

Concentra  
FINANCIAL

*A Credit Union Company*



2008  
annual  
report

connecting

# Financial Highlights

(Millions of Dollars)

| For the Year  | 2008     | 2007     | 2006     | 2005     | 2004     |
|---|----------|----------|----------|----------|----------|
| Continuing Operations   |          |          |          |          |          |
| Gross revenue   | 194.08   | 177.60   | 160.38   | 133.09   | 77.86    |
| Net interest income   | 46.35    | 34.62    | 37.02    | 41.86    | 20.21    |
| Provision for credit losses                                   | 4.97     | 0.18     | 0.02     | 1.48     | 0.78     |
| Non-interest expenses   | 44.83    | 44.04    | 42.63    | 36.93    | 22.49    |
| Net income from continuing operations                         | 4.87     | 1.88     | 11.10    | 13.95    | 5.41     |
| Net income from discontinued operations <sup>1</sup>          | 2.87     | 20.86    | 2.57     | 0.01     | 0.01     |
| Net income  | 7.74     | 22.74    | 13.67    | 13.96    | 5.42     |
| At Year End   |          |          |          |          |          |
| Assets from continuing operations                             | 3,834.62 | 3,555.89 | 3,003.27 | 2,588.22 | 1,213.94 |
| Assets from discontinued operations                           | 9.10     | 62.46    | 300.92   | 238.16   | 223.02   |
| Total assets  | 3,843.72 | 3,618.35 | 3,304.19 | 2,826.38 | 1,436.96 |
| Retained earnings   | 38.70    | 42.07    | 40.02    | 34.22    | 22.63    |
| Assets under administration                                   | 21,000   | 20,000   | 19,200   | 17,700   | 14,200   |
| Assets to Capital Multiple <sup>2</sup>                       | 18.4     | 16.7     | 16.8     | 16.4     | 18.8     |
| Total Regulatory Capital to Risk-Weighted Assets <sup>2</sup> | 12.4%    | 12.2%    | 12.5%    | 11.9%    | 13.4%    |

<sup>(1)</sup> 2007 includes gain on sale of retail credit card business of \$17.46 (net of tax)

<sup>(2)</sup> The 2008 ratios are calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI) under the new Basel II framework. Comparative ratios are calculated using guidelines issued by OSFI under the Basel I framework. Basel I and Basel II are not directly comparable.

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## 2008 Board of Directors

### **Karl Baumgardner**

*Representing Saskatchewan Region*  
Chair, Governance Committee  
Member, Conduct Review Committee

### **Don Blocka**

*Representing Saskatchewan Region*  
Member, Executive Committee

### **Randy Harper**

*Representing Alberta Region*  
Member, Audit and Risk Committee

### **Carolynne Jardine**

*Representing National Services Members*  
Chair, Conduct Review Committee  
Member, Governance Committee

### **Scott Kennedy**

*Representing Ontario/British Columbia Region*  
Member, Executive Committee

### **Gordon Lightfoot**

*Representing Saskatchewan Region*  
Member, Audit and Risk Committee

### **Kevin Lukey**

*Representing Saskatchewan Region*  
Member, Executive Committee

### **Brian Maunula**

*Representing Saskatchewan Region*  
Chair, Audit and Risk Committee

### **Ross McClelland**

*Representing Saskatchewan Region*  
Member, Audit and Risk Committee

### **Wayne McLeod**

*Representing National Services Members*  
Chair, Board of Directors  
Chair, Executive Committee

### **Robert McVeigh**

*Representing Minority Shareholders*  
Member, Audit and Risk Committee

### **Allan Morin**

*Representing Manitoba Region*  
Member, Audit and Risk Committee  
Member, Executive Committee

### **David Phillips**

*Representing Class B Shareholders*  
Member, Conduct Review Committee  
Member, Governance Committee

### **Malcolm Stoffman**

*Representing Ontario/British Columbia Region*  
Member, Conduct Review Committee  
Member, Governance Committee

### **Dean Walde**

*Representing Saskatchewan Region*  
Member, Conduct Review Committee  
Member, Governance Committee

# Message from the Board Chair and President/Chief Executive Officer

Concentra Financial experienced a dynamic year in 2008. We closed out the year profitably with consolidated earnings of \$7.7 million (earnings from continuing operations of \$4.9 million), total corporate assets of \$3.8 billion and assets under administration of \$21.0 billion.

On track at the end of September to record outstanding financial results, we were not insulated from the world-wide market volatility and downturn of the final quarter of 2008. The very strong performance of the first three quarters supported the profitability of Concentra Financial during the global economic descent that began in October.

Amidst this unprecedented financial turmoil we undertook immediate action focusing on additional resource management for service offerings and solutions to optimize results.

The flexibility and innovations of our employees allowed us to effectively respond to marketplace fluctuations, and proved Concentra Financial has the resources to be successful in all times, normal or not.

In addition to profitable results, Concentra Financial realized progress in our long-term strategies of Positioning for Market Relevance and Expansion and Development. Our efforts to connect the credit union system through facilitating, integrating and aggregating achieved several milestones in 2008.

Our Corporate Banking division extended operations into British Columbia. This builds on the previous year's expansion into Alberta, further supplementing the capacity of credit unions to offer a full line of corporate banking services to their business communities.

The Prairie Central Initiative's Memorandum of Understanding opened the door for Concentra Financial to become actively engaged in the process of second tier system integration.

Collaborating with system partners and the federal government we contributed our expertise to launch the Tax-Free Savings Account, a major new registered savings vehicle for credit union and commercial clients.

For the sixth consecutive year, Concentra Financial was recognized as one of the 50 Best Managed Companies in Canada; an accomplishment made possible only as a united team of people working toward common goals.

Concentra Financial has succeeded in addressing obstacles, converging and uniting with others on the journey to a common destination. The Board and leadership are confident in our ability to meet oncoming challenges. We are strengthened by our connections to the co-operative financial system and, in turn, commit our strength to emPOWERING Canada's Credit Unions®.

Wayne McLeod, Board Chair

Myrna Bentley, President and Chief Executive Officer



# Management Discussion and Analysis

The following discussion and analysis on the operations and financial position of Concentra Financial Services Association (Concentra Financial) at December 31, 2008, should be read in conjunction with the Consolidated Financial Statements and the accompanying notes.

