



Annual Report  
2008





**Sometimes, smaller is better.**

### **Mission**

*“Dedicated to providing personal, professional financial services to our members and our communities.”*

### **Service Commitment**

*“In every interaction, we will create an exceptional member experience by applying a CAN-DO attitude and approach.”*



# AGENDA



- Call to Order
- Confirmation of Quorum
- Introduction of Special Guests
- Approval of Agenda
- Appointment of Recording Secretary
- Minutes of AGM April 30, 2008
- Report of Board of Directors
- Management Report
- Financial Statement Presentation
- Auditors' Report
- Appointment of Auditors
- Nominating Committee Report
- New Business
  - Guest Speaker: John Keller of  
The Land Conservancy (TLC)
- Good and Welfare
- Adjournment

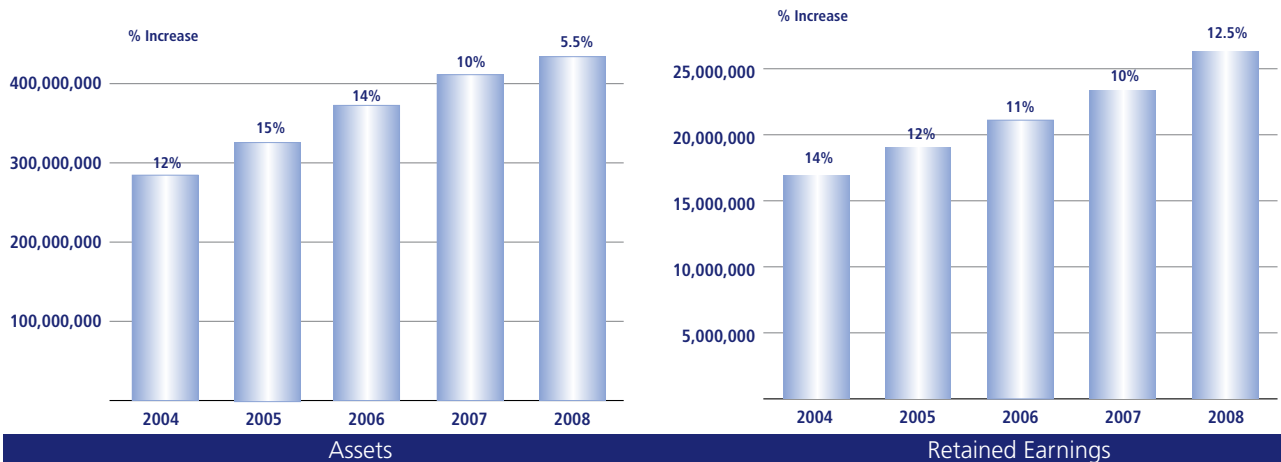


Gus K. Hartl, CEO

*The Past.....*

I am pleased to report that 2008 was another very successful year for Aldergrove Credit Union. We ended the year with \$434 million in assets, an increase of \$22.5 million or 5.5% over the previous year. Growth in loans to members slowed from previous years to \$9.7 million or just under 3%, ending 2008 at \$377.9 million. Member deposits increased \$21 million to just over \$395 million, double the loan growth at just under 6% for the year. Obviously the economic downturn and global financial uncertainties had a significant impact on balance sheet growth. This resulted in lower loan growth, especially residential mortgages. Deposit growth was relatively strong which resulted in an increase in surplus liquidity, a very positive result during these unprecedented financial times. The 100% deposit guarantee that was legislated for BC Credit Unions in 2008 is expected to continue to have a positive effect on our deposit stability and future growth.

Five Years at a Glance



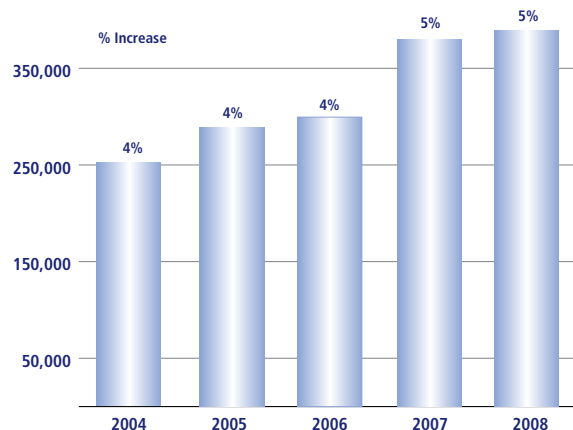
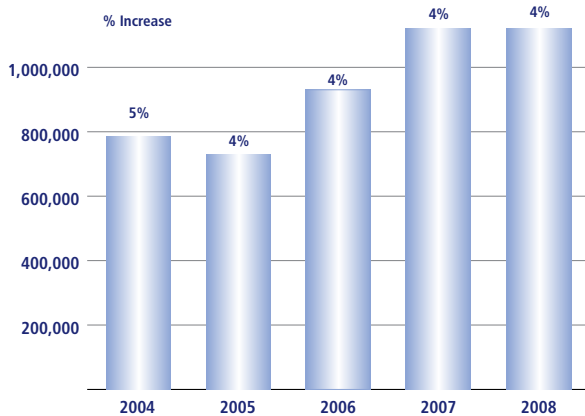
The income statement for 2008 is where our results really stand out and we enjoyed one of our best years ever. Income from operations exceeded \$5.2 million, up from \$4.2 million the previous year. These financial results are recognized as some of the best in the BC Credit Union system and are especially gratifying during the current economic times. Results like these can only be accomplished with dedicated and committed staff in all our business units, Credit Union, Insurance and Financial Planning, my compliments to all the staff! Because of this financial success, we were able to share another \$1.5 million in dividend and patronage payments with our members, as well as contribute another \$3 million to retained earnings, making us even stronger.

