

Ste. Rose Credit Union Ltd.
Financial Statements
September 30, 2009



To the Members of Ste. Rose Credit Union Ltd.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of the Credit Union's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

November 4, 2009



Armin Glas

Auditors' Report

To the Members of Ste. Rose Credit Union Ltd.:

We have audited the balance sheet of Ste. Rose Credit Union Ltd. as at September 30, 2009 and the statements of income, retained surplus 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 September 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Comparative figures were reported on by the previous auditors.

Brandon, Manitoba

November 4, 2009

Meyers Norris Penny LLP

Chartered Accountants

Ste. Rose Credit Union Ltd.
Balance Sheet

As at September 30, 2009

2009 **2008**

Assets

Funds on hand and on deposit	792,575	234,564
Investments and accrued interest <i>(Note 3)</i>	6,099,780	6,685,579
Member loans receivable and accrued interest <i>(Note 4)</i>	18,823,946	16,885,166
Other assets	32,620	32,216
Property and equipment <i>(Note 5)</i>	213,191	146,765
	25,962,112	23,984,290

Liabilities

Member deposits and accrued interest <i>(Note 7)</i>	24,295,725	22,165,279
Accounts payable and accrued liabilities	162,768	115,847
Loan payable	-	363,232
	24,458,493	22,644,358

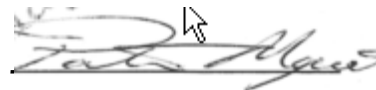
Retained earnings and members' equity *(Note 10)*

Member shares <i>(Note 11)</i>	383,858	334,619
Retained surplus	1,119,761	1,005,313
	1,503,619	1,339,932
	25,962,112	23,984,290

Approved on behalf of the Board



Director



Director

Ste. Rose Credit Union Ltd.
Statement of Income and Retained Surplus
For the year ended September 30, 2009

	2009	2008
Financial income		
Member loans	1,074,313	1,114,880
Investments	263,865	217,602
	1,338,178	1,332,482
Cost of funds		
Deposits	616,710	568,550
Borrowed money	1,647	12,584
	618,357	581,134
Financial margin	719,821	751,348
Operating expenses		
Administration	227,079	205,683
Member security	67,253	98,148
Occupancy	50,513	51,031
Organizational	37,105	38,946
Personnel	355,184	356,081
	737,134	749,889
Other revenue	215,717	185,652
Income from operations before impaired loans	198,404	187,111
Provision for impaired loans (Note 4)	(9,000)	(18,000)
Income before patronage refund	189,404	169,111
Patronage refund (Note 13)	50,000	100,000
Income before income taxes	139,404	69,111
Provision for income taxes		
Current income taxes	12,800	15,273
Future income taxes	12,156	(2,398)
	24,956	12,875
Net income	114,448	56,236
Retained surplus, beginning of year	1,005,313	949,077
Retained surplus, end of year	1,119,761	1,005,313

The accompanying notes are an integral part of these financial statements

Ste. Rose Credit Union Ltd.

Statement of Cash Flows

For the year ended September 30, 2009

	2009	2008
Cash provided by (used for) the following activities		
Operating		
Interest received from member loans	1,102,448	1,033,357
Interest received from investments	278,984	217,602
Service charges and other income received	215,717	185,652
Income taxes paid	(12,800)	(7,522)
Interest paid to members	(602,478)	(568,550)
Interest paid on borrowed money	(1,647)	(12,584)
Operating expenses paid	(687,635)	(584,940)
	292,589	263,015
Financing		
Net change in member deposits	2,119,340	2,843,826
Advances of loan payable	-	363,232
Repayments of loan payable	(363,232)	-
Issue of member shares	615	530
Redemption of member shares	(4,502)	(578)
	1,752,221	3,207,010
Investing		
Net change in loans receivable	(1,975,915)	(2,894,674)
Purchase of investments	-	(865,886)
Proceeds on disposal of investments	570,680	-
Purchase of property and equipment	(82,127)	(13,812)
Proceeds on disposal of property and equipment	563	-
	(1,486,799)	(3,774,372)
Increase in cash resources	558,011	(304,347)
Cash resources, beginning of year	234,564	538,911
Cash resources, end of year	792,575	234,564

1. Incorporation and nature of operations

Ste. Rose Credit Union Ltd. was formed pursuant to the *Credit Unions and Caisses Populaires Act* of the Province of Manitoba and operates one Credit Union branch. The Credit Union serves members in Ste. Rose and the surrounding area.

