



CONSOLIDATED FINANCIAL STATEMENTS

Credit Union Atlantic Limited
December 31, 2008

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AUDITORS' REPORT

Grant Thornton LLP
Suite 1100
2000 Barrington Street
Halifax, NS
B3J 3K1

T (902) 421-1734
F (902) 420-1068
www.GrantThornton.ca

To the members of Credit Union Atlantic Limited

We have audited the consolidated balance sheet of Credit Union Atlantic Limited (the "Credit Union") at December 31, 2008 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Nova Scotia
February 23, 2009

Chartered Accountants

CREDIT UNION ATLANTIC LIMITED
CONSOLIDATED STATEMENTS OF EARNINGS
AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31	2008	2007
Financial revenue		
Loan interest	\$ 13,349,266	\$ 12,035,144
Investment income	<u>882,241</u>	<u>788,227</u>
	<u>14,231,507</u>	<u>12,823,371</u>
Financial expense		
Distribution to members		
Interest on deposits	5,667,182	4,978,257
Loan interest	82,402	119,491
Finders fees	<u>176,861</u>	<u>159,451</u>
	<u>5,926,445</u>	<u>5,257,199</u>
Gross financial margin	<u>8,305,062</u>	<u>7,566,172</u>
Other income		
Service charges	1,472,957	1,281,542
Commissions and other revenue	<u>1,830,214</u>	<u>1,484,614</u>
	<u>3,303,171</u>	<u>2,766,156</u>
Gross margin	<u>11,608,233</u>	<u>10,332,328</u>
Expenses		
General business	2,884,686	2,570,193
Depreciation and amortization	440,541	554,784
Members' security	363,606	291,603
Occupancy	1,481,582	1,294,002
Provision for impaired loans (note 6)	647,735	464,750
Personnel	<u>4,757,075</u>	<u>4,052,935</u>
	<u>10,575,225</u>	<u>9,228,267</u>
Earnings before other items and income taxes	<u>1,033,008</u>	<u>1,104,061</u>
Other items		
Customer-owner rebate	<u>153,500</u>	<u>200,000</u>
Earnings before income taxes	879,508	904,061
Income taxes (note 18)	<u>158,739</u>	<u>214,710</u>
Net earnings	\$ <u>720,769</u>	\$ <u>689,351</u>
Retained earnings, beginning of year	\$ 5,017,551	\$ 4,576,121
Net earnings	720,769	689,351
Dividends on Class A shares, net of incomes taxes of \$82,005 (2007 - \$101,855)	<u>(266,399)</u>	<u>(247,921)</u>
Retained earnings, end of year	\$ <u>5,471,921</u>	\$ <u>5,017,551</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

CREDIT UNION ATLANTIC LIMITED CONSOLIDATED BALANCE SHEET

DECEMBER 31	2008	2007
Assets		
Cash and cash equivalents (note 5)	\$ 30,503,091	\$ 18,112,636
Members' loans (note 6)	231,657,056	192,000,027
Goodwill, net of accumulated amortization of \$497,386 (2007 - \$469,232)	112,614	140,768
Long term investments (note 7)	5,787,932	5,096,827
Other assets (note 8)	805,143	566,258
Income taxes receivable	-	5,551
Property and equipment (note 9)	2,600,006	1,467,365
Future income taxes (note 18)	<u>259,781</u>	<u>186,473</u>
	\$ <u>271,725,623</u>	\$ <u>217,575,905</u>
Liabilities		
Income taxes payable	\$ 104,071	\$ -
Payables and accruals	1,304,129	975,468
Members' deposits (note 10)	<u>254,772,449</u>	<u>204,266,020</u>
	<u>256,180,649</u>	<u>205,241,488</u>
Members' equity (note 12)		
Members' shares (note 13)	7,368,691	7,316,866
Contributed surplus (note 4)	2,704,362	-
Retained earnings	<u>5,471,921</u>	<u>5,017,551</u>
	<u>15,544,974</u>	<u>12,334,417</u>
	\$ <u>271,725,623</u>	\$ <u>217,575,905</u>

Commitments (note 14)

Approved by the Board of Directors


DIRECTOR

DIRECTOR

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

CREDIT UNION ATLANTIC LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31

2008

2007

Increase in cash and cash equivalents

Operating

Net earnings	\$ 720,769	\$ 689,351
Changes in non-cash items		
Allowance for impaired loans	285,609	101,200
Future income taxes	(53,855)	50,134
Depreciation and amortization	440,541	554,784
Other assets	(166,131)	(60,442)
Income tax receivable	135,678	133,139
Payables and accruals	<u>174,471</u>	<u>(289,714)</u>
	<u>1,537,082</u>	<u>1,178,452</u>

