

To the Members of Mountain View Credit Union Limited:

We have audited the balance sheet of Mountain View Credit Union Limited as at October 31, 2008, and the statements of income and comprehensive income, including the supporting schedule, retained earnings and accumulated other comprehensive income 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 October 31, 2008, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta

December 2, 2008

Meyus Norris Penny LLP

Chartered Accountants

Mountain View Credit Union Limited

Balance Sheet

As at October 31, 2008

	2008	2007
Assets		
Cash	3,040,603	1,414,686
Income taxes receivable	193,928	-
Investments and accrued interest (Note 4)	88,354,852	70,512,980
Member loans receivable and accrued interest (Note 5)	432,975,187	390,445,531
Other assets	471,484	277,431
Future income tax asset (Note 6)	752,123	640,416
Property and equipment (Note 7)	5,173,870	4,579,990
	530,962,047	467,871,034
Liabilities		
Member deposits and accrued interest (Note 8)	495,131,316	440,838,313
Loan payable (Note 9)	-	551,585
Accounts payable and accrued liabilities	2,220,344	1,871,383
Income taxes payable	-	325,254
	497,351,660	443,586,535
Contingencies and commitments (Note 19)		
Retained earnings and members' equity		
Allocation distributable (Note 10)	2,152,916	1,843,339
Common shares (Note 11)	16,606,946	10,546,700
Retained earnings and accumulated other comprehensive income	14,850,525	11,894,460
	33,610,387	24,284,499
	530,962,047	467,871,034

Approved on behalf of the Board

Director

Director

Mountain View Credit Union Limited
Statement of Income and Comprehensive Income

For the year ended October 31, 2008

	2008	2007
Financial revenue		
Interest on member loans	25,949,109	24,069,423
Investment	2,456,790	2,676,007
	28,405,899	26,745,430
Financial expense		
Interest on member deposits	13,593,720	13,858,724
Interest on borrowings	20,218	22,634
	13,613,938	13,881,358
Financial margin before profit share	14,791,961	12,864,072
Profit share (Note 10)	699,562	658,967
Financial margin before charge for loan impairment	14,092,399	12,205,105
Charge for loan impairment (Note 5)	493,592	726,464
Financial margin after charge for loan impairment	13,598,807	11,478,641
Service charges and other income	2,352,436	2,514,599
	15,951,243	13,993,240
Operating expenses (Schedule 1)	10,705,595	8,953,802
Income before income taxes and other expense	5,245,648	5,039,438
Other expense		
Loss on sale of property and equipment (Note 7)	(70,377)	-
Income before income taxes	5,175,271	5,039,438
Provision for income taxes		
Current	1,211,828	1,341,897
Future (recovery)	(111,707)	(200,382)
	1,100,121	1,141,515
Net income and comprehensive income	4,075,150	3,897,923

The accompanying notes are an integral part of these financial statements

Mountain View Credit Union Limited
Statement of Retained Earnings and Accumulated Other Comprehensive Income

For the year ended October 31, 2008

	<i>2008</i>	<i>2007</i>
Retained earnings and Accumulated Other Comprehensive Income, beginning of year	11,894,460	8,908,504
Add:		
Net income and comprehensive income	4,075,150	3,897,923
Deduct:		
Dividends (Net of income tax recovery of \$334,269 (2007 - \$272,405))	(1,119,085)	(911,967)
Retained earnings and Accumulated Other Comprehensive Income, end of year	14,850,525	11,894,460

The accompanying notes are an integral part of these financial statements

Mountain View Credit Union Limited

Statement of Cash Flows

For the year ended October 31, 2008

	2008	2007
Cash provided by (used for) the following activities		
Operating		
Interest received	29,268,580	25,877,025
Service charges and other income received	2,426,911	2,490,300
Recoveries on loans previously written off	18,302	78,949
Income taxes paid	(1,379,377)	(986,932)
Interest paid	(12,067,664)	(13,208,573)
Operating expenses paid	(10,305,878)	(8,410,040)
	7,960,874	5,840,729
Financing		
Increase in member deposits, net	52,746,729	88,079,717
Issue of common shares	4,527,876	837,938
Redemption of common shares	(310,969)	(325,135)
	56,963,636	88,592,520
Investing		
Increase in loans to members, net	(43,672,991)	(80,557,583)
Purchase of investments, net	(17,943,592)	(13,792,166)
Purchase of property and equipment	(1,155,425)	(190,442)
Proceeds on disposal of property and equipment	25,000	-
	(62,747,008)	(94,540,191)
Increase (decrease) in cash	2,177,502	(106,942)
Cash, beginning of year	863,101	970,043
Cash, end of year	3,040,603	863,101
Cash is comprised of:		
Cash	3,040,603	1,414,686
Loan payable	-	(551,585)
	3,040,603	863,101