## Financial Performance

Concentra Financial provides value to Canada's credit unions and endeavours to maximize shareholder value. The company is dedicated to continuously refining business practices to meet the demands of a dynamic financial services industry and expanding the boundaries of our financial targets.

Concentra Financial establishes long-term financial performance objectives that are reviewed and approved annually by the Board of Directors as an essential component of the strategic planning process. The measurement of these key financial performance indicators is based upon continuing operations and therefore excludes the company's Card Operations as the related risks and rewards of this discontinued business segment accrue to the holders of the Class C securities. On October 1, 2007, Concentra Financial sold its retail credit card business to MBNA Canada Bank, a subsidiary of Bank of America Corporation. The sale of the retail credit card business resulted in a pre-tax gain on sale of approximately \$21.6 million in 2007. Effective January 1, 2008, CAI Acquiring Inc., a wholly-owned subsidiary of Concentra Financial, sold its partnership interest in the merchant acquiring business resulting in a pre-tax gain on sale of approximately \$0.8 million.

Concentra Financial exhibited exceptional performance in the first three quarters of 2008 and was on track to record historic results. Significant market turbulence in the last quarter demonstrated that while we are not immune to the market conditions, prudent and well managed responses to market fluctuations returned positive results. The 2008 financial performance was impacted positively by higher income from securitizations, fee for service and net interest income. However, the results were negatively affected by increased provisions for credit losses, loss on securities and significant unrealized and realized losses on derivatives due to the declining interest rate environment and the market disruption in the Canadian and world-wide financial sector.

The following is a summary of the company's key financial performance indicators.

### Asset Growth

- The company has established long-term growth targets of 10% to 15% annually, expecting to fully leverage the increase in net assets.
- Capital plans have been developed to ensure Concentra Financial meets the necessary external requirements while achieving growth targets.
- The growth of assets under administration on a consolidated basis was 5.0% (2007 – 4.2%).
- Growth of assets comprising on-balance sheet assets from continuing operations as well as off-balance sheet loan program assets was 11.9% (2007 – 18.5%). Additional information in relation to asset growth is included in the business line section later in this report.

## Productivity

- An annual productivity target is set to support control over operating costs in relation to revenue levels. Productivity measures the ratio between non-interest expenses to net interest income and non-interest income. In this ratio, the company endeavours to achieve a downward trend, indicating that productivity is improving.
- Over the long term, the company will work toward achieving a productivity ratio of 60% - 65% annually. Factors that contribute to a healthy productivity ratio are maintaining a specified margin to average assets ratio, non-interest revenue growth measured as year-over-year percentage increase and non-interest revenue growth relative to total gross revenue while maintaining non-interest expenses at reasonable levels.
- The productivity ratio improved in 2008, as the actual rate (excluding card operations) decreased to 79.8% (2007 - 93.4%). When the actual ratio is compared to the 2008 financial plan of 70.8%, a significant variance occurred. The declining interest rate environment during the year was positive for net interest income and increased the gains on securitizations of residential mortgages included in income from securitized assets. However, the declining interest rates had significant negative effects on both unrealized and realized derivative losses as the company was protecting against a rising interest rate. In addition, both provisions recorded for asset-backed and Collateralized Debt Obligation (CDO) securities and increased provisions for credit losses had negative effects. Non-interest expenses were closely controlled resulting in only a marginal increase.

## Return on Equity

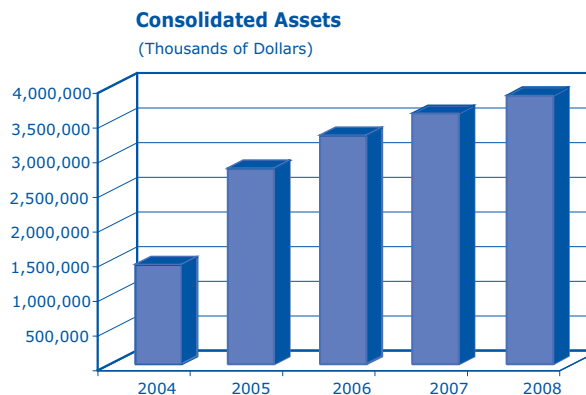
- The company's overall financial return to shareholders is determined annually based on current conditions, with the long-term target of maintaining a 10% - 13% return on equity (ROE).
- For the year ending December 31, 2008, the consolidated ROE was 4.1% (2007 - 12.5%). The ROE (excluding card operations) was 2.8% (2007 - 0.9%), a lower result than the anticipated 7.7% in the 2008 financial plan. This decrease was the result of the significantly lower net income than anticipated in the 2008 financial plan.

## Financial Statement Analysis

Consolidated assets increased by \$0.2 billion to \$3.8 billion in 2008 due to an increase in the loans portfolios offset partially by a decrease in securities. The company's initiative to increase total assets was supported by growth in deposit liabilities which were partially offset by the reduction in loans and notes payable.

In addition to the company's on-balance sheet assets, assets under administration include assets administered by the company and assets where the company acts as a trustee on behalf of clients. Consolidated assets under administration at

December 31, 2008 were \$21.0 billion, an increase when compared to \$20.0 billion in 2007. The level of assets administered contributes to non-interest revenue.

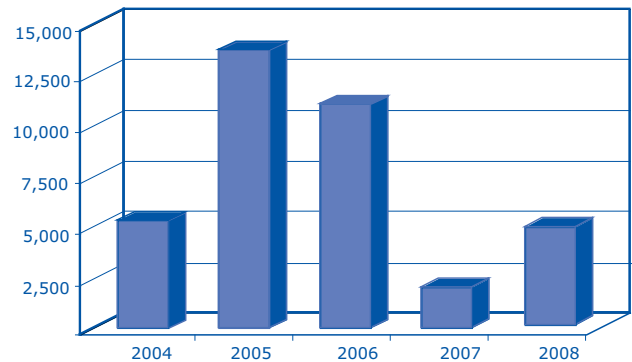


Consolidated net income from continuing operations increased from \$1.9 million in 2007 to \$4.9 million in 2008. Income from discontinued operations decreased from \$20.9 million to \$2.9 million as a result of 2007 including the gain on the sale of the retail credit card business. This resulted in total consolidated net income of \$7.7 million (2007 - \$22.7 million).