Financing

Class A share dividends, net of income tax recovery	(266,399)	(247,921)
Net (decrease) increase in Members' shares	(21,485)	7,021
Net increase in Members' deposits	20,952,129	15,243,006
Issue (redemption) of Class A shares	<u>60,900</u>	<u>(60,900)</u>
	<u>20,725,145</u>	<u>14,941,206</u>

Investing

Cash resources acquired upon business combination	9,233,323	-
Net increase in Members' loans	(19,307,332)	(17,319,664)
Net decrease in long term investments	1,088,589	-
Net purchases of property and equipment	<u>(886,352)</u>	<u>(95,912)</u>
	<u>(9,871,772)</u>	<u>(17,415,576)</u>

Net increase (decrease) in cash and cash equivalents 12,390,455 (1,295,918)

Cash and cash equivalents

Beginning of year	<u>18,112,636</u>	<u>19,408,554</u>
End of year	\$ <u>30,503,091</u>	\$ <u>18,112,636</u>

Supplementary information

Interest paid	\$ <u>5,504,991</u>	\$ <u>5,445,036</u>
Income taxes paid (received)	\$ <u>24,119</u>	\$ <u>(73,888)</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

CREDIT UNION ATLANTIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

1 GOVERNING LEGISLATION AND OPERATIONS

The Credit Union is incorporated under the Nova Scotia Companies Act. The operation of the Credit Union is subject to the Nova Scotia Credit Union Act.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting practices.

CONSOLIDATION

The consolidated financial statements include the accounts of Credit Union Atlantic Limited and its wholly owned subsidiaries Credit Union Atlantic Financial Services Incorporated, Wellspring Financial Management Limited and Federal Savings Enterprises Limited.

Significant inter-company transactions and balances have been eliminated from the consolidated accounts.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, balances with Credit Union Central of Nova Scotia and other financial institutions and accrued interest.

MEMBERS' LOANS AND FORECLOSED ASSETS

Loans are carried at amortized cost plus accrued interest, less allowances for impairment for probable losses on ultimate realization of the loan portfolio. Loans considered uncollectible are written off.

Real estate held for resale is carried at the lower of the amortized cost of the loan or mortgages foreclosed, adjusted for revenues received and cost incurred subsequent to foreclosure and the estimated net proceeds from the sale of assets.

ALLOWANCE FOR IMPAIRED LOANS

Loans are considered impaired when there has been a deterioration in credit quality to the extent the Credit Union no longer has reasonable assurance of timely collection of the full amount of principal and interest. Deterioration is determined considering the financial condition of the borrower, payment history and security pledged.

The allowance consists of a portion directly attributed to individually identified loans and a portion that is not directly attributable to any loan or group of loans. The general portion of the allowance is an estimate based on historical write-off experience.

REVENUE RECOGNITION

Interest accrued on members' loans is recognized in earnings except when the loan is classified as uncollectible. Loans are classified as impaired at the earliest of when, in the opinion of management, there is reasonable doubt as to the collectibility of interest, or when interest or principal is contractually past due ninety days, unless the loan or mortgage is both well secured and in the process of collection. Interest received on an impaired loan is recognized in earnings only if there is no longer doubt as to the collectibility of principal.

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CUSTOMER-OWNER REBATES

The Credit Union's policy is to accrue patronage rebates when approved by the Board of Directors. These rebates are recorded in the statement of earnings in the year in which they relate.

INCOME TAXES

The Credit Union follows the liability method of accounting for income taxes.

Under this method, future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

MEMBERS' SHARES (NOTE 13)

Class A shares, surplus shares, and members' shares are classified as equity, and represent a residual interest in the equity of the Credit Union. They are not covered by deposit insurance.

INVESTMENTS

Investments in equity and debt investments that do not have a quoted market price in an active market are measured at cost. Investment income is recognized on an accrual basis. Gains and losses are included in investment income in the year realized.

PROPERTY AND EQUIPMENT

Capital assets are stated at cost and amortized using the diminishing-balance and straight-line methods at the following rates:

Building	5% DB
Equipment and furniture	20% - 50% SL/DB
Leasehold improvements	Lease term SL

Goodwill is amortized on a straight-line basis over a 15-year period.

USE OF ESTIMATES

Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management does not anticipate that actual results will differ materially from those estimates.

FOREIGN EXCHANGE

Monetary assets and liabilities denominated in foreign currencies (US dollars, pound sterling and euros) are translated into Canadian dollars at rates prevailing at the month end date. Income and expenses are translated at the exchange rates in effect on the date of the transaction. Exchange gains and losses arising on the translation of monetary items are included in income for the year.