The accompanying notes are an integral part of these financial statements

Mountain View Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2008

1. Nature of operations

Mountain View Credit Union Limited ("the Credit Union") was formed pursuant to the *Credit Union Act* of the Province of Alberta, and operates ten Credit Union branches. The Credit Union serves members in Olds, Sundre, Didsbury, Cremona, Beiseker, Carbon, Morrin, Linden, Crossfield, Delia and their surrounding areas.

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 *Credit Union Act* provides that the Province of Alberta ("the Province") will ensure that the Corporation carries out this obligation.

2. Accounting policies

The Credit Union follows accounting policies appropriate to its activities and governing legislation, which conform to Canadian generally accepted accounting principles. The significant accounting policies adopted by the Credit Union include:

Cash

Cash consists of cash on hand and demand deposits.

Loans to members and accrued interest

Loans to members are recorded at the lower of principal plus accrued interest and estimated realizable amounts. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amount and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at the fair value of the security underlying the loans, net of expected costs of realization.

The Credit Union recognizes loan fees, costs associated with lending activities and discounts on loans over the related lending or commitment period. The unamortized portion of these fees, as well as any discounts, is netted against the principal.

Interest income from loans is recorded on the accrual basis for all loans not classified as impaired.

When interest or principal is past due 60 days, the loan is classified as impaired unless there is no reasonable doubt as to the collectibility of all interest and principal. When a loan is classified as impaired, recognition of interest income in accordance with the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the recorded investment in the loan.

2. Accounting policies *(Continued from previous page)*

Allowance for loan impairment

The Credit Union maintains an allowance for loan impairment that reduces the carrying value of loans to their estimated realizable amount. The allowance is increased by a charge for loan impairment, which is charged to income, and reduced by write-offs, net of recoveries.

A specific allowance is established on an individual loan basis, to reduce the carrying values to estimated realizable amounts. Estimated realizable values are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amount 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 value.

In addition, a general allowance may be established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio, for which a specific allowance cannot yet be determined. A general provision is established when evidence of impairment exists within groups of loans but is not sufficient to allow identification of individually impaired loans. Impairment is estimated based on historical credit loss experience, known portfolio risks and current economic conditions and trends.

Foreclosed assets

Foreclosed assets held for sale are recorded at the lower of carrying amount or fair value of the security, net of expected costs of realization. Fair value is based on appraised market values. Any difference between the book value of the loan prior to foreclosure and the amount of initial measurement of the foreclosed assets is recognized by a charge to income.

Property and equipment

Property and equipment are recorded at cost. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings	25 years
Computer equipment	3-5 years
Furniture and equipment	5-10 years
Vault and security equipment	20 years

Gains and losses on the disposal of property and equipment are recorded in the statement of income in the year of disposal.

Unauthorized overdrafts

At the end of each fiscal year, as required by the *Credit Union Act*, the Credit Union writes off all unauthorized overdrafts outstanding for at least 90 days.

2. Accounting policies *(Continued from previous page)*

Long-lived assets

Long-lived assets consist of property and equipment and foreclosed assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Credit Union performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in earnings for the year.

Prices for similar items are used to measure the fair value of long-lived assets.

Income taxes

The Credit Union follows the asset and liability method to account for income taxes. The asset and liability method requires that income taxes reflect the future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expense are expected to be realized.

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in current income.

Measurement uncertainty

The preparation of financial statements in conformity 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Loans are stated after evaluation as to their collectibility and an appropriate allowance for doubtful loans is provided where considered necessary.

Amortization of property and equipment is provided based on management's estimate of useful lives of those assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in income in the periods in which they become known.