2. Accounting policies

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

Investments and accrued interest

Investments in securities are valued at cost or amortized cost, adjusted to recognize other than temporary impairment in the underlying value. They are purchased with the intention to hold them to maturity, or until market conditions cause alternative investments to become more attractive. Gains and losses on disposal of securities are included in income in the year in which they occur.

Member loans receivable 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.

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

When interest or principal is past due 90 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.

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 can not be reliably established, estimated realizable values are determined by reference to market prices for the loans or their underlying security value.

In addition, a non-specific 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 non-specific 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.

2. Accounting policies (Continued from previous page)

Property and equipment

Property, plant and equipment are recorded at cost. Amortization is provided using the following methods and rates intended to amortize the cost of the assets over their estimated useful lives.

	Method	Rate
Buildings	declining balance	5 %
Computer equipment	straight-line	3-5 years
Furniture and equipment	declining balance	10-20 %
Security equipment	declining balance	3-5 years

Long-lived assets

Long-lived assets consist of property, plant and equipment. 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 fair value of long-lived assets.

Revenue recognition

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of the interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. A loan is classified as impaired when there is reasonable doubt as to collectibility or payments of interest or principal are past due 90 days. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Investment income is recognized as interest is earned on interest-bearing investments.

Other revenue is recognized as services are provided to the members.

Measurement uncertainty (use of estimates)

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 loan impairment is provided where considered necessary. As the valuation of the underlying security cannot be ascertained with any degree of accuracy, a measurement of uncertainty exists in the valuation of loans and the allowance for loan impairment.

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

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

2. Accounting policies (Continued from previous page)

Foreign currency translation

Cash resources and deposits denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the balance sheet date. Realized gains and losses are recorded at the rates prevailing at the time of the transaction. Unrealized gains and losses are recorded at the rates prevailing on the balance sheet date.

Financial instruments

Held for trading:

The Credit Union has classified the following financial asset as held for trading: funds on hand and on deposit. This instrument is initially recognized at its fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Available-for-sale:

The Credit Union has classified the following financial assets as available-for-sale: Credit Union Central shares. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recognized in income. Transaction costs arising from their disposal are immediately recognized in income.

Available-for-sale financial assets that are investments in equity instruments that do not have a quoted market price in an active market are measured at cost. 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: term deposits and accrued interest, accounts receivable and member loans receivable and accrued interest. These assets are initially recognized at their fair value, determined by recent arm's-length market transactions for the same instrument. 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 directly attributable to their acquisition are included in the fair value cost of these assets, while transaction costs arising from their disposal 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. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. 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 assets as held to maturity: Manitoba Builder Bond and accrued interest. These assets are initially recognized at their fair value, determined by recent arm's-length market transactions for the same instrument. 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, while transaction costs arising from their disposal 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. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. 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.

2. Accounting policies (Continued from previous page)

Other financial liabilities:

The Credit Union has classified the following financial liabilities as other financial liabilities: Accounts payable and accruals, members deposits. These liabilities are initially recognized at their fair value. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs directly attributable to their issue are included in the fair value cost of these liabilities, while transaction costs arising from their disposal are immediately recognized in income. Total interest expense, calculated using the effective interest rate method, is recognized in net income.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Liabilities and equity:

The Credit Union classifies financial instruments based on the substance of the instrument. The corresponding interest, dividends, losses and gains relating to a financial instrument or component that is classified as a financial liability is recorded as expense. The distributions that have been given to holders of the instruments classified as equity instruments have been recorded by the Credit Union directly in equity.