Net interest margin after provision for credit losses increased in 2008 by \$7.0 million to \$41.4 million. The increase was due to declining interest rates which resulted in the lower cost of funds resulting from the market disruptions in 2008. The change in mix of assets to a larger proportion of loans also contributed positively to the net interest margin. Non-interest income decreased to \$9.8 million in 2008 from \$12.6 million in 2007. Within non-interest income losses from derivatives increased by \$21.5 million mostly as a result of unfavourable mark-to-market valuation changes with the derivative portfolio, and loss on securities increased \$6.3 million due to impairment provisions on asset-backed and CDO securities. Partially offsetting these were increased income from securitized assets of \$21.8 million resulting from higher volumes of residential mortgages securitized and lower cost of funds on the securitizations and increased fee for service of \$4.0 million. Non-interest expense increased by \$0.8 million as a result of increases in professional and advisory services and general business costs partially offset by lower occupancy costs.

### Net Income from Continuing Operations

(Thousands of Dollars)



Class C shareholders were paid dividends of \$12.4 million in 2008 from the proceeds of the sale of the retail credit card business and the merchant acquiring business. No dividends were paid to Class A shareholders.

Non-productive assets as a ratio of credit assets were 0.5% at year end compared to 0.1% at December 31, 2007. Concentra Financial maintains both specific and general allowances for credit losses. Specific allowances are reviewed for adequacy on a regular basis by examining individual assets where there is reasonable doubt that the carrying value will be realized. General allowances are determined based on management's judgment considering economic conditions and historical credit performance.

## Business Lines

The growth and profitability achieved during 2008 was based on the successful implementation of strategies and initiatives for the following major business lines.

### Capital Markets and Financial Management

Concentra Financial provides strategic financial management solutions to enhance a credit union's overall financial performance. Wholesale deposits experienced solid growth as a result of proactive pricing strategies and increased support from the credit union system. This resulted in further strengthening of the company's liquidity position on the balance sheet.

Overall growth exceeded budget. Securities continued to be a main focus of investment on the balance sheet due to operational capacities and a resumed liquidity focus. Covered writing activities again resulted in a significant non-margin revenue source for Concentra Financial with results well above budget.

## Concentra Trust

Concentra Trust, a wholly owned subsidiary of Concentra Financial, is responsible for developing and delivering a wide range of personal and corporate trust products, services and programs. Trust services are delivered nationally to credit unions, corporations and individual customers.

In 2008, focus on the expansion and development of products and services continued. Trust Services created a Tax-Free Savings Account solution for credit union and commercial clients, leveraging the company's technical expertise in registered plan programs. The Trust Administration product line was expanded by adding a service for First Nations clients.

Reducing the reliance on estate administration revenue from executor appointments and increasing emphasis on estate agency business through the Executor EASE program resulted in an increase of estate agency revenue from 2.6% of total estate administration revenue in 2007 to 22.0% in 2008.

Trust Services continues to reinforce partnerships with credit unions and explore new Corporate Trust business opportunities.

## Corporate Banking and Leasing

Corporate Banking delivers a comprehensive, community-based corporate and commercial financial services package, including commercial leasing, to targeted business clients. The Leasing Services product is provided nationally through credit unions to individual and corporate clients seeking equipment, technology and infrastructure financing. The Corporate Banking offering is currently focused in Western Canada.

### Corporate Banking

In 2008, Corporate Banking solidified its position in Saskatchewan and Alberta, strengthening relationships with credit unions to provide financial services to credit union members and credit investment opportunities to credit unions. In addition, the product line was successfully launched in British Columbia, where strategic relationships have been forged with several credit unions looking to supplement credit offerings to their members.

Although economic and financial conditions caused a slowdown in lending activity in the last quarter of 2008, loan volumes in 2008 met budget expectations due to strong performance in the first three quarters. Corporate Banking maintained competitive margins, exceeding budget and prior year net interest margin. The portfolio risk rating remains favourable to budget.

The International Services team offers foreign exchange and trade finance products which are provided across the country. International Services foreign exchange sales experienced significant growth in 2008, with revenue increasing by 47.9% over 2007 levels. In 2008, International Services worked with clients of Corporate Banking as well as commercial members of 17 credit unions from British Columbia to Prince Edward Island.

## Leasing Services

As at year end, new leasing business exceeded \$65.5 million as compared to \$59.6 million in 2007 or 10.0% growth over 2007. For all financial measures, Leasing significantly exceeded budget. The growth in volume, prudent approach to credit, focus on high quality assets and attention to cost controls all contributed to the strong profitability of the business unit.

Despite declining bond yields and reductions in Bank of Canada prime rate, Leasing increased pricing in response to tight credit markets and restricted liquidity. This resulted in the realization of both improved margins and increased fees. The improved pricing environment is expected to be sustained through 2009.

Leasing Services continued to work with a large credit union on training and education initiatives for its lending staff, with a formal product launch to its commercial membership scheduled for early 2009. Partnering with Concentra Financial to offer a strong leasing product will allow the credit union's members to grow their businesses while the credit union maintains the membership.

Corporate Banking and Leasing continues to establish partnerships and explore new business sources and market opportunities.

## Credit and Liquidity Management

Concentra Financial provides innovative deposit, investment and loan solutions to support credit unions in their daily financial operations and in managing liquidity and risk. These wholesale products are focused on enhancing credit union success as they manage their operations.

The reach of Concentra Financial to credit unions expanded in 2008 as the geographic diversification of Concentra Financial clients continued to increase. Significant demand for credit and liquidity solutions was experienced in 2008 due to the growth of credit unions in the commercial loan market and the need for liquidity by credit unions to support their growth initiatives. This meant increased interest in loan syndication and funding programs. Loan pool sales and acquisitions exceeded targets in 2008 to the extent that in the later part of the year activity was curtailed to remain within capacity limits.

Concentra Financial continued its involvement in the Canada Mortgage Bond program during 2008 and continued to purchase assets outright from credit unions. These programs provide excellent value-added services to credit unions looking to manage risk exposures and liquidity constraints.

## Mortgage and Deposit Services

Concentra Financial provides a variety of residential mortgage and deposit products to support credit union programs delivered across the country.

Retail and wholesale deposits fund lending programs. Deposit levels grew significantly as credit unions and members sought predictable returns at market competitive rates.