What makes these results even more gratifying is we did it in a year where we upgraded our technology and moved to a new banking system which positions us well to meet both our members and internal technology needs well into the future. This banking system conversion was a

huge undertaking for our staff, a project that started in February and finished on September 15 when we went live with our members. We enjoyed some real success with this conversion, but it did not come without its challenges to both staff and our members. We suffered more member impact on issues than we ever thought possible, and we truly appreciate the patience and understanding all our members have shown since conversion. You have my commitment to continue to listen and do whatever I can to meet your very high expectations of financial services delivery, both with technology and personal service.

### *The Future.....*

The future is bright for Aldergrove Credit Union! Our strong past financial success has put us in good shape to weather the economic storm that blew in last year. Our sound lending policies and conservative investment strategies have left us mostly unaffected by the problems identified in the financial world.



Patronage Refunds

Dividends Paid

## ALDERGROVE CREDIT UNION

### Management Report (continued)

This year we will see the completion of the construction of our new Otter Community Branch. This two storey, 13,000 square foot building located across from the Otter Co-op will replace our existing Otter Branch and will include both a drive thru and lobby ATM, Insurance and Financial Planning offices and more space for the branch staff. With our renewed commitment to staff training and education, this new building will also have a formal staff training facility upstairs which will allow all our staff an enhanced and consistent training environment.

Our goal moving forward is to generate new members and build on the existing relationships we currently enjoy with the close to 20,000 members we already deal with in some capacity.

My sincere thanks goes out to the entire Board of Directors for their guidance and support over the past year. I would also like to thank you, our members, for your continued support and trust with your financial products and services. We will always listen and look forward to any feedback our members provide. Together we will continue to build a strong and successful future.



Gus K. Hartl - CEO



Staff celebrating ACU's conversion to the new banking system

## ALDERGROVE CREDIT UNION

Board of Directors - 2008 - 2009



Angie McDougall, Chair  
First elected 1995



Terry Metcalfe, Vice-Chair  
First elected 1994



Joe Breier, Director  
First elected 1989



Eric Popma, Director  
First elected 1990



Ken Forcier, Director  
First elected 2005



Brian Thomasson, Director  
First elected 1977



Gerry Adams, Director  
First elected 1970



Dale Larson, Director  
First elected 1986



Diane Delves, Director  
First elected 2006



## ALDERGROVE CREDIT UNION

### 2008 - 2009 Board Committees

In addition to meeting monthly as a full Board, Directors make up the six Committees which address in detail various aspects of the Credit Union's business. We are grateful to our Directors for generously giving their considerable experience and expertise as well as their time to these Committees.

#### Credit Committee

Approves loans which the Investment and Loan Committee and the Conduct and Review Committee have authorized by delegating their authority. Current authority is to approve member loans of more than \$2 million. All Directors are members and any three constitute a quorum.

Members:

Angie McDougall	Terry Metcalfe
Eric Popma	Joe Breier
Brian Thomasson	Gerry Adams
Ken Forcier	Diane Delves
Dale Larson	

#### Audit Committee

Ensures that audit and audit-related functions are being fulfilled adequately to ensure the integrity of policies and reporting.

Members:

Ken Forcier, Chair	Terry Metcalfe
Joe Breier	Diane Delves

#### Wage & Personnel Committee

Ensures the establishment of human resources guidelines for Senior Management and ensures the Credit Union provides a positive and fair environment for its employees.

Members:

Eric Popma, Chair	Angie McDougall
Terry Metcalfe	Dale Larson

#### Nominations Committee

Receives nominations, identifying and nominating qualified candidates for all positions on the Credit Union's Board of Directors. Is responsible for evaluating candidates to ensure the proposition of high caliber individuals who are familiar with Director responsibilities and who subscribe to the Board's code of ethics.

Members:

Gerry Adams, Chair	Joe Breier
Terry Metcalfe	

#### Investment & Lending Committee

Responsible for ensuring compliance with the Financial Institutions Act (FIA) as well as reviewing policies under their authority and recommending changes to the Board.

Members:

Gerry Adams, Chair	Joe Breier
Ken Forcier	Dale Larson
Gus K. Hartl (Management)	

#### Conduct Review Committee (Elected)

Monitors compliance with policy relating to ethics and confidentiality and deals with any conflicts of interest.

Members:

Dale Larson, Chair	Terry Metcalfe
Eric Popma	Gerry Adams
Ken Forcier	





Angie McDougall

*I* am pleased to report on behalf of the Board that Aldergrove Credit Union has recorded another year of strong performance. Although our balance sheet growth has slowed compared to the rapid growth we had been experiencing the past few years, what's most pleasing is the very strong income our Credit Union has been able to generate and sustain. These strong financial results allowed us to once again give back to our members in excess of \$1.5 million paid to accounts in the form of dividends and patronage payments.