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.

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity of the Credit Union, except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that, in accordance with Canadian generally accepted accounting principles, require recognition, but are excluded from net income (loss). The Credit Union does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in net income for the period.

Recent accounting pronouncements

Adoption of International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises, such as investment funds and other reporting issuers. From this date forward, the financial statements, including comparative information, will be reported in accordance with IFRS. The Credit Union Deposit Guarantee Corporation requires management to provide progress updates on the entity's IFRS changeover plan quarterly until the changeover date.

The Credit Union is developing a changeover plan to adopt IFRS on January 1, 2011. The key elements of the plan include assessing the impact of adopting IFRS on:

- Accounting policies;
- IT and data systems;
- Internal controls over financial reporting;
- Disclosure controls and procedures.

The changeover plan is still in the early stages and, as such, the impact of adopting IFRS on the Credit Union's financial reporting is not reasonably determinable.

Ste. Rose Credit Union Ltd.
Notes to the Financial Statements
For the year ended September 30, 2009

3. Investments and accrued interest

	2009	2008
Credit Union Central of Manitoba		
Term and contract deposits	5,350,000	5,550,000
Shares	456,733	359,571
<hr/>		
Other investments	5,806,733	5,909,571
	231,284	699,126
<hr/>		
Accrued interest	61,763	76,882
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Total	6,099,780	6,685,579

Term and contract deposits consist of twenty-three term deposits bearing interest between 3.15 % and 5.20% maturing between 2009 and 2014.

4. Member loans receivable and accrued interest

Principal and allowance by loan type

					2009	2008
	<i>Principal Performing</i>	<i>Principal Impaired</i>	<i>Allowance Specific</i>	<i>Allowance Non-specific</i>	<i>Net carrying value</i>	<i>Net carrying value</i>
Consumer/personal	5,391,556	208,516	114,305	5,424	5,480,343	4,436,058
Commercial	4,520,689	412,426	5,638	7,724	4,919,753	4,814,596
Agricultural	7,604,894	696,907	24,471	4,961	8,272,369	7,454,897
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Accrued loan interest	151,481	-	-	-	151,481	179,615
	17,668,620	1,317,849	144,414	18,109	18,823,946	16,885,166
<hr/>						
Total allowance	162,523					

Loan allowance details

	2009	2008
Balance, beginning of year	158,957	141,854
Provision for impaired loans	9,000	18,000
<hr/>		
Less: accounts written off	167,957 (5,434)	159,854 (897)
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Balance, end of year	162,523	158,957

Ste. Rose Credit Union Ltd.
Notes to the Financial Statements
For the year ended September 30, 2009

5. Property and equipment

			2009	2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	49,700	-	49,700	9,700
Buildings	234,113	129,132	104,981	110,506
Computer equipment	20,184	9,855	10,329	14,298
Furniture and equipment	84,532	74,724	9,808	12,261
Security equipment	39,087	714	38,373	-
	427,616	214,425	213,191	146,765

Amortization expense recorded for the year ended September 30, 2009 totaled \$15,138 (2008 - \$15,314).

6. Line of credit

The Credit Union has an approved borrowing limit of 10% of member deposits. Borrowings are secured by an assignment, hypothecation, charge and pledge of all book debts and accounts to Credit Union Central of Manitoba and bear an annual interest rate based on the Chartered Banks overnight funds rate, with no fixed repayment date.

7. Member deposits and accrued interest

	2009	2008
Chequing	7,712,851	7,014,800
Savings	1,101,449	1,260,482
Term deposits	11,647,272	10,772,873
Registered plans	3,505,983	2,803,186
Accrued interest savings and deposits	328,170	313,938
	24,295,725	22,165,279

8. Pension plan

The Credit Union has a defined contribution pension plan for permanent full-time and permanent part-time employees. The contributions are held in RRSP's at Ste. Rose Credit Union. The Credit Union matches employee contributions at rates ranging from (5% to 10%) of the employee salary. The expense and payments for the year ended September 30, 2009 were \$18,010 (2008 - \$17,519). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.