MORTGAGES HELD UNDER ADMINISTRATION

The Credit Union, under a Mortgage Origination Program, has the ability to refer certain mortgages to a third party. No gain or loss on the initial sale has been recorded by the Credit Union as a result of these transactions. Fees earned by the Credit Union to service these mortgages are recognized as the related services are provided and reported in earnings as other income. The balance of mortgages under administration has been disclosed in note 6.

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Credit Union adopted the CICA Handbook Standard 1535 "Capital Disclosure". Under this Standard, the Credit Union is required to disclose its objectives, policies and procedures for managing capital, as well as its compliance with any externally imposed capital requirements. As well, the Credit Union adopted CICA Standard 3862 "Financial Instruments – Disclosures and Section 3863 "Financial Instruments Presentation". These two new Standards provide enhanced disclosure for the Credit Union's risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. There is no affect to the comparative financial statements as a result of adopting the new Standards (notes 3 and 12).

FINANCIAL ASSETS AND FINANCIAL LIABILITIES (FINANCIAL INSTRUMENTS)

The credit union classifies its financial assets and financial liabilities according to their characteristics and management's intentions related thereto for the purposes of ongoing measurements. Financial assets and financial liabilities are initially recognized at fair value regardless of classification choice and are subsequently accounted for based on the classifications described below.

Financial assets are classified as either held-for-trading, available-for-sale, held-to-maturity or loans and receivables. Financial liabilities are classified as either held for trading or other financial liability. All financial instruments, including any derivatives, are subsequently measured on the balance sheet at fair value except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at amortized cost.

Changes in fair values of financial assets and financial liabilities classified as held-for-trading are recognized in net earnings, while changes in fair value of available-for-sale financial assets are recognized in other comprehensive income until the financial asset is disposed or becomes impaired.

Accumulated other comprehensive income is reported on the balance sheet as a separate component of Members' Equity (net of tax) and includes any unrealized gains and losses on available-for-sale financial assets. The Credit Union has classified its equity investments as available-for-sale. However, because there is no active market for these investments, the Credit Union has not recorded any comprehensive income as a result of these.

The Credit Union has classified its financial instruments and liabilities as follows:

<u>FINANCIAL ASSET / LIABILITY</u>	<u>CLASSIFICATION</u>	<u>SUBSEQUENT MEASUREMENT</u>
Cash and cash equivalents, on hand	Held-for-trading	Fair value
Deposits with financial institutions	Loans and receivable	Amortized cost
Long term investments		
shares	Available-for-sale	Fair value
debentures	Held-to-maturity	Amortized cost
Members' loans (inc. accrued interest) and accounts receivable	Loans and receivables	Amortized cost
Members' deposits (inc. accrued interest borrowings and payables	Other financial liabilities	Amortized cost

Transactions costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset or liability on initial recognition and amortized using the effective interest method.

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE BENEFIT OBLIGATIONS

The Credit Union records annually, the estimated liabilities for pension and other benefit obligations, which are payable to its employees in subsequent years under the Credit Union's policy.

The defined benefit plan only applies to employees who were employed by Halifax Civic Credit Union as of June 30, 2008 that joined CUA as a result of an amalgamation as described in note 4. Other CUA staff and all new hires are required to join the CUA defined contribution pension plan.

The projected unit credit actuarial method and management's best estimate of the expected plan investment performance, salary escalation and retirement ages of employees is used to determine pension costs, liabilities and other pension information for the defined benefit plan. Under the projected unit credit actuarial method, prorated on service, an equal portion of the total estimated future benefit, with salary projection, is attributed to each year of service. The expected return on plan assets is based on the fair value of plan assets.

Pension expense, for the defined benefit plan, includes the cost of pension benefits earned during the period, the expected return on plan assets, interest cost on pension obligations, amortization of past service costs, amortization of the initial plan obligation and amortization of the net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of the plan assets. The amortization period covers the expected average remaining service lives of active employees covered by the plan.

Pension expenses for the defined contribution pension plan include the required employer contributions.

FUTURE ACCOUNTING CHANGES

In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles (GAAP) will be replaced by International Financial Reporting Standards (IFRS) for all publicly accountable enterprises for fiscal years beginning on or after January 1, 2011 (the Credit Union's December 31, 2011 fiscal year end), with comparative balances restated under IFRS. Credit unions fall within the definition of publicly accountable enterprises. The Credit Union is currently assessing the potential impact of the transition to IFRS on the financial statements, disclosures and broader financial reporting systems and controls.

