2008 ANNUAL REPORT

GVC credit union

GREATER VANCOUVER COMMUNITY

For Real People

OUR PURPOSE

GVC Credit Union is a member-owned financial co-operative which was founded in 1940 by members joining together to help one another. It's purpose is:

To offer savings and loan facilities oriented to the needs of individuals and families

To provide members with financial services at competitive rates and in such a manner as to be able to deal personally with each individual member

To assist members in prudently managing their financial affairs by providing timely and appropriate financial information and personal loans and deposit counseling

To offer other financial services if (in the opinion of the policy makers) they provide a member benefit

GVC's objective is to achieve the above while paying competetive dividends, providing good quality working conditions, salaries and benefits to employees, and earning sufficient surplus to provide for statutory reserves and other reserves as might be deemed prudent.

GVC BOARD & STAFF

NEW WESTMINSTER

Greta Munro	Branch Manager
Ilonka Lelkes	Senior MSR - P/T
Sara MacLeod	MSR
Eszter Nemeth	Office Manager
Melissa Nilan	MSR-Cash - P/T
Mark Turnbull	MSR
Victoria Wong	MSR-Cash - P/T
Valerie Yiu	MSR-Loans

VANCOUVER

Richard Rochard	Branch Manager
Virginia Agujo	MSR
Betsy Akhurst	*Maternity Leave*
Julian Beckett	Personal Loans Officer
Hilda Bergeron	MSR-Cash - P/T
Michaela Costa	Office Manager
Josephine Gonzales	MSR-Cash
Sandeep Grewal	Deposit Supervisor
Margaret Lau	MSR-Loans
Vincent Lo	MSR-Cash
Donald Murray	MSR-Cash
Nick Wong	Assistant Branch Manager

SURREY

Bob Hattrick	Branch Manager
Mary van Someren	Assistant Branch Manager
Neena Grewal	*Maternity Leave*
Sarita Kumar	MSR-Cash
Kuldeep Sahota	Office Manager
Mona Sidhu	MSR-Cash - P/T
Danielle Smith	MSR-Cash
Daniel Suk	MSR
Harj Wahid	MSR

BRENTWOOD

Paulette Antoniuk	Branch Manager
Argundas Bartas	MSR-Cash - P/T
Michelle dela Luna	MSR
Stephanie Leung	MSR-Cash - P/T
Yanthi Linawaty	MSR-Cash
Gabriella Pasek	MSR
Jaskirn Sidhu	MSR-Cash
Sarbjit Singh	Assistant Branch Manager
Gary Thind	Deposit Supervisor

LOUGHEED

Tracy Sparkes	Branch Manager
Cindy Candusso	Assistant Branch Manager
Neil Chin	MSR-Cash - P/T
Timothy Leong	Deposit Supervisor
Amber Marcheen	MSR
Amanda Waymen	MSR
Esther Wong	MSR-Cash - P/T

HEAD OFFICE

Phil Moore	General Manager
Balbir Bains	Operations Manager
Colleen Colonna	Controller
Jacqueline Griffin	Marketing Coordinator
Pouneh Hakimi-Sohrabi	Accounting Clerk
Valerie Ongkowidjojo	Accounting Officer
Linda Pereira	HR & Administration Officer
Theresa Van Grol	Banking Systems Officer
Todd Wade	Information Systems Officer

2008 BOARD of DIRECTORS

Chair	Herb Gill
1st Vice-Chair	Glenn McLaughlin
2nd Vice-Chair	Jim Pope
Directors	Judi Corra
	Gilles Deschenes
	Les Hausch
	Tom O'Sullivan
	John Schretlen
	Ken Sherwood

COMMITTEES

Executive & Credit Committee
Chair Herb Gill
Members Glenn McLaughlin, Jim Pope, Les Hausch

Conduct Review Committee
Chair Gilles Deschenes
Members Tom O'Sullivan, John Schretlen

Audit Committee
Chair Ken Sherwood
Members Les Hausch, Judi Corra, Glenn McLaughlin

Nominating Committee
Chair Ken Sherwood
Members Gilles Deschenes, Judi Corra

Investment & Lending Committee
Chair Les Hausch
Members Judi Corra, Glenn McLaughlin

BOARD of DIRECTORS' REPORT

We enjoyed strong growth in 2008 with assets increasing by 9.3% to $182 million at year end. Net earnings were $416,081, down mildly from 2007 due to the opening of our New Westminster branch in the fall of 2007. This branch has performed well, growing to almost 600 members and assets of $16.5 million by year end.