9. Loan commitments

The Credit Union has authorized \$4,065,508 for line of credit loans, of which \$3,846,415 has not been advanced as of year end. In addition, \$2,114,933 in member loans have been authorized but have not been advanced as of the year end.

Ste. Rose Credit Union Ltd.
Notes to the Financial Statements
For the year ended September 30, 2009

10. Members' equity and capital requirement

Section 21(1) of the Regulations of the Credit Unions and Caisses Populaires Act requires that the Credit Union establish and maintain a level of capital as follows:

	2009	2008
Equity less than 5% of assets	5.79 %	5.59 %
Retained earnings not less than 3% of assets	4.31 %	4.19 %
Capital not less than 8% of the risk-weighted value of assets	10.43 %	10.14 %

The Credit Union provides financial services to its members and is subject to the capital requirements set out in the Credit Union Act of Manitoba (the Act). The Credit Union complied with these capital requirements for the year ended.

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.

The Credit Union is required under the Act to hold capital equal to or exceeding the greater of:

- 5% of total assets; and
- 8% of risk-weighted assets.

11. Member shares

Authorized:

- Unlimited number of Common shares, at an issue price of \$5.
- Unlimited number of Surplus shares, at an issue price of \$1

Issued:

	2009	2008
1,691 Common shares (2008 - 1,682)	8,455	8,410
325,403 Surplus shares (2008 - 226,209)	325,403	226,209
Provision for issuance of surplus shares	50,000	100,000
	383,858	334,619

Each member of the Credit Union has one vote regardless of the number of shares held.

11. Member shares *(Continued from previous page)*

Surplus shares are established as a means of returning excess earnings to the members and at the same time increasing the Credit Union's equity base. The Articles of Incorporation for Ste. Rose Credit Union Ltd. disclose the conditions concerning the Surplus shares.

During the year, the Credit Union issued 123 and redeemed 114 Common shares, and issued 100,000 and redeemed 806 Surplus shares.

12. Related party transactions

Directors, management and staff

Transactions with directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union.

Payments made for honoraria and per diems amounted to \$4,260 (2008 - \$6,135), reimbursement of expenses and meeting, training and conference costs amounted to \$5,383 (2008 - \$7,764) for the year ended September 30, 2009.

Loans to directors and staff as at September 30, 2009 amounted to 5.80% (2008 - 7.85%) of assets of the Credit Union.

Credit Union Central of Manitoba

The Credit Union is a member of the Credit Union Central of Manitoba, which acts as a depository for surplus funds from, and makes loans to credit unions.

Interest earned on investments during the year ended September 30, 2009 amounted to \$287,274 (2008 - \$258,810).

Interest and charges paid on borrowings during the year ended September 30, 2009 was \$1,647 (2008 - \$12,584).

Payments made for affiliation dues, liquidity assessment, research and development assessment, cheque clearing and data processing for the year ended September 30, 2009 amounted to \$114,010 (2008 - \$102,046).

The Credit Union Deposit Guarantee Corporation

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

The payments made to the Corporation during the year ended September 30, 2009 represent the net statutory annual assessment in the amount of \$18,730 (2008 - \$24,055).

Tele-Pop Inc.

Tele-Pop Inc. is a subsidiary of La Federation des Caisses Populaires du Manitoba Inc. The payments made to Tele-Pop Inc. during the year ended September 30, 2009 represents computer services in the amount of \$80,892 (2008 - \$81,821).

13. Patronage refund

The Board of Directors have authorized a \$50,000 patronage refund, which will be allocated to purchase surplus shares based on participation for the year ended September 30, 2009.