2008 was a year of significant change for our Credit Union. In September, after months of preparation and hard work by a dedicated core group of staff, the Credit Union successfully converted to a new banking system which will give us the technology needed to meet our member needs for many years into the future.

Community support is very important to ACU. Every year through donations, sponsorships, scholarships and bursaries, community events and volunteer efforts of our staff, our credit union is proud to contribute to the communities and people we serve in a meaningful way. I'm pleased to report that this corporate support totaled in excess of \$60,000 and was boosted by thousands of dollars employees donated or raised on their own for other community causes.

Looking ahead, we understand that the current unprecedented economic conditions will challenge our business, but we are confident

### Participating in the Community

Founded to benefit the local community, ACU has always been an active participant in the communities in which we are located and in which our members live. As we have grown, so have our contributions to local organizations and in some cases, to agencies whose services are important to our members and their families.

In 2008, we gave more than \$60,000 in donations. Largest of these continues to be the twenty \$1,000 bursaries awarded to high school graduating students in Langley, Aldergrove, Abbotsford and Mission. We also contributed an additional \$5,000 to the Aldergrove Credit Union Trust.

For several years, our branches have raised money for the "Go to Bat for BC Children's Hospital" Slo-Pitch Weekend. This unique medical facility serves families and children from all areas of the province, including many from our own communities and we are pleased to be able to contribute to its growth and success.

ACU continues to support community groups such as youth sports teams, local 4H Clubs and organizations including Big Brothers/Big Sisters and the Salvation Army. In 2008 we also made a donation toward the restoration of Matsqui Hall.

We have also supported many of our individual staff members who participate in charitable activities on their own initiative or through service organizations to which they belong.

**ALDERGROVE CREDIT UNION**  
 Report from the Chair (continued)



in the financial strength that has been put in place from past operating success, in order to meet challenges of tomorrow. 2009 will see us complete construction of our new Otter Community Branch on 248<sup>th</sup> Street directly across from the Otter Co-op. This investment in our future will continue to move our Credit Union forward and keep us linked to our past.

The Board of Directors would like to thank the Management and Staff for their continued commitment and dedication to making our Credit Union the success that it is. On behalf of the Board of Directors and Management, I would also like to thank our members for continuing to make ACU their financial institution of choice.

Angie McDougall,  
 Chairperson

**RETURNS TO MEMBERS REACH RECORD \$1,500,000+ IN 2008**

Dividend  
 on Equity Shares

**5%**

**\$389,000**

Patronage Rebate  
 on Loan Interest

**4%**

**\$715,000**

Patronage Bonus  
 on Deposit Interest

**4%**

**\$405,000**

Dividend  
 on Non-Equity Shares

**3%**

**\$10,000**



## **AUDITORS' REPORT**

### **To the Members of Aldergrove Credit Union**

We have audited the consolidated balance sheet of Aldergrove Credit Union as at December 31, 2008 and the consolidated statements of operations and comprehensive income, changes in 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, these consolidated 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 its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants  
Abbotsford, British Columbia  
January 30, 2009

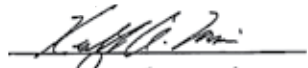

## ALDERGROVE CREDIT UNION

### Consolidated Balance Sheet

December 31, 2008, with comparative figures for 2007

	2008	2007
<b>Assets</b>		
Cash resources (Note 3)	\$ 48,517,934	\$ 36,631,122
Loans (Note 4)	377,945,848	368,236,594
Investments and other assets (Note 5)	1,999,876	1,766,082
Property, buildings and equipment (Note 6)	5,615,744	4,892,606
	\$ 434,079,402	\$ 411,526,404
<b>Liabilities</b>		
Credit Union Central 1 call loans (Note 3)	\$ -	\$ 3,750,000
Accounts payable and accrued liabilities	3,167,494	2,678,966
Member deposits (Note 7)	395,063,855	374,088,215
Membership equity shares (Note 8)	2,161,701	2,082,725
Deferred gain on sale of assets (Note 6)	1,397,618	-
	401,790,668	382,519,906
<b>Members' Equity</b>		
Investment equity shares (Note 8)	5,896,775	5,748,009
Retained earnings	26,291,853	23,321,783
Accumulated other comprehensive income (loss):		
Unrealized gains (losses) available for sale assets	100,106	(63,294)
	32,288,734	29,006,498
Commitments (Note 15)		
	\$ 434,079,402	\$ 411,526,404

Approved by the Board of Directors:

 Director  
 Director

See accompanying notes to consolidated financial statements.