Our credit union has a relatively simple book of business; we gather deposits from our members to lend, mostly by way of mortgages on homes, to other members. We do not buy or sell our members' mortgages. This helped us come through the credit crisis relatively unscathed.

The turmoil in the international financial markets in 2008 will affect all of us for years to come. The international credit and banking crisis has plunged most economies into a recession which some already describe as the worst since the 1930's Depression.

Your board of directors and management monitored these developments and the economic events in the United States. The effect of the recession is now impacting Canadians and our members. Unemployment is rising and consumers are cutting back on non-essential purchases. In view of the uncertainty in our market, your board opted to reduce our share and patronage dividends and increase our general loan loss allowance in anticipation of future challenges.

Our banking system was introduced in 1994 and will no longer be supported in 2012. Our management completed a detailed review of the options available and your board approved the move to a new system in September of 2009. We anticipate this system will provide increased functionality and deliver cost savings over our current system.

During the year your credit union continued its tradition of giving back to the community. Among the charities we support are the Burnaby Seniors Outreach, Marguerite Dixon Transition Society, Sisters of Atonement, L'Árche Vancouver Society, The UBC Centre for Depression Research and our own GVC Christmas Hamper program.

We also made a special donation to the Salvation Army in recognition of the contribution to our credit union by long time director and chair, Don McDonough, who passed away in October 2008 at the age of 92.

In closing, I wish to thank my fellow board members for the time and effort they have devoted over the last year on behalf of the credit union. On behalf of the directors, I thank our dedicated employees for the work they have done in providing service to our members. On behalf of our directors and staff, I wish to thank you, our members, for your support. Without you we would not be here.

Respectfully submitted on behalf of the Board of Directors

Herb Gill, Chair

GENERAL MANAGERS' REPORT

The newly opened New Westminster branch helped us achieve asset growth of 9.3%, or $15.47 million. This equaled the strong growth we enjoyed in 2007. Given current market conditions we do not anticipate this level of growth to continue into 2009.

Throughout the year we were monitoring the unfolding financial crisis in the USA which, in the fall, became a world wide concern. As we commented last year and in our January 2009 newsletter, GVC does not hold subprime Asset Backed Commercial Paper (ABCP). In fact we own no commercial paper. Any funds that are not loaned out to our members are deposited with our central credit union, Central 1.

We are, and will be, impacted by the actions of the central banks to restart the economy and the effect of higher levels of unemployment on our members. The rapid drops in prime interest rates in the fall of 2008 and the spring of this year have had a short term negative impact on our financial margin. In effect, members' loan costs fell more rapidly than the average interest rates we pay members on term deposits. This is already correcting itself and we currently anticipate 2009 financial earnings will be similar to those of 2007 and 2008.

The recession has impacted Vancouver home prices, which peaked at an average of $568,411 in May of 2008, but fell by 14.8% to $484,211 by year end. Since then prices seem to have stabilized, however sales volume has dropped.

Your management team includes senior officers that worked through the 1982 to 1987 recession at GVC when home prices fell by almost 30% in one year and our provincial economy contracted by 6% in 1982. Building from that experience, we have developed management approaches to monitor and respond to challenges our members may face during this recession. Any members who are facing problems should contact us– together, and by acting early, we are more likely to solve problems.

In anticipation of tighter financial margins your credit union minimized expense increases in 2008. Overall, non-financial expenses (excluding provisions for loan losses) only increased by 2.59%. Most of this increase related to our new branch which was open for all twelve months of the year in 2008, rather than only the last four months in 2007.

In closing, we believe we are well positioned to work with our members during 2009. On behalf of myself and our staff I wish to thank you, our members, for your support and your elected representatives, our board of directors, for their dedicated service during the year.