The residential mortgage sector underwent significant change in 2008, with alternative lenders pulling back from higher risk lending and increasing competition in the lower risk programs. In late December Concentra Financial temporarily suspended availability of higher risk and resource-intensive mortgage products. Despite increased competition in the lower risk space, Concentra Financial surpassed budgeted mortgage volumes while still maintaining loss provisions within budget targets.

## Card Operations

Since the retail credit card business was sold effective October 1, 2007, and the merchant processing business conducted by CAI Acquiring Inc. through United Network Payment Solutions partnership was sold effective January 1, 2008, the Card Operations held no active business assets and as such there were no further capital requirements. Therefore, during 2008, Concentra Financial redeemed the Class C subordinated debentures totalling \$22.5 million and No. 3 subordinated debentures totalling \$10.0 million. Furthermore, a dividend of \$8.0 million was paid from contributed surplus to Class C shareholders following the reduction of the stated capital of the Class C shares issued from \$8.0 million to \$2.00.

## Risk Management Overview

As a financial institution, Concentra Financial takes on credit and market risk within the risk tolerance specified by the Board through policy to create value for its shareholders. These portfolios of risk reflect the company's competencies and capacities and are evaluated, managed and priced on the basis of the changing business conditions in the competitive environment. Effective management of operational, strategic, liquidity, and legal and regulatory risk strengthens the ability of the company to achieve its objectives and meet obligations. Risk aware decisions, reflected in strategy and action, optimize opportunity and capacity to create value for shareholders.

Concentra Financial defines enterprise risk management as: a process, effected by a company's Board of Directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the company, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of corporate objectives.

The enterprise risk management objective of Concentra Financial is twofold:

- to improve shareholder value through optimization of risk and capital, and risk-based decision making; and
- to perform well in a risk-based regulatory environment.

Key elements of the company's enterprise risk framework include: corporate governance and structure, policy, reporting, risk culture and risk categorization. The strong governance, ethics, values, leadership and co-operative principles of Concentra Financial provide a firm foundation for the company's risk culture.

## Roles and Responsibilities

### Board of Directors

The Board of Directors is responsible for overseeing an effective risk management process. Risk tolerances are set by the Board through policy and provide the mechanism and basis for subsequent monitoring, measurement and reporting. All Board policies are reviewed annually.

On a quarterly basis, the Board reviews a corporate risk report that describes levels and trends for key risks relative to approved tolerances and key risk indicators for each of the organization's major categories of risk: credit, market, liquidity, legal and regulatory, operational and strategic.

The Audit and Risk Committee assists the Board in discharging its responsibilities with respect to risk. The Audit and Risk Committee reviews the quarterly risk reports in detail and recommends an enterprise risk framework to the Board that includes the company's risk philosophy and risk tolerances, risk management process and risk policies.

### Management

Executive management is responsible for implementing strategies and policies approved by the Board and for developing processes that identify, measure, monitor and control risks. Risk reporting occurs on a regular basis through a formal reporting process.

Key risk management committees include:

- Executive Leadership Risk Committee – established by the President and Chief Executive Officer, comprised of executive management, and responsible to:
  - implement Board level risk management strategies and policies;
  - review enterprise risk reporting and direct action to manage risk levels; and
  - direct actions to protect the company during a business continuity and/or pandemic event.
  
- Asset-Liability Committee – established by the Board, comprised of executive, senior and operating management, and responsible to:
  - develop and monitor strategies for the management of the balance sheet and monitor financial performance against these strategies;
  - review and discuss environmental conditions impacting the financial position and performance of the company; and
  - review, assess, and approve enterprise level risk management strategies.
  
- Credit Committee – established by the Board, comprised of members of executive management approved by the President and Chief Executive Officer and responsible to approve large credits upon the recommendation of the Vice-President, Chief Credit Officer (CCO).

Management and supervisory personnel are responsible for ensuring that policy and related standards and procedures are communicated to and understood by all employees. All employees are responsible for complying with policy and related standards and procedures, as well as participating in optimizing risk within their functional areas.

### Oversight and Independent Functions

Concentra Financial has established a risk management division that recommends policy for risk tolerances, oversees and reports on risk, and provides risk related decision support to the Board, management and business units. The risk management division is segregated from other business units and is managed under the direction of the Executive Vice-President, Chief Risk Officer who reports to the President and Chief Executive Officer.

Concentra Financial has an independent audit function, managed under the direction of the Executive Vice-President, Chief Risk Officer, which provides independent and objective internal audit services to management and the Board.

## Risk Categories

The various risks encountered by the company are classified and defined within one of six categories: credit, market, liquidity, legal and regulatory, operational and strategic.

### Credit Risk

Credit risk arises from a counterparty's inability or unwillingness to fully meet its contractual obligations. The credit risk on securities, loans, and mortgages relates to principal and interest amounts. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

Activities in place to manage the company's credit risk profile include: setting credit concentration policy limits by issuer group, issuer, industry and geographic region; restricting investments in unrated commercial debt securities; implementing prudent credit granting criteria; effectively managing monitored and non-productive assets; and, undertaking conservative valuation and loss recognition practices.

In addition, the CCO plays a key role in managing the credit risk of Concentra Financial. The CCO manages the credit risk function and is responsible for delegating credit approval limits to business units and approving loan, lease and mortgage applications in excess of the credit authority delegated. In addition, the CCO undertakes an overall systematic review of the credit adjudication process on an annual basis and the results of the review are provided to the Board.

The overall credit risk position is monitored in reference to an internally generated composite weighted average risk rating calculation.

On a quarterly basis, the Monitored and Non-productive Asset Report and the Large Lending Credits Report, outlining credit quality issues and key lending concentrations respectively, are issued to the Audit and Risk Committee and the Board.

### Market Risk

Market risk arises from:

- Interest rate risk which results from movements in interest rates. This risk results primarily from timing differences in the repricing of assets and liabilities, both on- and off-balance sheet, as they mature or are contractually re-priced.
- Price risk which results from changes in the market price of an asset or liability.
- Foreign exchange risk which results from movements in foreign exchange rates.

Activities in place to manage the company's market risk profile include: establishing prudent market risk limits, investing in marketable securities, utilizing off-balance sheet instruments to manage interest rate risk levels, simulating the impact of interest rate changes and monitoring exposure to foreign currencies.

The market risk position is monitored in reference to the impact of interest rate changes on adjusted net interest income and the economic value of equity.