3 RISK MANAGEMENT

It is the policy of the Credit Union to manage significant risks efficiently and effectively through an Enterprise Risk Management Process which includes a comprehensive infrastructure of policies, procedures, methods, oversight and independent review designed to reduce the significant risks and to manage those risks within an appropriate threshold. The Board of Directors is provided with timely, relevant, accurate and complete reports on the management of significant risks. Significant risks managed by the Credit Union include liquidity, credit and market risks.

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

3 RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK

Liquid risk is defined as the risk that the Credit Union will not be able to pay obligations when they fall due or not be able to repay depositors when funds are withdrawn. To mitigate this risk, the Credit Union Act requires that the Credit Union maintain, at all times, liquidity that is adequate in relation to the business carried on. The Credit Union is required to maintain liquidity levels as defined in Regulation 19 of the Act, which include maintaining a minimum of 10% of total deposits and borrowings in deposit and eligible investment accounts. The Credit Union calculates its liquidity position on a monthly basis to assess compliance with statutory and mandatory liquidity requirements. These balances are communicated to the Board of Directors regularly throughout the year. The Credit Union manages liquidity by continuously monitoring actual daily cash flows, monitoring the maturity dates of financial assets and financial liabilities, and maintaining adequate cash reserves.

CREDIT RISK

Credit risk is defined as the risk of financial loss to the Credit Union as the result of a member failing to meet their obligations in accordance with contractual terms.

Providing credit facilities to qualified members is one of the Credit Union's primary sources of earnings and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the member's ability to repay principal and interest over the term of the facility, which is determined by following Board approved policies and procedures, which includes assessing the member's credit history, character, collateral and debt servicing capacity. In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. In addition, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

Overdue loan accounts, or lending delinquency, is closely monitored and reported to senior management on a timely and frequent basis to ensure and that all allowances for potential loan losses are adequately provided for and written-off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as prescribed by the Credit Union's lending agreements.

The Credit Union's loan portfolio is focused in two main areas: consumer and commercial loans and mortgages, the latter to small and mid size companies. Commercial loans to larger companies are available through a syndication process with other Credit Unions in order to appropriately mitigate the Credit Union's credit risk. Consumer mortgages are made available on a conventional basis up to eighty percent of the appraised value of a residential property with all mortgages in excess of that amount being insured through a third party, for example Canada Mortgage and Housing Corporation. Other credit facilities provided include personal overdrafts, and Master Card accounts that have no recourse to the Credit Union.

The Credit Union maintains both specific and general allowances for credit losses. Specific allowances are established on an account by account basis using management's knowledge of the account and prevailing conditions. In addition, accounts delinquent greater than ninety days are included in the specific allowance. General allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans and includes factors such as market conditions, concentration of credit risk for member accounts and the general state of the economy. Management regularly monitors the Credit Union's credit risk and reports to the Board of Directors on a quarterly basis.

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

3 RISK MANAGEMENT (CONTINUED)

MARKET RISK

Market risk is defined as the risk that the Credit Union will not have the ability to meet its business objectives and will be adversely affected by volatility in market rates, including interest rates and foreign exchange rates.

Interest rate risk is the risk that a movement in interest rates will have a material impact on the financial position of the Credit Union. The Credit Union manages and controls interest rate risk primarily by managing asset and liability maturities. The Credit Union measures interest rate risk on a quarterly basis and reports the results to the Board of Directors and the Credit Union Deposit and Insurance Company (CUDIC).

Foreign currency risk exposure results if financial assets or financial liabilities are denominated in a currency other than Canadian dollars. The Credit Union holds US dollars, pounds sterling and euros. The pound sterling and euros are held in cash for trading purposes. The balances held are low and the currency risk is low. The Credit Union follows a policy of holding US dollars in an amount slightly below the US dollar deposit account levels. These levels are monitored and recorded daily. The buy and sell rates are also monitored and recorded daily. Excess US cash holdings are converted into Canadian funds.

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

4 BUSINESS COMBINATION DURING 2008

On July 1, 2008, Credit Union Atlantic completed an amalgamation with Halifax Civic Credit Union whereby all outstanding assets and liabilities of the two entities were combined. There was no cash consideration exchanged in this transaction. The transaction was accounted for in accordance with the prescribed requirements for business combinations of cooperative enterprises using the purchase method of accounting. The statement of earnings for 2008 includes the operations of Halifax Civic Credit Union since the date of amalgamation.