Mountain View Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2008

2. Accounting policies (Continued from previous page)

Financial instruments

Available-for-sale:

The Credit Union has classified the following financial assets as available-for-sale: cash and investments with Central - shares. These assets are initially recognized at their fair value which is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest income is allocated to net income by the effective interest method, using an effective interest rate which exactly discounts estimated future cash receipts to the net carrying amount of the financial asset, over the asset's expected life, or other appropriate period.

Available-for-sale financial assets are subsequently measured at their fair value. Gains and losses arising from changes in fair value, except for impairment losses and foreign exchange translation adjustments, are recognized in other comprehensive income, until the financial asset is sold or otherwise derecognized. Upon derecognition, the cumulative gain or loss previously recognized in accumulated other comprehensive income is transferred to net income.

Loans and receivables:

The Credit Union has classified the following financial assets as loans and receivables: loans to members and accounts receivable. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest income, calculated using the effective interest rate method, is recognized in net income.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Held to maturity:

The Credit Union has classified the following financial asset as held to maturity: investments in Central term deposits and term deposits with other credit unions. This asset is initially recognized at its fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest income, calculated using the effective interest rate method, is recognized in net income.

Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method.

2. Accounting policies *(Continued from previous page)*

Other financial liabilities:

The Credit Union has classified the following financial liabilities as other financial liabilities: member deposits, accounts payable and accrued liabilities. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest expense, calculated using the effective interest rate method, is recognized in net income.

Fees incurred on an exchange of financial liabilities or a modification of the terms of financial liabilities that is accounted for as an extinguishment are included as part of the gain or loss on extinguishment, while any related other costs incurred are recognized in current earnings. All fees and costs incurred on the exchange or modification of a financial liability not accounted for as an extinguishment are included in the carrying amount of the modified financial liability and amortized over its remaining expected life. Any related other costs incurred are recognized in current year earnings.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial asset impairment:

The Credit Union assesses impairment of all its financial assets, except those classified as held for trading. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment, which is not considered temporary, is included in current year earnings.

Recent accounting pronouncements

General Standards of Financial Statement Presentation

CICA Handbook Section 1400 General Standards of Financial Statement Presentation has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. This amendment is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

The Credit Union expects to apply this new recommendation for its financial statements beginning November 1, 2008 and does not expect the adoption of this change to have a material impact on its financial statements.

International Financial Reporting Standards

The CICA has announced that Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS). The Credit Union will be adopting IFRS commencing November 1, 2011. The impact on the balance sheet and results of operations has not yet been determined.

Mountain View Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2008

3. Change in accounting policies

On November 1, 2007, the Credit Union adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863 Financial Instruments – Presentation.

Financial instruments

Section 3862 and Section 3863 require information to be presented on all categories of financial instruments, the risks associated with investments and how the Credit Union manages those risks.

Capital management

Section 1535 requires the Credit Union to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

The Credit Union provides financial services to its members and is subject to the capital requirements set out in the Credit Union Act of Alberta ("the Act"). The Credit Union complied with these capital requirements as at October 31, 2008.

4. Investments and accrued interest

	2008	2007
Investments with Central		
Shares	4,678,800	4,667,000
Term deposits	81,295,100	59,363,308
	85,973,900	64,030,308
Term deposits with other credit unions	2,000,000	6,000,000
	87,973,900	70,030,308
Accrued interest	380,952	482,672
	88,354,852	70,512,980
Effective yield % (excluding accrued interest)	2.73 %	4.65 %

All term deposits held with Central at October 31, 2008 mature within one year. As required by the *Credit Union Act*, the Credit Union holds investments in Central to maintain its statutory liquidity level.

Mountain View Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2008

5. Loans to members and accrued interest

Principal and allowance by loan type

				2008	2007
	<i>Principal</i>	<i>Allowance Specific</i>	<i>Allowance Non-specific</i>	<i>Net carrying value</i>	<i>Net carrying value</i>
Consumer loans	72,220,244	162,735	598,109	71,459,400	62,283,582
Residential mortgages	171,440,173	-	175,000	171,265,173	149,025,858
Commercial loans	31,191,405	87,242	518,000	30,586,163	26,696,983
Commercial mortgages	67,050,360	-	290,000	66,760,360	63,209,740
Agricultural loans	32,688,533	-	485,000	32,203,533	29,971,796
Agricultural mortgages	57,476,617	-	260,000	57,216,617	55,012,671
	432,067,332	249,977	2,326,109	429,491,246	386,200,630
Accrued loan interest	3,521,363	37,422	-	3,483,941	4,244,901
	435,588,695	287,399	2,326,109	432,975,187	390,445,531

Included in the above are impaired loans totaling \$557,127 (2007 - \$218,220).