### Liquidity Risk

Liquidity risk arises from the inability to generate or obtain necessary cash or equivalents in a timely manner, at a reasonable price, to meet on- and off-balance sheet commitments as they come due, and without incurring unacceptable losses.

Activities in place to manage the company's liquidity risk profile include: establishing prudent liquidity policies, regular monitoring of cash flows, maintaining prudent levels of cash and cash equivalents, securitizing assets, maintaining external credit facilities, undertaking stress testing and maintaining a liquidity contingency plan.

The liquidity risk position is monitored in reference to a liquid asset ratio calculation (liquid assets as a percentage of total assets).

### **Legal and Regulatory Risk**

Legal and regulatory risk arises from an institution's potential non-conformance with laws, rules, regulations, prescribed practices or ethical standards in the jurisdiction in which the organization operates. This includes breaches in fiduciary duties or obligations in the course of providing investment advice to other persons or holding, administering, managing or investing assets on behalf of other persons.

Concentra Financial has a Compliance Officer in place to manage and report on compliance with governing and other applicable legislation. When significant issues arise, they are escalated to executive management and the Board. The Compliance Officer Report is delivered to the Conduct Review Committee of the Board twice a year, or more frequently if appropriate. The minutes of the Conduct Review Committee are also provided to the Board.

Concentra Financial has a Chief Anti-Money Laundering Officer in place to manage corporate-wide measures to combat money laundering and terrorist financing activity risks within the company. The Chief Anti-Money Laundering Officer reports to executive management and the Board on anti-money laundering and anti-terrorist financing matters.

In addition, Concentra Financial has a Code of Conduct/Conflict of Interest corporate policy that must be followed by all Board members, officers, and employees.

The company's policies set out requirements for the quantity and quality of capital the company is required to maintain, as well as policies that address capital impairment and dividends.

### **Operational Risk**

Operational risk arises from problems in the performance of business functions or processes. Exposures to this risk can result from deficiencies or breakdowns in internal controls or processes, technology failures, human errors or dishonesty, or natural catastrophes. Operational risk also includes reputation risk which arises from a lack of confidence in an institution by key stakeholders.

The key operational risk management objectives of the company are to:

- provide awareness of significant operational risk;
- facilitate appropriate decisions to act upon operational risk;
- empower business units with the responsibility and accountability for operational risks assumed; and
- monitor and report on operational risk.

Concentra Financial conducts risk profiling with its business units to identify operational risks that could impact the ability of the business unit to achieve its objectives. Business units develop action plans to manage risk within acceptable levels and build the required activity into their operating plans. Formal reports are issued and reviewed with the appropriate levels of management.

### Strategic Risk

Strategic risk arises from an institution's inability to implement appropriate business plans, strategies, decision making and resource allocation, and an inability to adapt to changes in its business environment.

Strategic planning is conducted by the Board on a regular basis. Operational planning and budgeting is conducted by management to develop the annual business plan which is presented to the Board of Directors with the Business Plan Risk Report.

Risk profiling is used by executive management to identify key risks affecting the successful achievement of its strategic goals. The key risks are scored based on the probability of the risk occurring and impact to the company if the risk were to occur. Action plans are developed for key risks and responsibility is assigned to members of executive management to ensure the probability of the risk occurring will be reduced to an acceptable level.

## Regulatory Capital Management

Capital levels are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and take into account forecasted capital needs and markets. Maintaining adequate regulatory capital is the goal in order to be considered well capitalized, protect customer deposits and provide capacity for internal growth and strategic opportunities, all the while providing a satisfactory return for shareholders.

### Basel II

Effective January 1, 2008, OSFI required Canadian financial institutions to calculate, manage and report their regulatory capital ratios in accordance with a new capital management framework, commonly known as Basel II. Basel II introduced several changes to the risk-weighting of assets and the calculation of regulatory capital. Basel II has resulted in capital requirements that differ from those calculated under the previous method, Basel I. Therefore reported results from prior periods calculated under Basel I are not directly comparable as Basel II is applied on a prospective basis.

Basel II is applied to Concentra Financial based on the consolidated financial statements. The company has implemented the standardized approach to calculating risk-weighted assets for credit risk and the basic indicator approach to calculate risk-weighted assets for operational risk. Changes for the company resulting from Basel II included a reclassification of residential mortgages into lower risk-weight categories, as well as a new capital requirement related to operational risk. New procedures were developed to conform to the new framework including the formalization of internal capital adequacy assessment processes.

Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 regulatory capital comprises the more permanent components of capital and consists of share capital and retained earnings, excluding accumulated other comprehensive income. In addition, goodwill and other items as prescribed by OSFI are deducted from Tier 1 regulatory capital. Tier 2 regulatory capital consists of subordinated debentures, which qualify as Tier 2B capital, less deductions as prescribed by OSFI. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital. For further details on the terms and conditions of share capital and subordinated debentures, refer to Notes 15 and 16 to the Consolidated Financial Statements and to note 26 for additional disclosure on regulatory capital management.

Regulatory ratios are calculated by dividing Tier 1 regulatory capital and Total regulatory capital by risk-weighted assets (RWA). The calculation of RWA is determined from OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for operational risk. The company does not meet the qualifying criteria for computing market risk, which is the value of the trading book assets or liabilities being at least 10% of total assets and exceeding \$1 billion. In addition, OSFI formally establishes risk-based capital targets for deposit-taking institutions. Current OSFI targets are a minimum Tier 1 regulatory capital to RWA ratio of 7% and a minimum Total regulatory capital to RWA ratio of 10%. In addition to the Tier I regulatory capital to RWA ratio and Total regulatory capital to RWA ratio, Canadian financial institutions are required to ensure that their Assets to capital multiple, which is calculated by dividing gross adjusted assets by Total regulatory capital, does not exceed a maximum level prescribed by OSFI.

Throughout 2008 and 2007, the company has been in compliance with OSFI prescribed capital adequacy requirements.