Following this method of accounting for business combinations, the net assets of Halifax Civic Credit Union are recorded as being acquired by Credit Union Atlantic Limited at fair values as at July 1, 2008. The fair value of the assets and liabilities were determined with reference to current market interest rates for similar financial instruments, third party appraisals for certain capital assets and valuation techniques that follow generally accepted accounting principles. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed:

<u>(THOUSANDS OF DOLLARS)</u>	
Cash resources and investments	\$ 9,233
Members' loans	20,635
Long term investments	1,780
Receivables	40
Property and equipment	659
Prepays	59
Future income taxes	19
TOTAL ASSETS	\$ 32,425
Payables and accruals	\$ 133
Pension obligation	21
Members' deposits	29,555
Members' share capital	12
Total liabilities and equity	\$ 29,721
FAIR VALUE OF NET ASSETS ACQUIRED	\$ 2,704

The fair value of the net assets acquired has been recorded as contributed surplus in members' equity.

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

5 CASH AND CASH EQUIVALENTS	2008	2007
Cash on hand and in current accounts	\$ 3,530,526	\$ 3,270,103
Deposits with financial institutions:		
Credit Union Central of Nova Scotia liquidity deposits	24,334,216	14,297,213
Other	<u>2,638,349</u>	<u>545,320</u>
	\$ <u>30,503,091</u>	\$ <u>18,112,636</u>

Required liquidity as defined in Regulation 19 is \$22,611,531 (2007 - \$18,478,842).
Actual liquidity at December 31, 2008 is \$26,301,385 (2007 - \$20,243,650).

6 MEMBERS' LOANS

	<u>TOTAL LOANS</u>	<u>IMPAIRED LOANS (INCLUDED IN TOTAL LOANS)</u>	<u>TOTAL ALLOWANCE</u>	<u>SPECIFIC ALLOWANCE (INCLUDED IN TOTAL ALLOWANCE)</u>	<u>NET LOANS</u>
2008					
Consumer loans	\$ 67,762,016	\$ 535,813	\$ 478,353	\$ 291,005	\$ 67,283,663
Consumer mortgages	132,311,711	712,275	355,834	-	131,955,877
Commercial loans and mortgages	31,443,261	184,218	240,377	64,830	31,202,884
Real estate held for resale	211,334	-	-	-	211,334
Accrued interest	633,903	-	-	-	633,903
Deferred fees	369,395	-	-	-	369,395
	\$ <u>232,731,620</u>	\$ <u>1,432,306</u>	\$ <u>1,074,564</u>	\$ <u>355,835</u>	\$ <u>231,657,056</u>
2007					
Consumer loans	\$ 53,617,966	\$ 202,019	\$ 499,573	\$ 155,959	\$ 53,118,393
Consumer mortgages	111,138,442	366,171	153,811	-	110,984,631
Commercial loans and mortgages	26,943,513	120,527	135,571	17,996	26,807,942
Real estate held for resale	131,770	131,484	-	-	131,770
Accrued interest	584,675	-	-	-	584,675
Deferred fees	372,616	-	-	-	372,616
	\$ <u>192,788,982</u>	\$ <u>820,201</u>	\$ <u>788,955</u>	\$ <u>173,955</u>	\$ <u>192,000,027</u>

In addition to members' loans noted above, the Credit Union administers mortgages in the amount of \$6,435,884 (2007 - \$8,392,057).

CREDIT UNION ATLANTIC LIMITED
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2008

6 MEMBERS' LOANS (CONTINUED)

The following is an analysis of loans in arrears based on the age of repayments outstanding:

	2008	2007
31 to 60 days	\$ 1,237,237	\$ 1,000,361
61 to 90 days	371,374	49,469
91 to 180 days	260,333	407,757
Over 180 days	<u>209,437</u>	<u>82,648</u>
	\$ <u>2,078,381</u>	\$ <u>1,540,235</u>

CONTINUITY OF ALLOWANCE FOR IMPAIRED LOANS

	2008	2007
Allowance, beginning of year	\$ 788,955	\$ 687,755
Addition to allowance upon amalgamation with Halifax Civic Credit Union Limited	103,411	-
Provision for impaired loans	647,735	464,750
Recovery of loans written-off	91,128	97,991
Interest received on impaired loans	12,239	7,923
Write offs	<u>(568,904)</u>	<u>(469,464)</u>
Allowance, end of year	\$ <u>1,074,564</u>	\$ <u>788,955</u>

7 LONG TERM INVESTMENTS

	2008	2007
Shares		
Credit Union Central of Nova Scotia	\$ 3,186,000	\$ 2,760,200
Credit Union Mutual Insurance Services	11,760	5,875
League Savings and Mortgage Company	1,370,381	1,370,381
League Data Limited	100,230	90,810
Other	<u>2,561</u>	<u>2,561</u>
	4,670,932	4,229,827
Debenture		
League Savings and Mortgage Company, maturing December 31, 2024	<u>1,117,000</u>	<u>867,000</u>
	\$ <u>5,787,932</u>	\$ <u>5,096,827</u>

Long term investments in shares in the Credit Union System (the "System") and others have been classified as available-for-sale and are required to be measured at fair value with any changes in fair value recorded in other comprehensive income. The Credit Union has determined the fair value of these investments is not readily available and therefore measures these investments at cost with no adjustments to other comprehensive income.