## ALDERGROVE CREDIT UNION

### Consolidated Statement of Operations

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Financial income:		
Loans	\$ 20,416,175	\$ 19,536,076
Cash resources and investments	1,474,796	1,832,249
	21,890,971	21,368,325
Financial expense - deposits and borrowed funds	10,411,350	10,499,358
Financial margin	11,479,621	10,868,967
Provision for credit losses (Note 4)	(110,000)	(120,000)
Other income (Note 12)	4,199,881	3,654,575
Net financial and other income	15,569,502	14,403,542
Operating expenses (Note 13)	10,285,015	10,114,271
Income from operations	5,284,487	4,289,271
Patronage rebates	(1,120,605)	(1,121,040)
Dividends on membership equity shares	(106,093)	(102,288)
	(1,226,698)	(1,223,328)
Income before income taxes	4,057,789	3,065,943
Income taxes (recovery) (Note 16):		
Current	1,065,608	650,130
Future	(178,330)	(23,786)
	887,278	626,344
Net income	3,170,511	2,439,599
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on available for sale assets	152,075	(55,909)
Transfer of net realized losses to net income	11,325	8,061
Total other comprehensive income (loss)	163,400	(47,848)
Comprehensive income	\$ 3,333,911	\$ 2,391,751

See accompanying notes to consolidated financial statements.

## ALDERGROVE CREDIT UNION

### Consolidated Statement of Changes in Members' Equity

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Retained earnings:		
Balance, beginning of year	\$ 23,321,783	\$ 21,106,770
Net income	3,170,511	2,439,599
Dividends on investment equity shares, net of tax	(200,441)	(224,586)
Balance, end of year	\$ 26,291,853	\$ 23,321,783

	2008	2007
Accumulated other comprehensive income (loss), net of tax:		
Balance, beginning of year	\$ (63,294)	\$ -
Cumulative effect of adopting new accounting policies	-	(15,446)
Other comprehensive income (loss)	163,400	(47,848)
Balance, end of year	\$ 100,106	\$ (63,294)

See accompanying notes to consolidated financial statements.

**ALDERGROVE CREDIT UNION**  
 Consolidated Statement of Cash Flows

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Net income	\$ 3,170,511	\$ 2,439,599
Items not involving cash:		
Amortization	491,278	442,679
Amortization of gain on sale of property and buildings	(227,052)	-
Provision for credit losses	110,000	120,000
Future income taxes	(178,330)	(23,786)
Change in non-cash operating accounts	488,518	394,463
	<u>3,854,925</u>	<u>3,372,955</u>
Financing:		
Net increase in member deposits	20,855,199	32,447,871
Increase (decrease) in Central 1 Credit Union call loans	(3,750,000)	3,750,000
Net increase in membership and investment equity shares	145,276	24,510
Income tax reduction related to dividends	82,466	53,126
	<u>17,332,941</u>	<u>36,275,507</u>
Investments:		
Increase in Central 1 Credit Union term deposits	(958,287)	(626,343)
Increase in loans	(9,819,254)	(65,149,693)
Increase in investments	(140,682)	(75,441)
Purchase of property, buildings and equipment	(1,226,591)	(2,035,537)
Proceeds from disposal of property and buildings	1,636,845	-
	<u>(10,507,969)</u>	<u>(67,887,014)</u>
Increase (decrease) in cash and cash equivalents	10,679,897	(28,238,552)
Cash and cash equivalents, beginning of year	8,250,792	36,489,344
Cash and cash equivalents, end of year (Note 3)	\$ 18,930,689	\$ 8,250,792
Supplemental cash flow information:		
Interest paid	<u>\$ 10,084,472</u>	<u>\$ 10,274,026</u>
Taxes paid	<u>\$ 953,853</u>	<u>\$ 952,657</u>

See accompanying notes to consolidated financial statements.

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements

Year ended December 31, 2008

#### General:

Aldergrove Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia. The Credit Union's primary business activity is providing financial services to its members in the Fraser Valley and the surrounding area.

#### 1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

(b) Principles of consolidation:

The consolidated financial statements include the accounts of Aldergrove Credit Union and its wholly-owned subsidiary, Aldergrove Insurance Services Ltd. All intercompany accounts and transactions have been eliminated.

(c) Cash and cash equivalents:

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances that are callable or have less than 90 days to maturity from the date of acquisition, including cash and demand deposits with the Central 1 Credit Union, amounts due from other financial institutions and cheques and other items in transit.

The bid deposits held with Central 1 Credit Union are accounted for as available for sale assets.

(d) Loans:

Loans are initially measured at fair value plus incremental direct transaction costs less loan fees and subsequently remeasured at their amortized cost (net of an allowance for credit losses) using the effective interest rate method.

(i) Loan interest:

Interest income from loans is recorded on the accrual method, except where a loan is classified as impaired. Loans are generally considered impaired when, in the opinion of management, there is reasonable doubt as to the collectibility of principal and interest, or when principal or interest is 90 days past due. Accrued but uncollected interest is provided for when loans are determined to be impaired. When a loan is classified as impaired, interest income is recognized on a cash basis only after any specific provision or partial write-offs have been recovered and provided there is no further doubt as to the collectibility of principal. Loans considered uncollectible are written off.

(ii) Provision for credit losses:

The Credit Union maintains a provision for credit losses, which, in management's opinion, is considered adequate to provide for credit-related losses.

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

The provision for loan losses consists of specific and general provisions. The specific provision is determined on the basis of specific loans, which, in management's opinion, may not be fully collectible. The specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount.

Specific provisions are supplemented by general provisions determined by judgment of management based on historical credit loss experience, known risks in the portfolio and current economic conditions and trends. The general provision is maintained to absorb credit losses that management estimates have occurred at the balance sheet date for which specific provisions cannot yet be determined.