Maturity by loan type

Loans to members, not including accrued interest, mature as follows:

	2008	2007
Under 1 year	111,488,947	106,112,849
1 to 2 years	60,462,928	32,282,225
2 to 3 years	72,117,331	69,256,722
3 to 4 years	40,773,997	57,782,952
Over 4 years	147,224,129	122,959,593
	432,067,332	388,394,341

Loan allowance details

Details of the changes in the allowance for loan impairment are as follows:

	2008	2007
Balance, beginning of year	2,218,224	1,597,540
Charge for loan impairment	493,592	726,464
Recovery of accrued interest impairment	12,908	9,391
	2,724,724	2,333,395
Accounts written off, net of recoveries	(111,216)	(115,171)
Balance, end of year	2,613,508	2,218,224

Recoveries during the year totalled \$18,302 (2007 - \$78,949).

Mountain View Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2008

6. Income taxes

Components of future tax asset

The future income tax asset is comprised of temporary deductible (taxable) differences between the tax bases and carrying values in the following accounts:

	2008	2007
Property and equipment	29,296	(10,626)
Goodwill	41,093	44,093
Loan allowance	681,949	606,949
	752,123	640,416

Income tax rate reconciliation:

The income tax rate differs from the rate that would be expected for the following reasons:

	2008	2007
	%	%
Statutory rate	29.50	32.12
Income tax rate adjusted for the effect of:		
Small business and credit union deduction	(17.00)	(16.00)
Non-deductible expenses and other	8.76	6.53
Effective income tax rate	21.26	22.65

7. Property and equipment

	2008		2007	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	861,923	-	861,923	837,823
Buildings	4,770,887	1,425,297	3,345,590	2,714,056
Computer equipment	1,219,683	726,975	492,708	614,761
Furniture and equipment	696,762	555,961	140,801	113,654
Vault and security equipment	703,306	370,458	332,848	299,696
	8,252,561	3,078,691	5,173,870	4,579,990

During the year, the Credit Union sold a building that had a net book value of \$88,551 for proceeds of \$25,000 and disposed of equipment that had a net book value of \$6,826 for proceeds of \$nil. The net loss realized from both transactions was \$70,377. In 2007 computer equipment included \$323,308 of assets not yet available for use, therefore no amortization was recorded on these assets in 2007.

Mountain View Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2008

8. Member deposits and accrued interest

	2008	2007
NISA	215,084	498,088
Chequing	74,180,944	65,712,793
T-Bill investment	176,006,093	210,335,534
Plan 24	7,784,713	6,547,113
Blue chip savings	2,312,876	1,711,871
Term deposits	166,465,662	99,056,886
Registered plans	63,359,975	53,716,333
	490,325,347	437,578,618
Accrued interest	4,805,969	3,259,695
	495,131,316	440,838,313

Concentra Financial acts as the trustee of the Registered Retirement Savings Plan (RRSP) and the Registered Retirement Income Fund (RRIF) offered to members. Under an agreement with Concentra Financial, the contributions to the plan, and the interest earned on them, are deposited in the Credit Union. When members terminate these plans, the funds are repaid to them.

Maturity of deposits

Member deposit accounts, not including the related accrued interest, mature as follows:

	2008	2007
Under 1 year	360,131,839	348,201,086
1 to 2 years	27,784,396	23,630,355
2 to 3 years	38,738,342	19,606,888
3 to 4 years	32,534,172	13,249,087
Over 4 years	31,136,598	32,891,202
	490,325,347	437,578,618

9. Loan payable

The Credit Union has access to a revolving operating demand loan with a maximum available credit of \$20,625,000 (2007 - \$20,625,000). This demand loan bears interest on Canadian dollar advances at prime and US dollar advances at the US base rate plus 0.50%. Principal and interest are payable upon demand by Central. Until demanded, interest only is payable monthly. At year-end, the demand loan has a balance of \$nil (2007 - \$551,585).