The capital structure and regulatory ratios at year end are shown in the following table.

| <i>(Thousands of Dollars)</i>                     | <b>BASEL II<br/>2008</b> | <b>BASEL I<br/>2007</b> |
|---|--------------------------|-------------------------|
| <b>Tier 1 Capital</b>                             |                          |                         |
| Common shares                                     | 133,254                  | 133,254                 |
| Retained earnings                                 | 38,702                   | 42,071                  |
| Non-cumulative perpetual preferred shares         | 3,990                    | 11,990                  |
| Goodwill  | (19,248)                 | (19,248)                |
| Securitization-related deductions                 | (1,000)                  | n/a                     |
| Other   | (112)                    | n/a                     |
| <b>Total Tier 1 Capital</b>                       | <b>155,586</b>           | <b>168,067</b>          |
| <b>Tier 2 Capital</b>                             |                          |                         |
| Subordinated debentures (Tier B)                  | 53,350                   | 60,818                  |
| Other   | (111)                    | n/a                     |
| <b>Total Tier 2 Capital</b>                       | <b>53,239</b>            | <b>60,818</b>           |
| <b>Total Regulatory Capital</b>                   | <b>208,825</b>           | <b>228,855</b>          |
| Substantial investments                           | n/a                      | (10,864)                |
| First-loss facility                               | n/a                      | (775)                   |
| <b>Total Regulatory Capital</b>                   | <b>208,825</b>           | <b>217,246</b>          |
| <b>Risk-Weighted Assets</b>                       |                          |                         |
| Credit risk                                       | 1,562,499                | 1,780,848               |
| Market risk                                       | n/a                      | n/a                     |
| Operational risk                                  | 125,271                  | n/a                     |
| <b>Total Risk-Weighted Assets</b>                 | <b>1,687,770</b>         | <b>1,780,848</b>        |
| <b>Capital Ratios</b>                             |                          |                         |
| Tier 1 regulatory capital to risk-weighted assets | 9.2%                     | 9.4%                    |
| Total regulatory capital to risk-weighted assets  | 12.4%                    | 12.2%                   |
| Assets to capital multiple                        | 18.4X                    | 16.7X                   |

## Risk-Weighted Assets

(Thousands of Dollars)

|   | 2008                       |                         |                       |                          |               |                  |
|---|----------------------------|-------------------------|-----------------------|--------------------------|---------------|------------------|
|   | Gross Credit Risk Exposure | Average of Risk Weights | Standardized Approach | Basic Indicator Approach | Other         | Total RWA        |
| <b>Credit Risk</b>                              |                            |                         |                       |                          |               |                  |
| Corporate                                       | 1,009,884                  | 88%                     | 891,192               | n/a                      | n/a           | 891,192          |
| Sovereign                                       | 201,270                    | 0%                      | -                     | n/a                      | n/a           | -                |
| Bank  | 448,477                    | 20%                     | 89,695                | n/a                      | n/a           | 89,695           |
| Retail residential mortgages                    | 2,040,214                  | 21%                     | 423,280               | n/a                      | n/a           | 423,280          |
| Other retail, excluding small business entities | 203                        | 75%                     | 152                   | n/a                      | n/a           | 152              |
| Equity  | 3,770                      | 100%                    | 3,770                 | n/a                      | n/a           | 3,770            |
| Securitization exposures                        | 227,399                    | 62%                     | 141,193               | n/a                      | n/a           | 141,193          |
| Other credit risk-weighted assets               | 68,757                     | 19%                     | n/a                   | n/a                      | 13,217        | 13,217           |
| <b>Total Credit Risk</b>                        | <b>3,999,974</b>           |                         | <b>1,549,282</b>      | <b>n/a</b>               | <b>13,217</b> | <b>1,562,499</b> |
| <b>Operational Risk</b>                         |                            |                         | <b>n/a</b>            | <b>125,271</b>           | <b>n/a</b>    | <b>125,271</b>   |
| <b>Total</b>                                    | <b>3,999,974</b>           |                         | <b>1,549,282</b>      | <b>125,271</b>           | <b>13,217</b> | <b>1,687,770</b> |

(Thousands of Dollars)

|                                      | 2007                       |                          |                         |                  |
|--------------------------------------|----------------------------|--------------------------|-------------------------|------------------|
|                                      | Gross Credit Risk Exposure | Credit Equivalent Amount | Average of Risk Weights | Total RWA        |
| <b>On-Balance Sheet Assets</b>       |                            |                          |                         |                  |
| Cash and securities                  | 1,227,839                  | n/a                      | 45%                     | 548,167          |
| Loans                                | 2,305,500                  | n/a                      | 50%                     | 1,146,844        |
| Other                                | 101,996                    | n/a                      | 50%                     | 51,038           |
| <b>Total On-Balance Sheet Assets</b> | <b>3,635,335</b>           | <b>n/a</b>               |                         | <b>1,746,049</b> |
| <b>Off-Balance Sheet Assets</b>      | <b>n/a</b>                 | <b>51,135</b>            | <b>68%</b>              | <b>34,799</b>    |
| <b>Total Risk-Weighted Assets</b>    | <b>3,635,335</b>           | <b>51,135</b>            |                         | <b>1,780,848</b> |

## Subsidiary Capital

Concentra Trust has individual responsibility for maintaining compliance with regulatory capital adequacy requirements. Throughout 2008 and 2007, the company has been in compliance with OSFI prescribed capital adequacy requirements.

The following table provides the regulatory ratios at year end.

| (Thousands of Dollars)                            | BASEL II<br>2008 | BASEL I<br>2007 |
|---|------------------|-----------------|
| <b>Capital Ratios</b>                             |                  |                 |
| Tier 1 regulatory capital to risk-weighted assets | 89.8%            | 316.0%          |
| Total regulatory capital to risk-weighted assets  | 89.8%            | 316.0%          |
| Assets to capital multiple                        | 1.0X             | 1.0X            |

# Management Responsibility for Financial Reporting

The accompanying Consolidated Financial Statements of Concentra Financial Services Association (Concentra Financial) were prepared by management who is responsible for the integrity and fairness of the information presented and for ensuring that all the information in the annual report is consistent with the Consolidated Financial Statements. This responsibility includes the selection of appropriate accounting policies and making objective judgments and estimates in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada.

In discharging this responsibility for the integrity and fairness of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains the necessary systems of internal control to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. This control is augmented by written policies and procedures, the careful selection and training of qualified staff, the creation of organizational structures that provide a well defined division of responsibilities and the communication of policies and guidelines for business conduct throughout Concentra Financial. This system of internal controls is supplemented by an internal audit function which carries out periodic reviews of the operations of Concentra Financial.