Respectfully submitted

Phil

Phil Moore, General Manager

Grant Thornton

Financial Statements

Greater Vancouver Community Credit Union

December 31, 2008

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Grant Thornton

Auditors' report

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To the Members of

Greater Vancouver Community Credit Union

We have audited the balance sheet of Greater Vancouver Community Credit Union as at December 31, 2008 and the statements of earnings and retained earnings 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, these financial statements present fairly, in all material respects, the financial position of the credit union as at December 31, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Vancouver, Canada

February 6, 2009 Chartered accountants

Greater Vancouver Community Credit Union
Balance Sheet

December 31	2008	2007
Assets		
Cash resources (Note 5)	**$ 22,182,569**	$ 18,582,781
Loans (Note 6)	**158,074,356**	146,167,618
Investments and other (Note 7)	**1,005,622**	941,762
Premises and equipment (Note 8)	**1,209,399**	1,305,826
	$ 182,471,946	$ 166,997,987
Liabilities		
Deposits (Note 9)	**$ 174,853,177**	$ 159,765,147
Payables and accruals	**456,176**	479,246
	175,309,353	160,244,393
Members' Equity		
Equity shares (Note 11)	**516,022**	523,104
Retained earnings	**6,646,571**	6,230,490
	7,162,593	6,753,594
	$ 182,471,946	$ 166,997,987

Commitments (Note 18)
Guarantees (Note 19)

On behalf of the Board

_______________ Director _______________ Director

See accompanying notes to the financial statements.

Greater Vancouver Community Credit Union
Statements of Earnings and Retained Earnings

Year Ended December 31		**2008**		2007
Financial income				
Loans	$	**9,588,012**	$	8,822,394
Cash resources and investments		**695,149**		690,790
		10,283,161		9,513,184
Financial expense				
Deposits		**5,799,798**		5,142,632
Share dividends		**109,455**		118,024
Other		**55,200**		58,728
		5,964,453		5,319,384
Financial margin		**4,318,708**		4,193,800
Provision for credit losses (Note 6)		**(147,224)**		(93,171)
Other income (Note 15)		**863,577**		770,836
Operating margin		**5,035,061**		4,871,465
Operating expense (Note 16)		**4,518,052**		4,274,096
Earnings from operations		**517,009**		597,369
Patronage rebates		**17,279**		44,921
Earnings before income taxes		**499,730**		552,448
Income taxes (Note 17)		**83,649**		114,527
Net earnings	$	**416,081**	$	437,921

Retained earnings, beginning of year	$	**6,230,490**	$	5,792,569
Net earnings		**416,081**		437,921
Retained earnings, end of year	$	**6,646,571**	$	6,230,490

See accompanying notes to the financial statements.

Greater Vancouver Community Credit Union
Statement of Cash Flows

Year Ended December 31		2008		2007
Cash flows provided by (used in)				
Operating activities				
Net earnings	$	**416,081**	$	437,921
Adjustments to determine cash flows:				
Provision for credit losses		**147,224**		93,171
Amortization		**241,923**		261,685
Change in interest accruals		**195,881**		111,010
Future income tax		**(5,249)**		6,440
Other		**(70,880)**		(136,948)
		924,980		773,279
Financing activities				
Deposits, net of withdrawals		**14,864,375**		14,169,345
Equity shares		**(7,082)**		36,106
		14,857,293		14,205,451
Investing activities				
Loans, net of repayments		**(12,026,188)**		(10,566,015)
Purchase of investments		**(10,801)**		(5,549)
Deposit with Central 1 Credit Union		**(4,221,785)**		1,085,355
Premises and equipment		**(145,496)**		(328,350)
Property held for resale		**-**		(237,539)
		(16,404,270)		(10,052,098)
Net (decrease) increase in cash and cash equivalents		**(621,997)**		4,926,632
Cash and cash equivalents, beginning of year		**9,658,113**		4,731,481
Cash and cash equivalents, end of year	$	**9,036,116**	$	9,658,113

Supplemental cash flow information				
Interest paid	$	**5,576,143**	$	4,985,902
Taxes paid		**101,230**		101,814

See accompanying notes to the financial statements.

1. Governing legislation

The credit union is incorporated under the Credit Union Incorporation Act of British Columbia; the operation of the credit union is subject to the Financial Institutions Act of British Columbia.

2. Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In preparing these financial statements management has made estimates and assumptions that affect the reported amounts of assets and liabilities, and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Financial instruments

The financial instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in net earnings. The credit union's financial instruments classified as held for trading include cash and current accounts.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The credit union's financial instruments classified as available for sale are shares in Central 1 Credit Union, shares in Stabilization Central Credit Union, shares in CUPP Services Ltd. and their respective accrued dividends. As these shares are not traded in an active market they have been recorded at amortized cost.