Security on this demand loan consists of any monies now and hereafter on deposit with Central and all accounts and instruments now or hereafter owned or acquired by, or on behalf of, the Credit Union.

Mountain View Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2008

10. Allocation distributable

The Board of Directors declared a share dividend of 10% (2007 - 12%) on common shares as at October 31, 2008 in the amount of \$1,453,354 (2007 - \$1,184,372), to be paid by issuance of common shares on November 30, 2008.

The Board of Directors also declared a profit share of \$699,562 as at October 31, 2008 (2007 - \$658,967). The profit share, was based on 2% (2007 - 2%) of the loan interest received and 2% (2007 - 2%) of the deposit interest paid to members (excluding Master Card Credit Cards, Unauthorized Overdrafts, and Registered Retirement Plans) during the fiscal year. The profit share is to be paid by issuance of common shares on November 30, 2008.

11. Common shares

The common shares are:

- a) issuable in unlimited number;
- b) issuable as fractional shares with a par value of \$1;
- c) transferable only in restricted circumstances;
- d) non-assessable;
- e) redeemable at par value at the discretion of the Credit Union, subject to the restrictions contained in the *Credit Union Act* bylaws.

A membership in the Credit Union requires the purchase of a minimum of 25 shares (5 shares for minors and members 65 years of age or over). The Corporation does not guarantee common shares, which represent "at-risk" capital.

	2008	2007
Balance, beginning of year	10,546,700	9,027,104
Issued, for share dividends	1,843,339	1,006,793
Issued, for cash	4,527,876	837,938
Shares redeemed	(310,969)	(325,135)
<hr/>		
Balance, end of year	16,606,946	10,546,700

12. Related party transactions

Directors, management and staff

The Credit Union, in accordance with its policy, grants credit to its directors, management and staff. Management and staff rates, which range from 3.00% to 8.75% (2007 - 3.15% to 10.25%) per annum, are slightly below member rates. Directors pay regular member rates. Directors, management and staff had \$9,316,388 (2007 - \$8,811,878) in loans outstanding at October 31, 2008. All loans were in good standing at that date.

Directors, management and staff of the Credit Union hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in member deposits on the balance sheet.

Directors fees and expenses

Amounts paid to directors range from \$1,500 to \$18,126 (2007 - \$902 to \$8,658) with an average of \$7,207 (2007 - \$3,419) (*Schedule 1*).

Credit Union Central of Alberta Limited (Central)

The Credit Union is a member of Central, which acts as a depository for surplus funds received from and loans made to credit unions. Central also provides other services for a fee to the Credit Union and acts in an advisory capacity.

The Credit Union Deposit Guarantee Corporation

The Credit Union Deposit Guarantee Corporation is a deposit insurance corporation, which protects the savings and deposits of all credit union members in every credit union within Alberta.

Mountain View Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2008

13. Off-balance sheet financial instruments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

Guarantees and standby letters of credit represent irrevocable assurances that the Credit Union will make payments in the event that a customer cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer and the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

To manage exposure to interest rate fluctuations and to manage asset and liability mismatches, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter-balancing positions. The Credit Union did not use interest rate swaps in the current year.

The Credit Union makes the following instruments available to its members:

- a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
- b) documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions; and
- c) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans including lines of credit, credit limits, guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at October 31, 2008, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2008	2007
Guarantees and standby letters of credit and direct credit substitutes	6,245,934	1,477,788
Commitments to extend credit - original term to maturity of greater than one year	66,120,520	46,032,926
Commitments to extend credit - original term to maturity of one year or less	34,379,704	25,503,177
	106,746,158	73,013,891

Mountain View Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2008

14. Interest rate and market risk

The Credit Union's primary source of income is financial margin, which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits. The objective of managing the financial margin is to manage repricing or maturity dates of loans and investments and members' savings and deposits within policy limits that are intended to limit the Credit Union's exposure to changing interest rates. The differential represents the net mismatch between loans and investments and members' savings and deposits by maturity dates.