The Board of Directors carries out its responsibilities for reviewing the Consolidated Financial Statements through its Audit and Risk Committee which is composed entirely of Directors who are neither officers nor employees of Concentra Financial. The Audit and Risk Committee reviews the Consolidated Financial Statements and recommends approval to the Board of Directors. Other responsibilities of the Audit and Risk Committee include meeting regularly with management, internal audit and the company's external auditors, Deloitte and Touche LLP, to discuss the effectiveness of internal controls over the financial reporting process as well as the planning and results of the external audit. Both the external and internal auditors have full and free access to the Audit and Risk Committee.

The Superintendent of Financial Institutions Canada examines and inquires into the business affairs of Concentra Financial as deemed necessary to determine whether the provisions of the Cooperative Credit Associations Act (Canada) are being duly observed and that Concentra Financial is in a sound financial condition.

External auditors are appointed by the members of Concentra Financial, upon the recommendation of the Audit and Risk Committee, to perform an independent audit of the Consolidated Financial Statements and provide an opinion thereon; their report is presented separately.

February 9, 2009

Myrna J. Bentley, President and Chief Executive Officer

Daryl Kelln, Executive Vice-President and Chief Financial Officer

# Auditors' Report

## To the Members of Concentra Financial Services Association

We have audited the consolidated balance sheet of Concentra Financial Services Association as at December 31, 2008 and the consolidated statements of income, comprehensive income, retained earnings and accumulated other comprehensive income (loss) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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



Chartered Accountants

Regina, Saskatchewan  
February 9, 2009

## CONSOLIDATED BALANCE SHEET

DECEMBER 31  
(Thousands of Dollars)

|   | 2008      | 2007      |
|---|-----------|-----------|
| <b>ASSETS</b>                                     |           |           |
| Cash resources                                    | 11,114    | 37,419    |
| Securities (Note 5)                               | 882,333   | 1,149,678 |
| Loans (Notes 6 and 7)                             | 2,874,771 | 2,317,382 |
| Premises and equipment (Note 9)                   | 5,354     | 5,773     |
| Goodwill (Note 10)                                | 19,248    | 19,248    |
| Other assets (Note 11)                            | 41,796    | 26,381    |
| Assets from discontinued operations (Note 3)      | 9,105     | 62,464    |
|   | 3,843,721 | 3,618,345 |
| <b>LIABILITIES</b>                                |           |           |
| Deposits (Note 12)                                | 3,534,393 | 2,989,537 |
| Loans and notes payable (Note 13)                 | 9,115     | 361,010   |
| Other liabilities (Note 14)                       | 78,692    | 24,558    |
| Subordinated debentures (Note 15)                 | 53,570    | 28,511    |
| Liabilities from discontinued operations (Note 3) | 5,030     | 42,128    |
|   | 3,680,800 | 3,445,744 |
| <b>MEMBERS' EQUITY</b>                            |           |           |
| Share capital (Note 16)                           | 137,244   | 145,244   |
| Retained earnings                                 | 38,702    | 42,071    |
| Accumulated other comprehensive income (loss)     | (13,025)  | (14,714)  |
|   | 162,921   | 172,601   |
|   | 3,843,721 | 3,618,345 |

See accompanying notes

### Approved by

Myrna J. Bentley, President and Chief Executive Officer  
 Brian Maunula, Director and Chair, Audit and Risk Committee  
 Wayne G. McLeod, Board Chair

## CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31  
(Thousands of Dollars)

|   | 2008     | 2007    |
|---|----------|---------|
| <b>INTEREST INCOME</b>  |          |         |
| Loans   | 139,943  | 114,271 |
| Securities  | 44,303   | 50,778  |
|   | 184,246  | 165,049 |
| <b>INTEREST EXPENSE</b>   |          |         |
| Deposits  | 130,096  | 115,650 |
| Loans and notes   | 4,894    | 13,145  |
| Subordinated debentures   | 2,355    | 1,292   |
| Other direct expenses   | 551      | 341     |
|   | 137,896  | 130,428 |
| <b>NET INTEREST INCOME</b>                                      | 46,350   | 34,621  |
| Provision for credit losses (Note 7)                            | 4,970    | 182     |
| <b>NET INTEREST MARGIN</b>                                      | 41,380   | 34,439  |
| <b>NON-INTEREST INCOME</b>                                      |          |         |
| Fee for service   | 13,090   | 9,120   |
| Loss on securities (Note 5)                                     | (9,282)  | (3,015) |
| Income from securitized assets (Note 8)                         | 25,538   | 3,702   |
| Other non-interest income                                       | 4,631    | 5,354   |
| Unrealized and realized gains (losses) on derivatives (Note 21) | (24,147) | (2,609) |
|   | 9,830    | 12,552  |
|   | 51,210   | 46,991  |
| <b>NON-INTEREST EXPENSE</b>                                     |          |         |
| Salaries and employee benefits                                  | 26,829   | 26,828  |
| Professional and advisory services                              | 10,157   | 9,175   |
| Occupancy   | 1,646    | 2,091   |
| General business  | 6,193    | 5,944   |
|   | 44,825   | 44,038  |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>    | 6,385    | 2,953   |
| Provision for income taxes (Note 18)                            | 1,515    | 1,076   |
| <b>NET INCOME FROM CONTINUING OPERATIONS</b>                    | 4,870    | 1,877   |
| Income from discontinued operations, net of tax (Note 3)        | 2,872    | 20,858  |
| <b>NET INCOME</b>   | 7,742    | 22,735  |

See accompanying notes

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

YEAR ENDED DECEMBER 31  
(Thousands of Dollars)

|   | <b>2008</b> | <b>2007</b> |
|---|-------------|-------------|
| <b>NET INCOME</b>   | 7,742       | 22,735      |
| <b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES</b>                        |             |             |
| Net unrealized (losses) gains on available-for-sale securities                | (5,216)     | (13,231)    |
| Reclassification of losses (gains) on available-for-sale securities to income | 6,905       | 1,083       |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                      | 1,689       | (12,148)    |
| <b>TOTAL COMPREHENSIVE INCOME</b>   | 9,431       | 10,587      |