The financial assets classified as loans and receivables and held to maturity are measured at amortized cost. The credit union's financial instruments classified as loans and receivables include all loans and accrued interest, bid and liquidity deposits with Central 1 Credit Union and accrued interest, and other receivable balances.

Financial instruments classified as other financial liabilities include all deposits, borrowings and payables and accruals. Other financial liabilities are measured at amortized cost.

Accumulated other comprehensive income

At December 31, 2008 the credit union has $Nil (2007: $Nil) accumulated other comprehensive income.

2. Summary of significant accounting policies (Continued)

Loans

Loans are initially measured at fair value and subsequently remeasured at their amortized cost, net of allowance, using the effective interest rate method.

Loan interest

Interest income from loans is recorded using the accrual method, except where a loan is impaired. Interest received on an impaired loan is recognized in earnings only if there is no doubt as to the collectibility of the carrying value of the loan; otherwise, the interest received is credited to the principal.

Loan fees

Loan prepayment fees are recognized in interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized over the remaining period of the original mortgage.

Allowance for credit losses

The credit union maintains allowances for credit losses that reduce the carrying value of loans identified as impaired to their estimated realizable amounts by reference to the fair value of the underlying security and expected cash flow. A loan is classified as impaired generally at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectibility of principal and interest, or when interest is 90 days past due. Specific allowances are supplemented by general allowances determined by judgement of management based on historical loan loss experience, known risks in the portfolio and current economic conditions and trends.

Investments and other

Investments in equity investments that do not have a quoted market price in an active market are measured at cost. Property held for resale is recorded at the lower of cost and net realizable value.

Premises and equipment

Premises and equipment are recorded at cost less accumulated amortization. Amortization is recorded as follows:

Automated teller machines	5 years, straight line
Data processing equipment	10% per quarter, declining balance
Furniture and equipment	5% per quarter, declining balance
Vaults	10 years, straight line
Leasehold improvements	term of lease up to ten years

2. Summary of significant accounting policies (Continued)

Income taxes

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

Net future income tax assets and liabilities are included in other assets.

Shares

Shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the credit union Board of Directors, the shares are classified as equity.

Distributions to members

Patronage rebates and dividends on shares are charged against earnings.

Hedges

The credit union does not apply hedge accounting and records all derivative financial instruments at fair value with gains and losses recorded to net earnings. At December 31, 2008 there are no derivative financial instruments.

Comparative figures

Certain of the prior year's figures have been reclassified to conform with the current year's financial statement presentation.

3. Change in accounting policies

(a) Current year changes

Financial instruments - presentation and disclosure

On January 1, 2008, the credit union adopted the provisions of CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863, *Financial Instruments – Presentation.* Section 3862 places additional emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments between liabilities and equity from the perspective of the issuer. These disclosures are included in Note 4 to the financial statements.

3. Change in accounting policies (Continued)

(a) Current year changes (Continued)

Capital disclosures

On January 1, 2008, the credit union adopted the provisions of CICA Handbook Section 1535, *Capital Disclosures*. This section requires enhanced quantitative disclosures about what is regarded as capital and disclosure of information with respect to the objectives, policies and processes used to manage capital. This disclosure is provided in Note 12 to the financial statements.

(b) Future changes in accounting policies

International Financial Reporting Standards ("IFRS")

The Accounting Standards Board announced that accounting standards in Canada are to converge with IFRS. Publicly accountable entities will begin reporting, with comparative data, under IFRS for interim and financial statements relating to fiscal years beginning on or after January 1, 2011. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosures, which the credit union is beginning to assess. Training and additional resources will be utilized to ensure timely conversion to IFRS. The financial impact of the transition to IFRS cannot be reasonably estimated at this time.

4. Risk management

In the normal course of business, the credit union is exposed to credit risk, liquidity risk and market risk. For all of the risks noted below, there has been no change in how the credit union manages those risks from the previous year.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligation to the credit union. Credit risk primarily arises from loans receivable. Management and the Board of Directors reviews and monitors the credit risk of the credit union throughout the year. The maximum exposure of the credit union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the balance sheet. See Note 6 for further information.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the credit union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the credit union due to its primary service area being the Greater Vancouver area.