Interest rate re-price

	<u>(In thousands)</u>				2008	2007
	<i>Floating rate</i>	<i>Within one year</i>	<i>One to five years</i>	<i>Non-rate sensitive</i>	<i>Total</i>	<i>Total</i>
Assets						
Cash	-	-	-	3,041	3,041	1,415
Income taxes receivable	-	-	-	194	194	-
Investments <i>(effective yield %)</i>	4,679 2.00	83,295 2.77	-	381	88,355 2.72	70,513 4.62
Loans to members <i>(effective yield %)</i>	271,373 5.52	21,914 6.42	138,781 6.34	907	432,975 5.82	390,446 7.37
Other assets	-	-	-	471	471	277
Future taxes	-	-	-	752	752	640
Property and equipment	-	-	-	5,174	5,174	4,580
	276,052	105,209	138,781	10,920	530,962	467,871
Liabilities & Equity						
Member deposits <i>(effective cost %)</i>	217,121 1.50	99,413 3.69	130,194 4.56	48,404	495,132 2.60	440,838 3.63
Loan payable <i>(effective cost %)</i>	-	-	-	-	-	552 6.00
Accounts payable	-	-	-	2,220	2,220	1,872
Income taxes payable	-	-	-	-	-	325
Equity	-	-	-	33,610	33,610	24,284
	217,121	99,413	130,194	84,234	530,962	467,871
Net gap, October 31, 2008	58,931	5,796	8,587	(73,314)	-	
<i>Percentage of assets</i>	<i>11.10</i>	<i>1.09</i>	<i>1.61</i>	<i>(13.81)</i>	-	
Net gap, October 31, 2007	(29,759)	27,633	66,908	(64,782)	-	
<i>Percentage of assets</i>	<i>(6.35)</i>	<i>5.89</i>	<i>14.28</i>	<i>(13.83)</i>	-	

14. Interest rate and market risk (Continued from previous page)

Market risk

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

Risk Measurement.

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides monthly reports on these matters to the Credit Union's Board of Directors.

Objectives, policies and processes

Management 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, which are approved and periodically reviewed by the Board.

The Credit Union's goal is to achieve adequate levels of profitability, liquidity and safety. The Board of Directors reviews the Credit Union's investment and asset liability management policies periodically to ensure they remain relevant and effective in managing and controlling risk.

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

Before tax impact of:	October 31, 2008
1% increase in rates	1,300,000
1% decrease in rates	(1,300,000)

Interest rate risk arises from a mismatch between deposit rate and maturities and the yields and maturities of the loans they fund.

15. Nature and extent of risk arising from financial instruments

The Credit Union, as part of its operations, carries a number of financial instruments. It is management's opinion that the Credit Union is exposed to the following risks as a result of holding financial instruments:

- credit risk;
- liquidity risk; and
- fair value risk.

The following is a description of those risks and how the Credit Union manages the exposure of them.

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally as a result of the Credit Union's lending activities with members.

Risk measurement

The Credit Union employs a risk measurement process for its loan portfolio which is designed to assess and quantify the level of risk inherent in credit granting activities. Risk is measured by reviewing qualitative and quantitative factors that impact the loan portfolio.

Credit quality performance

Refer to Note 5 for additional information on the potential loss exposure related to the Credit Union's loan portfolio.

Objectives, policies and processes

The Credit Union is committed to the following principles in managing credit risk exposure:

- Credit risk assessment includes the establishment of policies and processes related to credit risk management and risk rating;
- Credit risk mitigation includes credit structuring, collateral, and guarantees;
- Credit risk approval limits includes establishing credit risk limits and reporting exceptions thereto;
- Credit risk documentation focuses on documentation and administration; and
- Credit risk monitoring and review.

The Credit Union's credit risk policies, processes and methodologies are reviewed annually to ensure they remain relevant and effective in managing credit risk.

15. Nature and extent of risk arising from financial instruments *(Continued from previous page)*

Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet 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 judgment pertaining to current and prospective market conditions and the related investing and borrowing activities of members.

Objectives, policies and processes

The acceptable amount of risk is defined by policies that are approved by the Board of Directors.

The Credit Union manages liquidity by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. Management provides monthly reports on these matters to the Board of Directors.

Key features of liquidity management include:

- Daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position; 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.

As of October 31, 2008, the Credit Union is in compliance with its liquidity requirements as indicated by the Act.

