ 693
Loss equity investment (Note 5)	**(160)**	(91)

On April 30, 2010, the Credit Union acquired the remaining 50% interest in 1358938 Alberta Ltd. Refer to Note 29 Business Combinations for a summarization of the transaction.

27. RELATED PARTY INFORMATION (cont'd)

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. BUSINESS COMBINATIONS

During 2010, the Credit Union acquired the following businesses:

Apex Credit Union
On November 1, 2009, the Credit Union acquired 100% of Apex Credit Union Ltd. Apex was in the business of personal and commercial banking with four locations serving about 5,000 members in Calgary, Alberta.

The Credit Union exchanged on a one-to-one basis shares with par value of $2,721. The fair value of the identifiable assets and liabilities of Apex as at the date of the acquisition has been determined as follows:

(thousands of dollars)	**Fair Value Recognized on Acquisition**
Identifiable assets acquired and liabilities assumed	
Cash	**$ 355**
Investments	**9,354**
Member loans	**69,618**
Property and equipment	**1,907**
Other assets	**1,198**
Current account overdraft	**(6,376)**
Member deposits	**(74,371)**
Other liabilities	**(514)**
Total net identifiable assets and liabilities	**$ 1,171**

The value of assets acquired and liabilities assumed has been valued at the acquisition date, using fair values. No goodwill was recognized. The Credit Union recorded a loss of $1,550 in the Operating expenses general on the Consolidated Statement of Income and Comprehensive Income. The loss is due to the par value of shares given in excess of the fair value of net assets received.

29. BUSINESS COMBINATIONS (cont'd)

1358938 Alberta Ltd.

On April 30, 2010, the Credit Union acquired the remaining 50% interest in 1358938 Alberta Ltd (the Company) for $535. The Company is a limited company that offers air transportation services in the province of Alberta. The assets acquired include an airplane, valued at $975, accounts receivable and other assets, valued at $503 and other liabilities, valued at $410.

30. SUBSEQUENT EVENTS

Acquisition of member loans and member deposits

The Credit Union purchased the member loans totalling approximately $8,200, investments totalling $1,520 and the member deposits totalling approximately $13,600 of the following three credit unions: Strathfider Credit Union Ltd., Royglenor Savings and Credit Union Ltd. and Industrial Savings and Credit Union Ltd. There are a total of approximately 1,900 members in all the three credit unions. The transaction will be accounted for as a purchase of assets and liabilities in 2011. These transactions were approved in November 2010 and December 2010 and it is expected that they will be effective by the end of January 2011.

Credit facility

On December 23, 2010, the Credit Union entered into a credit facility with Caisse Centrale Desjardins, with an effective date of January 18, 2011. The facility is a 364 day revolving credit facility available in Canadian Dollars renewable annually, with a maximum credit available of $100,000.

NOTES

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