The Credit Union's investment in the System debenture has been classified as held-to-maturity and is required to be measured at amortized cost.

CREDIT UNION ATLANTIC LIMITED
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2008

8 OTHER ASSETS	2008	2007
Accounts receivable	\$ 614,639	\$ 253,802
Prepaid expenses	<u>190,504</u>	<u>312,456</u>
	\$ 805,143	\$ 566,258

9 PROPERTY AND EQUIPMENT	2008		2007	
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Land	\$ 201,908	\$ -	\$ 201,908	\$ -
Building	498,962	120,032	378,930	9,453
Furniture and equipment	7,589,668	6,548,153	1,041,515	759,535
Leasehold improvements	<u>2,265,669</u>	<u>1,288,016</u>	<u>977,653</u>	<u>698,377</u>
	\$ 10,556,207	\$ 7,956,201	\$ 2,600,006	\$ 1,467,365

10 MEMBERS' DEPOSITS	2008	2007
Chequing and demand deposits	\$ 103,725,107	\$ 76,632,128
Terms, RRSPs, RRIFFs	147,261,869	124,075,029
Members' saving	1,463,251	1,380,290
Accrued deposit interest	<u>2,322,222</u>	<u>2,178,573</u>
	\$ 254,772,449	\$ 204,266,020

Transactions costs associated with members' registered and non-registered deposits are deferred and included in the amortized cost of the related deposit account in the amount of \$157,834 (2007 - \$87,211).

11 CREDIT FACILITY

The Credit Union has a \$15,000,000 line of credit with Credit Union Central of Nova Scotia. As at December 31, 2008, the Credit Union had drawn \$Nil (2007 - \$4,242,647) against the line of credit. This amount has been netted against the Credit Union's liquidity deposits (note 5). The line of credit bears interest at the credit union prime rate. As security, the Credit Union has provided an assignment of book debts.

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12 CAPITAL REQUIREMENTS

The Credit Union's plan to manage equity is designed to establish a strong base for future growth, the payment of dividends on the Class A special equity shares, as well as provide a cushion in the event of market volatility. Members' equity consists of members' shares, surplus shares, Class A special equity shares, and retained earnings less dividends on the Class A shares net of income taxes. In accordance with the Credit Union Act, the Credit Union shall establish and maintain a level of equity that is not less than 5% of its assets. As at December 31, 2008, the Credit Union's equity was 5.72% (2007 – 5.67%) of its assets. Members' equity ratios are monitored regularly and reported to the Board monthly. The Credit Union equity ratios have been in compliance with the regulatory requirements throughout the year.

13 MEMBERS' SHARES

AUTHORIZED:

Class A special equity shares ("Class A shares")

Limited Class A non-voting (except as provided in Section 39 of the Act), non-cumulative special equity shares, having a par value of \$100 each, redeemable and retractable at their par value. The Class A shares are available only to the holders of the common and surplus shares ("member shares").

Member shares

Unlimited redeemable, voting equity shares with a par value of \$5. Each member of the Credit Union is required to hold one member share. Each member over the age of nineteen years is entitled to one vote.

Surplus shares

Unlimited redeemable, non-voting equity shares with a par value of \$1.

	2008	2007
ISSUED AND OUTSTANDING:		
70,000 (2007 – 69,391) Class A shares	\$ 7,000,000	\$ 6,939,100
14,673 (2007 – 105,404) member shares	73,368	527,023
444,580 (2007 – nil) surplus shares	<u>444,580</u>	<u>-</u>
	7,517,948	7,466,123
Less: Share issue costs	<u>(149,257)</u>	<u>(149,257)</u>
	\$ <u>7,368,691</u>	\$ <u>7,316,866</u>

Class A shares

The Credit Union successfully completed its Class A Special Equity Share Offering made available to its Members on December 1, 2005, and issued 70,000 Class A shares at an issue price of \$100 per share, for total proceeds of \$7,000,000. The costs of issuing these shares have been recorded as a capital transaction and deducted from members' equity in the amount of \$161,632 less an amount of \$12,375 which has been eliminated upon consolidation.