Fair value

Fair value is the consideration that would be agreed to in an arm's length transaction between knowledgeable and willing parties with no compulsion to act. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

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

- a) the book value for cash, short term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair value.
- b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments. Investments in equity instruments that do not have a quoted market price in an active market are measured at cost.
- c) for variable interest rate loans that are frequently re-priced, book values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates.
- d) fair value of variable rate and demand deposits approximate their book value. Fair values of other deposits are estimated using discounted cash flow calculations at market rates for similar deposits.

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Notes to the Financial Statements

For the year ended October 31, 2008

15. Nature and extent of risk arising from financial instruments (Continued from previous page)

The fair value of the financial instruments and their related carrying values has been summarized and included in the table below.

	<i>Carrying Amount</i>	<i>2008 Fair Value</i>	<i>Carrying Amount</i>	<i>2007 Fair Value</i>
<i>(In thousands)</i>				
Financial assets				
<i>Available-for-sale</i>				
Cash	3,041	3,041	1,415	1,415
Investments with Central - shares	4,679	4,679	4,667	4,667
<i>Held to maturity</i>				
Investments with Central - term deposits	83,676	83,562	65,846	65,120
<i>Loans and receivables</i>				
Accounts receivable	58	58	109	109
Loans to members and accrued interest	432,975	431,557	390,445	386,188
Financial liabilities				
<i>Other financial liabilities</i>				
Member deposits and accrued interest	495,131	493,613	440,838	437,997
Loan payable	-	-	551	551
Accounts payable and accrued liabilities	2,220	2,220	1,871	1,871

16. Capital management

The Credit Union's objectives when managing capital are:

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

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 its loan portfolio and other assets and assigns a risk weighting using definitions and formulas set out in the Act and by the Credit Union Deposit Guarantee Corporation. The more risk associated with an asset, a higher weighting is assigned. 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:

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

Mountain View Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2008

16. Capital management *(Continued from previous page)*

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 the minimum requirements as set out by the Act.

The Credit Union was in compliance with the regulatory requirements as indicated by the Act as follows:

	2008	2007
Capital as % total assets	6.99	5.74
Capital as % of risk weighted assets	10.47	8.63

17. Foreign currency risk

The following items are denominated in United States currency (translated to Canadian currency at the year end rate):

	2008	2007
Cash	269,521	128,708
Investments	1,703,100	2,415,230
Member deposits	1,282,383	2,495,250

18. Segmented information

The Credit Union operates principally in personal and commercial banking in Alberta. Operating branches are similar in terms of products and services provided and methods used to distribute products.

19. Contingencies and commitments

Litigation

The Credit Union is subject to one legal proceeding arising in the normal course of business. Management does not expect the outcome of this proceeding to have a material effect on the Credit Union's financial position or results of operations. This lawsuit remains at an early stage and, as litigation is subject to many uncertainties, it is not possible to predict the ultimate outcome of this lawsuit or to estimate the loss, if any, which may result.

Commitments

The Credit Union has commitments of approximately \$1,224,972 related to the construction and furnishing of a new branch. This project is expected to be complete by April 2009.

Mountain View Credit Union Limited

Schedule 1 - Operating Expenses

For the year ended October 31, 2008

	2008	2007
Personnel	5,847,322	4,662,561
Security		
Bonding	61,283	42,287
Deposit guarantee	757,131	717,960
Security equipment	33,736	24,586
	852,150	784,833
Organizational		
Central dues	111,311	91,835
Directors' fees	36,800	16,650
Director training and development	31,256	10,555
Directors' travel	11,217	6,982
Management meetings, seminars and development	69,422	60,219
	260,006	186,241
Occupancy		
Amortization	161,039	158,322
Other	92,050	89,438
Property taxes	54,617	55,883
Rent	7,517	11,434
Repairs and maintenance	226,070	160,432
Utilities	74,927	67,059
	616,220	542,568
General		
Advertising	885,486	684,649
Amortization	305,129	306,393
Cash and service charges	252,415	251,550
Computer	928,861	883,308
Credit reports	18,890	19,648
Insurance	34,126	32,601
Office	373,562	333,260
Other	2,746	3,060
Professional fees	239,720	185,232
Telephone	57,195	51,069
Travel	31,767	26,829
	3,129,897	2,777,599
	10,705,595	8,953,802