(e) Investments:

Investments are comprised of available for sale and held to maturity securities. Liquidity investments held to meet capital requirements are classified as held to maturity. All other investments are available for sale.

Investments classified as available for sale are reported at their estimated fair value. Nonmarketable equity shares and other investments which are not traded on an active market are recorded at cost, except where there is a loss in value that is determined by management to be other than temporary. In such case, the investment is written down to recognize the impairment loss.

Investments classified as held to maturity are reported at amortized cost.

(f) Property, buildings and equipment:

Property, buildings and equipment are initially recorded at cost. Amortization is provided for on the straight-line basis over the estimated useful life as follows:

Buildings	20 years
Leasehold improvements	Lease term
Furniture and equipment	2-10 years
Banking system	5 years

(g) Shares:

Shares are classified as liabilities or as members' 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.

(h) Income taxes:

The Credit Union uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

Future income tax assets or liabilities are included in investments and other assets or accounts payable and accruals, as applicable.

(i) Distributions to members:

Patronage rebates and dividends on shares classified as liabilities are charged against earnings. Dividends on shares classified as equity, less the related income tax reductions, are charged against retained earnings.

(j) Employee benefit plan:

The multi-employer employee benefit plan is accounted for as a defined contribution plan and contributions are expensed as required.

(k) Financial instruments:

Financial instruments comprise cash resources, investments, loans to members, members' deposits and equity shares, call loans, and accounts payable and accrued liabilities.

Held for trading:

Held for trading financial assets are securities purchased for resale, generally within a short period of time. They are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations continue to be reported in earnings as investment income. Other income and expenses related to these instruments are also included in financial income or financial expenses respectively.

Held to maturity:

Held to maturity ("HTM") financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that the Credit Union has the positive intention and ability to hold to maturity. These financial assets are initially recognized at fair value including direct and incremental transaction costs. They are subsequently accounted for at amortized cost using the effective interest rate method.

Available for sale:

Available for sale ("AFS") financial assets are non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM investments, held for trading or designated at fair value. Securities included in this category are deposits with Central 1 Credit Union and equity securities, including investments over which the Credit Union has no significant influence. Except for equities that do not have quoted market values in an active market, AFS securities are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income (loss) until sale or other-than-temporary impairment when the cumulative gain or loss is transferred to the Consolidated Statement of Operations. Equities that do not have quoted market values in an active market are carried at cost. Realized gains and losses on sale, determined on an average cost basis, and write-downs to reflect other-than-temporary impairments in value are included in other income. Dividends and interest income from these securities are included in interest income.

Loans and receivables:

The Credit Union has designated loans to members as loans and receivables and are accounted for at amortized cost using the effective interest rate method of amortization. Transaction costs are capitalized and then amortized over the life of the instrument using the effective interest rate method

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

Liabilities - other liabilities:

The Credit Union has designated all liabilities not classified as held for trading as Other Liabilities. Financial liabilities designated as Other Liabilities are recorded at amortized cost. Interest incurred on these liabilities is included in interest expense.

## 2. Changes in accounting policies:

### Financial Instruments - Presentation and Disclosure

HB 3862, *Financial Instruments - Disclosure*, and HB 3863, *Financial Instruments - Presentation*, both issued in December 2006, revise the current standards on financial instrument disclosure and presentation, and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. HB 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments, from the perspective of the issuer, between liabilities and equity. Refer to Note 18 - Financial Risk Management.

### Capital Disclosures

HB 1535, *Capital Disclosures*, issued in December 2006, establishes standards for the disclosure of information regarding capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what is regarded as capital are required. Refer to Note 9 - Capital requirements.

### Future accounting policy changes:

International Financial Reporting Standards (IFRS):

In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Credit unions are specifically scoped into the definition of a publicly accountable enterprise. As such, the Credit Union will be required to prepare the December 31, 2011 financial statements including comparative information in compliance with IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The Credit Union is currently in the process of assessing the differences between current accounting policies and those provided by IFRS, as well as the alternatives available on adoption. The assessment will include the potential impact of the conversion on accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures, financial reporting, and business activities.

## 3. Cash resources:

	2008	2007
Cash and current accounts	\$ 9,330,689	\$ 2,492,396
Term deposits - callable or maturing in 90 days or less	9,600,000	5,758,396
Cash and cash equivalents	18,930,689	8,250,792
Term deposits - maturing after 90 days	29,587,245	28,380,330
	\$ 48,517,934	\$ 36,631,122

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

Provincial legislation requires the Credit Union to maintain, for liquidity purposes, deposits with Central 1 Credit Union of at least 8% of deposits and borrowings. At December 31, 2008 Credit Union liquidity deposits exceeded the prescribed requirement by \$16,936,000 (2007 - \$6,372,000).

The Credit Union has a line of credit with Central 1 Credit Union in the amount of \$20,000,000. Draws on the facility at December 31, 2008 were \$nil (2007 - \$3,750,000).