4. Risk management (Continued)

Liquidity risk

Liquidity risk is the risk that the credit union cannot meet a demand for cash or fund its obligations as they come due. The credit union's management oversees the credit union's liquidity risk to ensure the credit union has access to enough readily available funds to cover its financial obligations as they come due. The credit union's business requires such funding for operating and regulatory purposes. See Note 5 for further information about the credit union's funding requirement and management.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the credit union segregates market risk into two categories: fair value risk and interest rate risk. The credit union is not significantly exposed to currency risk or other price risk.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The credit union incurs fair value risk on its loans, term deposits and investments held. The credit union does not hedge its fair value risk. See Note 14 for further information on fair value of financial instruments.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The credit union incurs interest rate risk on its loans and other interest bearing financial instruments. The credit union does not hedge its interest rate risk. See Note 13 for further information on interest rate sensitivity.

5. Cash resources	**2008**	2007
Cash and current accounts	$ **1,646,857**	$ 1,246,429
Deposits on account with Central 1 Credit Union callable or maturing in less than three months	**7,389,259**	8,411,684
	9,036,116	9,658,113
Deposits on account with Central 1 Credit Union maturing in greater than three months	**13,146,453**	8,924,668
	$ **22,182,569**	$ 18,582,781

Under governing legislation, the credit union must maintain, for liquidity purposes, deposits with Central 1 Credit Union of at least 8% (2007: 8%) of deposits and borrowings. At December 31, 2008, the credit union liquidity deposits exceed the minimum requirement by $7,866,161 (2007: $5,423,000).

6. Loans

	2008	2007
Personal loans		
Residential mortgages	**$ 115,258,704**	$ 112,535,944
Other	**5,707,570**	5,659,497
Commercial loans		
Mortgages	**36,449,165**	27,501,366
Other	**896,033**	633,331
Accrued interest	**463,475**	435,701
	158,774,947	146,765,839
Allowance for credit losses		
Specific	**120,591**	68,221
General	**580,000**	530,000
	700,591	598,221
	$ 158,074,356	$ 146,167,618

Allowance for credit losses

	Beginning Balance	Provision	Write-offs Less Recoveries	2008 Ending Balance	2007 Ending Balance
Personal loans					
Mortgages	$ 244,829	$ 38,061	$ -	**$ 282,890**	$ 244,829
Other	148,901	71,367	44,854	**175,414**	148,901
Commercial loans	204,491	37,796	-	**242,287**	204,491
	$ 598,221	$ 147,224	$ 44,854	**$ 700,591**	$ 598,221
Percentage of total loans and accrued interest				**0.44%**	0.41%

Impaired loans and related allowances

	Loan Balances	Specific Allowances	2008 Carrying Amount	2007 Carrying Amount
Personal loans				
Mortgages	$ 1,558,198	$ 50,219	**$ 1,507,979**	$ 543,151
Other	196,810	70,372	**126,438**	78,584
	$ 1,755,008	$ 120,591	**$ 1,634,417**	$ 621,735

Greater Vancouver Community Credit Union
Notes to the Financial Statements
December 31, 2008

7. Investments and other

	2008	2007
Shares		
Central 1 Credit Union	$ 444,425	$ 442,938
Stabilization Central	204	204
BC Cooperative Association	1,200	1,200
CUPP Services Ltd.	59,081	49,767
Property held for resale	237,539	237,539
Receivables and prepaids	185,848	138,038
Future income taxes (Note 17)	77,325	72,076
	$ 1,005,622	$ 941,762

Investment in shares of Central 1 Credit Union is required by governing legislation and as a condition of membership in Central 1 Credit Union.

8. Premises and equipment

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value
Data processing	$ 960,904	$ 759,655	$ 201,249	$ 199,023
Furniture and equipment	1,261,281	957,701	303,580	327,976
Leasehold improvements	1,787,210	1,082,640	704,570	778,827
	$ 4,009,395	$ 2,799,996	$ 1,209,399	$ 1,305,826

9. Deposits

	2008	2007
Demand	$ 34,265,612	$ 35,735,158
Membership equity shares (Note 11)	2,000,206	1,961,283
Term	108,415,722	93,835,367
Registered savings plans	27,630,703	25,916,060
Accrued interest and dividends	2,540,934	2,317,279
	$ 174,853,177	$ 159,765,147

Demand deposits include $621,814 (2007: $700,503) of class “A” savings shares.