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13 MEMBERS' SHARES (CONTINUED)

Holders of the Class A shares shall be entitled to receive, when, as, and if declared by the Board of the Directors (the "Board") of the Credit Union, non-cumulative dividends at a rate approved by the Board, provided that the annual dividend rate, if declared, shall not be less than the greater of 5% or 125 basis points above the Credit Union's then current five year GIC rate calculated on the par value of the preferred shares. The Class A shares rank senior and superior to the member shares with respect to return of capital.

The Class A shares may be redeemed at the option of the member once a period of not less than five years following their issuance date has passed, by giving ten days written notice and payment by the Credit Union shall be within thirty days of such notice. The Class A shares are also immediately redeemed upon the death of a shareholder. Subject to the provisions of the Act, the Credit Union may upon giving thirty days written notice, redeem the whole or any part of the Class A shares at any time. During the year, there was an issuance of 609 Class A shares for consideration of \$60,900.

Members' shares

Member shares may be withdrawn at any time by giving ninety days written notice and payment by the Credit Union shall be within thirty days of such notice. During the year, 1,815 member shares were redeemed for consideration of \$9,075. During the year, 88,916 shares were transferred to surplus shares for a total of \$444,580.

Surplus shares

Surplus shares may be withdrawn at any time by giving ninety days written notice and payment by the Credit Union shall be within thirty days of such notice. As part of the amalgamation during the year, the capital structure was amended and 88,916 member shares were exchanged for 88,916 surplus shares of equal par value of \$444,580.

14 COMMITMENTS

LEASE AND OTHER OBLIGATIONS

The approximate minimum annual payments for the Credit Union's leased facilities and other contractual obligations of the Credit Union over the next five years in aggregate are as follows:

2009	\$ 1,136,728
2010	1,114,439
2011	1,115,669
2012	1,002,770
2013	892,760

15 RELATED PARTY TRANSACTIONS

At year end, members of the Board of Directors, Credit Committee, Audit Committee, management, employees and their spouses had loans owing to the Credit Union totalling \$7,439,569 (2007 - \$4,681,366). At year end, members of the Board of Directors, Credit Committee, Audit Committee, management, employees and their spouses had deposits with the Credit Union totalling \$2,318,844 (2007 - \$2,324,309).

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16 FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of the Credit Union's financial instruments are set out below. Fair value represents the amount at which a financial investment could be exchanged in an arm's length transaction between willing parties under no compulsion to act. No fair values have been determined for property and equipment or any other asset that is not a financial instrument. The Credit Union has excluded items which are considered short term in nature as their book value approximate fair value.

	2008		2007	
	BOOK VALUE	ESTIMATED FAIR VALUE	BOOK VALUE	ESTIMATED FAIR VALUE
Financial assets				
Members' loans	\$ 231,657,056	\$ 231,373,379	\$ 192,000,027	\$ 192,321,837
Financial liabilities				
Members' deposits	254,772,449	254,953,873	204,266,020	204,283,340

The differences between the book and fair values of the Credit Union's loans and deposits are due primarily to changes in interest rates. The carrying value (or amortized cost) of the Credit Union's financial instruments are not adjusted to reflect increases or decreases in fair value as a result of interest rate changes, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

17 INTEREST RATE SENSITIVITY

The following table sets out the scheduled maturities or repricing dates, whichever occurs earlier, of the financial assets and liabilities as at December 31, 2008, together with the weighted average interest rates, subject to interest rate fluctuations.

(IN THOUSANDS OF DOLLARS)

2008	WITHIN 1 YEAR	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	NON INTEREST SENSITIVE	TOTAL	AVERAGE
									RATE
Financial assets									
Cash and cash equivalents	\$ 25,334	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,169	\$ 30,503	2.00%
Members' loans	47,465	33,766	35,810	47,934	51,630	15,123	(71)	231,657	5.59%
	<u>\$ 72,799</u>	<u>\$ 33,766</u>	<u>\$ 35,810</u>	<u>\$ 47,934</u>	<u>\$ 51,630</u>	<u>\$ 15,123</u>	<u>\$ 5,098</u>	<u>\$ 262,160</u>	
Financial liabilities									
Members' deposits	\$ 117,880	\$ 23,594	\$ 19,791	\$ 7,418	\$ 7,977	\$ -	\$ 78,112	\$ 254,772	3.27%
2007	WITHIN 1 YEAR	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	NON INTEREST SENSITIVE	TOTAL	AVERAGE RATE
Financial assets									
Cash and cash equivalents	\$ 14,297	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,815	\$ 18,112	3.92%
Members' loans	33,853	36,663	27,023	38,047	52,901	3,344	169	192,000	7.35%
	<u>\$ 48,150</u>	<u>\$ 36,663</u>	<u>\$ 27,023</u>	<u>\$ 38,047</u>	<u>\$ 52,901</u>	<u>\$ 3,344</u>	<u>\$ 3,984</u>	<u>\$ 210,112</u>	
Financial liabilities									
Members' deposits	\$ 90,038	\$ 25,861	\$ 11,906	\$ 11,629	\$ 4,973	\$ -	\$ 59,859	\$ 204,266	3.67%