#### 4. Loans:

	2008	2007
Personal loans:		
Residential mortgages	\$ 197,021,646	\$ 198,790,428
Other	41,342,456	37,700,472
Commercial loans:		
Mortgages	138,188,392	126,054,355
Other	1,929,600	6,147,308
Accrued interest	686,972	733,036
	379,169,066	369,425,599
Allowance for credit losses	1,223,218	1,189,005
	\$ 377,945,848	\$ 368,236,594

Provision for credit losses:

	2008			2007	
	Balance, beginning of year	Provisions made in year	Write-offs net of recoveries	Balance, end of year	Balance, end of year
Personal loans:					
Mortgages	\$ 440,005	\$ -	\$ -	\$ 440,005	\$ 440,005
Other	218,295	-	75,787	142,508	218,295
Commercial loans:					
Mortgages	499,667	110,000	-	609,667	499,667
Other	31,038	-	-	31,038	31,038
	\$ 1,189,005	\$ 110,000	\$ 75,787	\$ 1,223,218	\$ 1,189,005

Percentage of total loans and accrued interest 0.32% 0.32%

The carrying amount of impaired loans at December 31, 2008 is \$401,766 (2007 - nil).

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

#### 5. Investments and other assets:

	2008		2007	
Central 1 Credit Union - shares	\$	1,095,872	\$	1,085,895
Future income taxes (Note 16)		684,996		591,894
Other assets		219,008		88,293
	\$	1,999,876	\$	1,766,082

#### 6. Property, buildings and equipment:

	2008		2007	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 2,874,072	\$ -	\$ 2,874,072	\$ 2,832,878
Buildings	4,618,461	2,841,077	1,777,384	1,559,080
Leasehold improvements	254,783	245,517	9,266	12,854
Furniture and equipment	2,330,335	1,641,667	688,668	487,794
Banking system	266,354	-	266,354	-
	\$ 10,344,005	\$ 4,728,261	\$ 5,615,744	\$ 4,892,606

During the year the Credit Union sold land and buildings for proceeds of \$1,636,845 and recognized a gain on sale of \$1,624,670. The Credit Union has leased back the land and buildings and, accordingly is amortizing the gain on sale over the lease term.

#### 7. Member deposits:

	2008		2007	
Demand	\$	155,177,296	\$	159,305,841
Term		184,630,625		164,573,132
Registered savings plans		51,858,004		47,058,181
Accrued interest		3,397,930		3,071,061
	\$	395,063,855	\$	374,008,215

Demand deposits include \$340,609 (2007 - \$404,805) in non-equity 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.

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

#### 8. Equity shares:

Capital of the Credit Union is divided into an unlimited number of \$1 par value equity shares designated as follows:

Class A mandatory equity ("membership equity") shares:

- Voting shares, 25 shares required as a condition of membership (with exception of junior accounts) and a maximum of 1,000 shares issued per member; redeemable on withdrawal of membership.

Class B voluntary equity ("investment equity") shares:

- Investment shares, available for subscription by members, redeemable only at the option of the Board of Directors of the Credit Union.

The Credit Union is authorized to issue an unlimited number of non-transferable, voting Class A membership equity shares.

Investment equity shares, are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

	2008	2007
Equity shares issued:		
2,161,701 Class A membership equity shares (2007 - 2,082,725)	\$ 2,161,701	\$ 2,082,725
5,896,775 Class B investment equity shares (2007 - 5,748,009)	\$ 5,896,775	\$ 5,748,009

#### 9. Capital requirements:

Provincial legislation requires the Credit Union to maintain a capital base equal to 8% of the total risk-weighted value of its 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 attained a capital base approximating 16.4% (2007 - 15.8%). The Credit Union is in compliance with legislation.

The Credit Union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover risks inherent in the business.

#### 10. Interest rate sensitivity:

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap, between the assets, liabilities and off-balance sheet instruments scheduled to reprice on particular dates. The Credit Union had no off-balance sheet instruments at December 31, 2008.

Maturity dates substantially coincide with interest adjustment dates. Amounts that are non-interest sensitive are grouped together, regardless of maturity.

The following table presents the carrying amounts of interest sensitive assets and liabilities in periods in which they next reprice or mature.

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

	Variable rate	Within 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-interest sensitive	Total
<i>Assets:</i>							
Cash resources	\$ -	\$ 9,600,000	\$ 7,275,000	\$ 12,290,000	\$ 9,150,000	\$ 10,202,934	\$ 48,517,934
<i>Yield</i>	-	2.34%	3.50%	5.44%	4.11%	-	-
Loans	132,763,685	6,358,854	31,197,421	98,499,495	109,738,426	(612,033)	377,945,848
<i>Yield</i>	4.34%	5.67%	5.56%	5.28%	5.73%	-	-
Other	1,095,872	-	-	-	-	6,519,748	7,615,620
	133,859,557	15,958,854	38,472,421	110,789,495	118,888,426	16,110,649	434,079,402
<i>Liabilities and Members' Equity:</i>							
Deposits and member							
shares	101,917,976	11,843,674	63,852,913	121,558,108	35,523,879	60,367,305	395,063,855
<i>Yield</i>	0.75%	2.88%	2.88%	4.02%	3.62%	-	-
Other	-	-	-	-	-	39,015,547	39,015,547
	101,917,976	11,843,674	63,852,913	121,558,108	35,523,879	99,382,852	434,079,402
Interest sensitivity							
position - 2008	\$ 31,941,581	\$ 4,115,180	\$(25,380,492)	\$(10,768,613)	\$ 83,364,547	\$(83,272,203)	\$ -
Interest sensitivity							
position - 2007	\$(14,949,001)	\$(30,516,761)	\$(16,837,547)	\$ 60,551,924	\$ 81,047,612	\$(79,296,227)	\$ -