The patronage refund of \$50,000 has been reflected in the current year's income statement with the related tax saving of \$6,000 reflected in the current year's provision for income taxes.

14. Fair value of financial instruments

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 stated value for cash, short term investments, other assets, other liabilities, accrued income or expense and certain other assets and 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.
- c) for variable interest rate loans that are frequently re-priced, stated 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 deposits with no specified maturity term is its stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.

Estimated fair values of financial instruments are summarized as follows:

	<i>(In thousands)</i>			<i>2008</i>		
	<i>Fair value</i>	<i>Book value</i>	<i>Fair value over book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value over book value</i>
Financial assets						
Funds on hand and on deposit	793	793	-	235	235	-
Investments and accrued interest	6,357	6,100	257	6,746	6,686	60
Member loans receivable and accrued interest	19,230	18,824	406	17,017	16,885	132
	26,380	25,717	663	23,998	23,806	192
Financial liabilities						
Member deposits and accrued interest	24,715	24,296	419	22,295	22,165	130
Accounts payable and accrued liabilities	163	163	-	116	116	-
	24,878	24,459	419	22,411	22,281	130
	1,502	1,258	244	1,587	1,525	62

15. Interest rate sensitivity

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. In seeking to minimize the risks from interest rate fluctuations, the Credit Union manages exposure through matching of financial assets and liabilities. The Credit Union is exposed to interest rate risk primarily relating to the following financial assets and liabilities. The table summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual maturity dates.

Financial instruments exposed to interest rate risk:

	Assets	Average yield %	Liabilities & members' equity	Average yield %	2009 Differential
Interest sensitive:					
Variable to 6 months	8,597,600	5.52%	5,673,400	3.39%	(2,924,200)
6 months to 1 year	1,318,400	5.59%	5,427,400	3.63%	4,109,000
1 to 2 years	1,200,700	6.50%	2,126,700	4.48%	926,000
2 to 3 years	4,067,600	6.57%	1,806,700	4.59%	(2,260,900)
3 to 4 years	3,809,500	6.15%	1,092,900	4.11%	(2,716,600)
Over 4 years	360,200	6.00%	4,000	3.00%	(356,200)
Non-interest bearing items	6,608,112		9,831,012		(3,222,900)
	25,962,112		25,962,112		

The prior year information is as follows:

Variable rate assets totalled \$6,688,000 while liabilities totalled \$1,348,000 producing a differential of \$5,340,000. Assets maturing in less than one year totalled \$7,616,800 while liabilities totalled \$7,651,300 producing a differential of \$(34,500). Assets maturing in more than one year totalled \$9,246,000 while liabilities totalled \$5,835,100 producing a differential of \$3,410,900. Non-interest rate sensitive assets totalled \$432,500 while liabilities totalled \$9,148,900 producing a differential of \$(8,716,400).

16. Nature and extent of risk arising from financial instruments

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how the Credit Union manages the exposure to them.

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counter party 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 2 for additional information on the potential loss exposure related to the Credit Union's loan portfolio.

Objectives, policies and processes

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

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.

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.

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

Before tax impact of:	1% increase in interest rates: \$5,706
	1% decrease in interest rates: (\$5,706)

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.

17. Comparative figures

Certain comparative figures have been reclassified to conform with the current year presentation. The prior year figures were audited by another accountant.

18. Subsequent events

Ste. Rose Credit Union Ltd. ("Ste. Rose") and La Caisse Populaire de Laurier Limitee ("Laurier") signed an amalgamation agreement and will carry on operations as Prairie Mountain Credit Union Ltd. ("Prairie Mountain") as of October 1, 2009. Upon amalgamation each issued and outstanding common and surplus share, of Ste. Rose and Laurier, will be converted into an equivalent share of Prairie Mountain. The shares of Prairie Mountain carry substantially the same rights and restrictions as the shares of the former Ste. Rose and Laurier Credit Unions.

The transactions will be accounted for by the pooling of interest method as prescribed by CICA 1580, "Business Combinations".