Under agreements with the trustee of the registered savings plans, members' contributions to the plans are deposited with the credit union at rates of interest determined by the credit union.

10. Borrowings

The credit union has operating lines of credit with Central 1 Credit Union for $6,000,000 CDN and $75,000 USD. The credit union has a term loan arrangement with Central 1 Credit Union for $6,000,000. At December 31, 2008, there were $Nil (2007: $Nil) borrowed under the agreements. A debenture charge on certain assets of the credit union has been provided as security.

11. Equity shares

Capital of the credit union is divided into three classes of equity shares designated as follows:

Class “B” equity shares (membership)
Class “C” preferred equity shares (voluntary)
Class “P” patronage equity shares

The credit union is authorized to issue an unlimited number of non-transferable, voting equity shares, with a par value of $1. With certain exceptions, all members are required to own twenty-five membership equity shares which, under certain occurrences, are redeemable.

Equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia; class "P" shares are redeemable only with the consent of the Board of Directors of the credit union.

Equity shares issued

	2008	2007
Class "B" shares	$ 588,697	$ 558,212
Class "C" shares	1,411,509	1,403,071
Class "P" shares	516,022	523,104
	2,516,228	2,484,387
Class "B" and "C" shares included as liabilities (Note 9)	(2,000,206)	(1,961,283)
Equity shares	$ 516,022	$ 523,104

12. Capital requirements and management

The credit union is required under governing legislation to maintain a capital base equal to 8% of the total risk-weighted value of assets; each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset. At December 31, 2008, the credit union had a capital base approximating 13.8% (2007: 14.7%) of the risk-weighted value.

The credit union's capital consists of retained earnings and equity shares.

The credit union employs a Forward Looking Capital Plan that is reviewed by management and the Board of Directors. The Capital Plan forecasts the credit union's capital position over a five year period.

The Capital Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, dividend/patronage rebate policy and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the credit union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the credit union's capital resources and objectives.

Management will continue to develop business plans targeting capital adequacy ratio which exceed the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk weighting of the credit union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets. Decisions relating to strategic objectives that impact the risk weighting of the credit union's assets are analyzed by management to determine their effect on the credit union's capital adequacy ratio.

13. Interest rate sensitivity

The credit union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets and liabilities scheduled to reprice on particular dates. The table below details the credit union's exposure to interest rate risk as defined and prescribed by CICA Handbook Section 3862, *Financial Instruments – Disclosures*.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within one year, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

The table below does not incorporate management's expectation of future events where repricing or maturity dates of certain loans and deposits differ significantly from the contractual dates.

		Interest Sensitive Balances				
	Average Rates	Within 3 Months	4 Months to 1 Year	Over 1 to 5 Years	Not Interest Sensitive	Total
Assets						
Cash resources	2.97%	$ 8,964,256	$ 8,295,500	$ 4,700,000	$ 222,813	$ 22,182,569
Loans	5.85%	46,656,297	22,953,594	88,000,991	463,474	158,074,356
Other	4.35%	444,425	-	237,539	1,533,057	2,215,021
		56,064,978	31,249,094	92,938,530	2,219,344	182,471,946
Liabilities						
Deposits	3.17%	68,653,314	77,078,269	26,580,660	2,540,934	174,853,177
Other		-	-	-	7,618,769	7,618,769
		68,653,314	77,078,269	26,580,660	10,159,703	182,471,946
Interest sensitivity position 2008		$ (12,588,336)	$ (45,829,175)	$ 66,357,870	$ (7,940,359)	$ -
Interest sensitivity position 2007		$ (15,621,495)	$ (36,340,657)	$ 59,248,114	$ (7,285,962)	$ -

Based on the current financial instruments, it is estimated that a 100 basis point increase in the prime rate would increase the financial margin by $177,000 (2007: $78,000). A 100 basis point decrease in the prime rate would decrease the financial margin by $207,000 (2007: $86,000).

14. Fair values of financial instruments

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates.