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18 INCOME TAXES

The components of the income tax expense (recovery) are as follows:

	2008	2007
Current income taxes	\$ 200,449	\$ 200,575
Future income taxes	<u>(41,710)</u>	<u>14,135</u>
Income taxes	\$ <u>158,739</u>	\$ <u>214,710</u>

The components of the future income tax asset are as follows:

FUTURE INCOME TAX ASSETS

Property and equipment	\$ 14,549	\$ 22,544
Allowance for impaired loans	203,665	148,613
Pension obligation	13,527	-
Other	<u>28,040</u>	<u>15,316</u>
Total future income tax	\$ <u>259,781</u>	\$ <u>186,473</u>

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before taxes. This difference results from the following:

YEAR ENDED DECEMBER 31	2008	2007
Income before income taxes	\$ 879,508	\$ 904,061
Combined Canadian basic federal and provincial income tax rate	<u>44.00 %</u>	<u>45.12 %</u>
Expected income tax	386,984	407,912
Effect on income tax of:		
Small business deductions/ temporary differences	(143,976)	(154,937)
Permanent differences	<u>(42,559)</u>	<u>(52,400)</u>
Current income tax	200,449	200,575
Future income tax:		
Change in timing differences	<u>(41,710)</u>	<u>14,135</u>
Total income tax expense	\$ <u>158,739</u>	\$ <u>214,710</u>

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19 PENSION PLAN

Halifax Civic Credit Union Limited, which amalgamated with Credit Union Atlantic Limited as at July 1, 2008, established a defined benefit pension plan for its employees in 2003. The most recent independent actuarial valuation on this pension plan for funding purposes was performed as at June 30, 2006. The next funding actuarial valuation is scheduled to occur in 2009. The results of this valuation, which are based on the projected unit credit actuarial method and best estimate assumption, indicated the Plan had a funding deficiency of \$86,400, based on actuarial liabilities of \$1,104,300 and a market value of assets of \$1,017,900. As a result, the Credit Union is required to make annual payments of \$10,512 over the remaining expected average remaining service life at the initiation of the plan (twelve years), in addition to the estimated annual employer current service cost. In addition, Halifax Civic Credit Union Limited has made special contributions of \$135,000 in prior years. A special contribution of \$65,000 was made in the current year before amalgamation.

The defined benefit plan only applies to employees who were previously employed by Halifax Civic Credit Union as of June 30, 2008. Other CUA employees and all new hires are required to join the CUA defined contribution pension plan.

Information about the financial position of the Credit Union's defined benefit plan as at December 31 is as follows:

	2008
Accrued benefit obligation	\$ 1,282,400
Fair value of plan assets	<u>1,259,900</u>
Funded status-plan deficit	\$ <u>(22,500)</u>
Funded status plan deficit	\$ (22,500)
Unamortized past service costs	378,400
Unamortized net actuarial gain	<u>(406,000)</u>
Deferred pension obligation included in payables and accruals	\$ <u>(50,100)</u>

The following actuarial assumptions have been used in the determination of the accrued benefit obligation and the fair value of plan assets:

Discount rate	7%
Expected long-term rate of return on plan assets	7%
Rate of compensation increase	3.5%
Remaining service life	13.9 years

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19 PENSION PLAN (CONTINUED)

The net expense for the Credit Union's benefit plan is as follows:

		2008
Defined benefit plan	\$	<u>52,800</u>

Other information about the Credit Union's defined benefit plan is as follows:

Employer's contributions	\$	<u>23,710</u>
Employees' contributions	\$	<u>17,000</u>
Benefits paid	\$	<u>1,100</u>

Defined contribution pension plan costs amounted to \$277,467 (2007 - \$216,609).

20 COMPARATIVE FIGURES

Certain of the December 31, 2007 amounts, including disclosures, have been reclassified to conform to the financial statement presentation adopted for the 2008 fiscal year.