It is estimated that an immediate and sustained parallel increase in interest rates of 1% across all maturities and currencies would increase net interest income by approximately \$821,000 and a decrease in interest rates of 1% across all maturities and currencies would decrease net interest income by approximately \$1,585,000 over the next twelve months using the following assumptions:

- i) accrued interest receivable and payable as at December 31, 2008 are excluded from the calculation;
- ii) no hedging of interest rate exposures are made;
- iii) instruments repriced evenly within their respective time bands;
- iv) existing credit commitments will not be drawn upon; and
- v) no prepayments of fixed rate term loans or early redemption of redeemable fixed rate term deposits will be made.

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

#### 11. Fair value of financial instruments:

The following represents the approximate fair values of financial instruments of the Credit Union as at the balance sheet date:

	2008 Book value	2008 Fair value	2008 Difference	2007 Book value	2007 Fair value	2007 Difference
<b>Assets:</b>						
Cash resources	\$ 48,518,000	\$ 51,499,000	\$ 2,981,000	\$ 36,438,000	\$ 36,438,000	\$ -
Loans to members	\$ 377,946,000	\$ 373,915,000	\$ (4,031,000)	\$ 368,237,000	\$ 360,964,000	\$ (7,273,000)
Investments	\$ 1,096,000	\$ 1,096,000	\$ -	\$ 1,086,000	\$ 1,086,000	\$ -
<b>Liabilities:</b>						
Credit Union Central of B.C. call loans	\$ -	\$ -	\$ -	\$ 3,750,000	\$ 3,750,000	\$ -
Member deposits	\$ 395,064,000	\$ 401,817,000	\$ 6,753,000	\$ 374,008,000	\$ 373,551,000	\$ (457,000)
Membership equity shares	\$ 2,162,000	\$ 2,162,000	\$ -	\$ 2,083,000	\$ 2,083,000	\$ -
Accounts payable	\$ 3,167,000	\$ 3,167,000	\$ -	\$ 2,485,000	\$ 2,485,000	\$ -

The fair value of items that are highly liquid or short-term in nature approximate their carrying value. This includes cash resources, investments, membership equity shares and accounts payable and accrued liabilities. The fair value of loans and members' deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of instruments. The fair value of loans and members' deposits with variable rates of interest approximate their carrying value.

#### 12. Other income:

	2008	2007
Account service fees	\$ 1,228,128	\$ 1,204,564
Insurance commissions and fees	1,443,502	1,282,400
Mortgage prepayment and other fees	537,266	383,477
Foreign exchange	421,973	426,634
Other	569,012	357,500
	\$ 4,199,881	\$ 3,654,575

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

#### 13. Operating expenses:

	2008	2007
Salaries and employee benefits	\$ 6,085,504	\$ 5,777,370
Other	970,424	1,151,845
Data processing	969,811	981,444
Building occupancy	682,994	688,443
Amortization	491,278	442,679
Office	342,781	348,206
Cheque processing	304,809	275,293
Professional and consulting	174,342	192,707
Advertising and promotion	155,887	156,145
Dues and assessments	107,185	100,139
	<u>\$ 10,285,015</u>	<u>\$ 10,114,271</u>

#### 14. Pension obligation:

The Credit Union sponsors a pension plan covering employees of the Credit Union and its subsidiary.

The multi-employer plan is administered on behalf of the Credit Union by Central 1 Credit Union and accounted for as a defined contribution plan. Pension expense of \$229,820 (2007 - \$185,571) in respect to the multi-employer plan has been charged to income and is classified as salaries and employee benefits in the consolidated statement of operations.

#### 15. Commitments:

(a) Computer services:

The Credit Union is committed to acquire on-line data processing services until December 2013. Data processing charges are based on the level of equipment and services utilized and on the number of credit union members.

(b) Leases:

The Credit Union leases premises under lease agreements which expire through June 25, 2011. Minimum lease payments for the next three years are as follows:

2009	\$ 227,740
2010	\$ 167,904
2011	\$ 85,118

(c) Letters of credit:

At December 31, 2008 the Credit Union has outstanding letters of credit on behalf of the members in the amount of \$3,310,655 (2007 - \$3,278,480). These letters of credit are fully secured by member deposits.