No fair values have been determined for premises and equipment or any other asset or liability that is not a financial instrument. The fair values of cash resources, variable rate loans and deposits, other assets and liabilities are assumed to equal their book values. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

Changes in interest rates are the main cause of changes in the fair value of the credit union's financial instruments. The majority of the credit union's financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to interest rate changes.

	2008			2007
	Book Value	Fair Value	**Difference**	Difference
Assets				
Cash resources - held for trading	$ 1,647,000	$ 1,647,000	$ -	$ -
Cash resources - loans and receivables	20,536,000	21,860,000	**1,324,000**	-
Loans - loans and receivables	158,260,000	158,604,000	**344,000**	(725,000)
Investments - available for sale	505,000	505,000	-	-
			1,668,000	(725,000)
Liabilities				
Deposits - other financial liabilities	174,853,000	175,789,000	**(936,000)**	(35,000)
Payables and accruals - other financial liabilities	456,000	456,000	-	-
			(936,000)	(35,000)
Net difference			$ **732,000**	$ (760,000)

15. Other income

	2008	2007
Account service fees	$ 522,528	$ 517,088
Other	136,806	75,956
Loan administration fees	78,968	89,605
Foreign exchange	74,454	82,086
Insurance commissions and fees	50,821	45,685
Interest rate swap	-	(39,584)
	$ 863,577	$ 770,836

16. Operating expense

	2008	2007
Salaries and benefits	$ 2,204,113	$ 2,070,928
Premises, equipment and supplies	931,477	808,009
Data processing	320,919	308,092
Amortization	241,923	261,685
Advertising and member relations	178,786	233,955
Other	177,728	156,106
Dues and assessments	163,626	126,304
Service charges	158,827	162,942
Professional services	85,721	85,720
Board and committee meetings	37,163	37,838
Member meetings	9,195	12,853
Staff and other meetings	8,574	9,664
	$ 4,518,052	$ 4,274,096

17. Income taxes

The components of income tax expense are as follows:

	2008	2007
Current	$ 88,898	$ 108,087
Future	(5,249)	6,440
	$ 83,649	$ 114,527

The total income taxes in the statement of earnings is at a rate less than the combined federal and provincial statutory tax rates for the following reasons:

	2008	2007
Combined federal and provincial statutory income tax rate	30.5 %	34.1 %
Credit union rate reduction	(15.0)%	(16.5)%
Other	1.2 %	3.1 %
	16.7 %	20.7 %

17. Income taxes (Continued)

The components of future income tax balances are as follows:

		2008		2007
Allowance for credit losses	$	**85,416**	$	82,764
Premises and equipment		**(27,465)**		(22,466)
Other		**19,374**		11,778
Net future income tax asset	$	**77,325**	$	72,076

18. Commitments

Premises

The credit union is committed to leasing branch premises with the following minimum lease payments over the next five years:

2009	$	**584,600**
2010		**586,600**
2011		**586,600**
2012		**586,600**
2013		**586,600**

Computer services

The credit union is committed to acquire online data processing services until November 2009. Data processing charges are based on the level of equipment and services utilized and on the number of credit union members.

The credit union has entered into an agreement to acquire banking software licenses and related support services to replace the existing banking system. The upgrade and support services will commence in 2009 and is expected to be completed during the same year. A new data processing services contract has been entered into for services commencing in 2009. The summary below indicates the payments that are expected to be made over the next five years:

2009	$	**289,400**
2010		**196,200**
2011		**196,200**
2012		**196,200**
2013		**196,200**

Letters of credit

In the normal course of business, the credit union enters into off-balance sheet commitments such as letters of credit. The letters of credit reported below are not reflected on the balance sheet.

At December 31, 2008, the credit union has outstanding letters of credit on behalf of members in the amount of $331,105 (2007: $90,894).

19. Guarantees

The credit union guarantees credit limits on MasterCard credit card applications that fall under the Credit Approved Program (CAP) monitored by CUETS Financial. These applications would normally be declined under the standard approval terms of MasterCard.

At December 31, 2008, the credit union guarantees credit limits in the amount of $93,000 (2007: $20,700).

20. Other information

At December 31, 2008, loans to employees, directors, officers, members of a committee of the credit union and their respective family members amounted to $1,629,807 (2007: $1,187,991). Directors, in their capacity as directors, received $19,500 (2007: $20,000). All such loans were granted in accordance with normal lending terms.

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