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

#### 16. Income taxes:

Income tax expense differs from the amount that would be computed by applying federal and provincial statutory tax rates of 31.0% (2007 - 34.1%) to income before income taxes. The reasons for the difference and related tax effects are as follows:

	2008	2007
Tax at applicable tax rate	\$ 1,257,915	\$ 1,045,487
Preferred rate amount deduction for credit unions	(311,537)	(461,528)
Non-deductible expenses	97,000	-
Impact of change in tax rates	(71,968)	26,223
Other	(84,132)	16,162
	<u>\$ 887,278</u>	<u>\$ 626,344</u>

Income taxes are netted against the following line items in the consolidated financial statements as follows:

	2008	2007
Consolidated Statement of Operations and Comprehensive Income:		
Unrealized (gains) losses on available for sale assets	\$ (84,740)	\$ 11,265
Transfer of net realized losses to net income	\$ 4,660	\$ 1,623
Consolidated Statement of Changes in Members' Equity:		
Dividends on investment equity shares	\$ 82,466	\$ 53,126
Cumulative effect of adopting new accounting policies	\$ -	\$ 3,653
Other comprehensive (income) loss	\$ (72,475)	\$ 6,100

The tax effects of temporary differences that give rise to significant portions of the future income tax assets at December 31, 2008 and 2007 are presented below:

	2008	2007
Future income tax assets:		
Provision for credit losses	\$ 378,660	\$ 199,396
Deferred income	96,554	50,287
Buildings and equipment - differences in net book value and undepreciated capital cost	186,974	280,870
Other assets	108,036	61,341
	<u>770,224</u>	<u>591,894</u>
Tax effect of fair value differences on CUCBC deposits, included in other comprehensive income	(85,228)	-
Net future tax asset	<u>\$ 684,996</u>	<u>\$ 591,894</u>

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

#### 17. Other information:

The directors of the Credit Union received \$18,000 in remuneration during 2008 (2007 - \$10,925).

At December 31, 2008, loans to directors, officers and employees with credit granting authority of the Credit Union amounted to \$11,218,277 (2007 - \$8,145,220). All such loans were granted in accordance with the credit policies established for all members.

#### 18. Financial Risk Management:

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established the Audit Committee and charged them with the responsibility for, among other things, the development and monitoring of risk management policies. The Committee reports regularly to the Board on its activities.

a) Liquidity risk:

Liquidity risk arises in the course of managing our assets and liabilities. It is the risk that the entity is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund our balance sheet under both normal and stressed market environments.

The Credit Union's liquidity risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed. The Board receives regular reports on risk exposures and performance against approved limits.

b) Credit Risk:

Credit risk is the potential for financial loss to the Credit Union if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. Credit risk is one of the most significant and pervasive risks in the business of a credit union. Every loan, extension of credit or transaction that involves settlements between the Credit Union and other parties or financial institutions exposes the Credit Union to some degree of credit risk.

The Credit Union's primary objective in managing credit risk is to provide prudent lending and investment standards which will maximize returns while ensuring the safety of capital. In order to meet these objectives, the Credit Union has developed a comprehensive framework of credit policies which provides details on:

- approval authority and lending limits by credit product and guidelines on suitable security;
- utilizing the Credit Unions credit risk weighting system, and application of minimum credit ratings acceptable to the Credit Unions;
- pricing for the credit risk taken; and
- mitigating credit risk through preventive and detective controls.

## ALDERGROVE CREDIT UNION

### Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

c) Interest rate risk:

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when we enter into banking transactions with our members, namely deposit taking and lending. When asset and liability principal and interest cash flows have different payment or maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is repriced when interest rates change, when there is cash flow from final maturity, normal amortization, or when members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions (see Note 11). It is also affected by new business volumes, renewals of loans or deposits, and how actively members exercise options, such as prepaying a loan before its maturity date.

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. Overall responsibility for asset/liability management rests with the Board. Management reports to the Board on at least a quarterly basis to review the results of interest rate simulation model analysis.

d) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, equity rates, foreign exchange rates and credit spreads, will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

e) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The entity is exposed to foreign currency risk as a result of its members' activities in foreign currency denominated deposits and cash transactions. All foreign currency risk comes from U.S. dollar transactions. The entity's foreign currency risk is subject to extensive risk management controls and is managed in accordance with the framework of policies and limits approved by the Board.

f) Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The Credit Union is exposed to other price risk in its own investment portfolio. The Credit Union adheres to the principles of quality and risk diversification in its investment practices. As at December 31, 2008, the entity has limited investments subject to other price risk and this exposure is insignificant.

### 19. Comparative figures:

Certain 2007 comparative figures have been reclassified to conform with the financial presentation adopted in the current year.



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## ALDERGROVE CREDIT UNION

### Administration Office



L to R: Gus Hartl, Maureen McKinney, Sandy Tipton, Peg Strandt, John Friesen, John Battista, Marion Bothwell, Thom Meyer Front – Anita Jensen, Val Mackey

### Insurance Leadership Team



L to R: Lynda Mantler, Sharon Belanger, Christine Lefebure

### Financial Planners



L to R: Jas Gill, Tom Foerster

### Commercial Leadership Team



L to R: Lara Clayton, Nina Redline, John Friesen

**ALDERGROVE CREDIT UNION**  
Branch Management Teams

**Murrayville Community Branch**



L to R – Crystal Demosten, Lori Feader, Denni Bonetti

**Otter Community Branch**



L to R – Karen Antonishka, Linda Snider, Lucienne Lehmann

**Aldergrove Community Branch**



L to R – Denise Menzies, Bob Eilers, Susan Glover

**Mt. Lehman Centre Branch**



L to R – Carla Desmond, Mary Lynn Baker

**Matsqui Community Branch**



L to R – Laura Buckle, Brent Janzen, Ann Van Staalduin

ALDERGROVE CREDIT UNION