*See accompanying notes*

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

YEAR ENDED DECEMBER 31  
(Thousands of Dollars)

|   | 2008            | 2007            |
|---|-----------------|-----------------|
| <b>RETAINED EARNINGS</b>  |                 |                 |
| Balance, beginning of year  | 42,071          | 40,024          |
| Transition adjustment, financial instruments (Note 2)                                   | -               | (1,204)         |
| Adjusted balance, beginning of year   | 42,071          | 38,820          |
| Net income  | 7,742           | 22,735          |
| Dividends, Class A shares   | -               | (8,437)         |
| Dividends, Class B shares   | (311)           | (311)           |
| Dividends, Class C shares   | (12,401)        | (14,481)        |
| Reduction in income taxes (Note 18)   | 1,601           | 3,745           |
| <b>RETAINED EARNINGS, END OF YEAR</b>   | <b>38,702</b>   | <b>42,071</b>   |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>                                    |                 |                 |
| Balance, beginning of year  | (14,714)        | -               |
| Transition adjustment, financial instruments (Note 2)                                   | -               | (2,566)         |
| Other comprehensive income (loss)   | 1,689           | (12,148)        |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF YEAR</b>                       | <b>(13,025)</b> | <b>(14,714)</b> |
| <b>RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF YEAR</b> | <b>25,677</b>   | <b>27,357</b>   |

See accompanying notes

# CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31  
(Thousands of Dollars)

|   | 2008        | 2007        |
|---|-------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |             |             |
| Net income from continuing operations   | 4,870       | 1,877       |
| Adjustments to determine net cash from (used in) operating activities                     |             |             |
| Amortization of premises and equipment (Note 9)   | 1,439       | 1,338       |
| Other amortization  | 4,803       | 7,765       |
| Provision for credit losses (Note 7)  | 4,970       | 182         |
| Realized losses (gains)   | 14,049      | 3,321       |
| Gains from asset securitizations (Note 8)   | (21,163)    | (4,298)     |
| Future income taxes   | (2,383)     | (2,806)     |
| Changes in operating assets and liabilities   |             |             |
| Net accrued interest receivable and payable   | 4,754       | 8,939       |
| Net unrealized losses on derivatives (Note 21)  | 19,209      | 1,320       |
| Current income taxes payable  | 3,172       | 145         |
| Other assets  | (35,805)    | (15,725)    |
| Other liabilities   | 48,698      | 3,966       |
| Net cash provided by operating activities from continuing operations                      | 46,613      | 6,024       |
| Net cash (used in) provided by operating activities from discontinued operations (Note 3) | (3,731)     | 33,691      |
| Net cash from operating activities  | 42,882      | 39,715      |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>  |             |             |
| Proceeds from sales and maturities of securities  | 4,462,601   | 2,100,573   |
| Purchase of securities  | (4,208,645) | (2,296,488) |
| Change in loans, net of loan securitizations  | (960,184)   | (658,760)   |
| Proceeds from loan securitizations (Note 8)   | 417,257     | 316,868     |
| Premises and equipment purchases, net of disposals  | (1,020)     | (976)       |
| Net cash used in investing activities from continuing operations                          | (289,991)   | (538,783)   |
| Net cash provided by investing activities from discontinued operations (Note 3)           | 55,332      | 189,707     |
| Net cash used in investing activities   | (234,659)   | (349,076)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |             |             |
| Deposits, net of withdrawals  | 543,974     | 374,577     |
| Loans and notes payable, net of repayments  | (351,895)   | 171,461     |
| Proceeds from issuance of subordinated debentures (Note 15)                               | 24,972      | 14,586      |
| Issue of shares   | -           | 1           |
| Dividends paid  | (311)       | (8,748)     |
| Distributions from discontinued operations  | 277         | 131         |
| Reduction in income taxes from dividends paid   | 56          | 1,530       |
| Net cash provided by financing activities from continuing operations                      | 217,073     | 553,538     |
| Net cash used in financing activities from discontinued operations (Note 3)               | (51,601)    | (223,398)   |
| Net cash from financing activities  | 165,472     | 330,140     |
| <b>NET (DECREASE) INCREASE IN CASH RESOURCES</b>  | (26,305)    | 20,779      |
| Cash resources from continuing operations, beginning of year                              | 37,419      | 16,640      |
| Cash resources from discontinued operations, beginning of year                            | -           | -           |
| <b>CASH RESOURCES FROM CONTINUING OPERATIONS, END OF YEAR</b>                             | 11,114      | 37,419      |
| <b>CASH RESOURCES FROM DISCONTINUED OPERATIONS, END OF YEAR</b>                           | -           | -           |
| <b>SUPPLEMENTAL INFORMATION</b>   |             |             |
| Amount of interest paid in year   | 147,789     | 130,393     |
| Amount of income taxes paid in year   | 726         | 1,007       |

See accompanying note

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008  
(Thousands of Dollars)

## 1. INCORPORATION AND GOVERNING LEGISLATION

Effective December 31, 2004, Co-operative Trust Company of Canada was continued as Concentra Financial Services Association (the Company) and carries on business pursuant to the *Cooperative Credit Associations Act (Canada)*.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with subsection 292(4) of the Cooperative Credit Association Act (Canada) which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these consolidated financial statements, including the accounting requirements of OSFI, are summarized below. These accounting policies conform, in all material respects, to Canadian generally accepted accounting principles.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and net income. Certain estimates including allowances for credit losses, goodwill, fair values of financial instruments, income taxes and accounting for securitizations and variable interest entities require management to make subjective and complex judgments. Accordingly, actual results could differ from those estimates thereby impacting the consolidated financial statements.

The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below.

### Basis of Consolidation

The Company conducts business through various corporate structures including subsidiaries and other investments. The consolidated financial statements include the Company's assets, liabilities and results of operations, after the elimination of intercompany transactions and balances, of all subsidiaries and variable interest entities for which the Company has determined it is the primary beneficiary.

The Company applies the principles of equity accounting for investments where the Company has significant influence over operating and financing activities of an entity. For the sole investment in a variable interest entity for which the Company is determined not to be the primary beneficiary the investment is recorded using the equity method. Under the equity method, the investment is initially recorded at cost and is adjusted for the Company's proportionate share of net income or loss and dividends received. These investments are recorded in other assets on the consolidated balance sheet and the Company's proportionate share of net income or loss is recorded as other non-interest income on the consolidated statement of income.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The following are included in the consolidated financial statements of the Company:

**Concentra Trust** - The Company owns 100% of the common shares of Concentra Trust; as such, these consolidated financial statements include the assets and liabilities and results of operations of this wholly owned subsidiary.

**CAI Acquiring Inc.** - The Company owns 100% of the common shares of CAI Acquiring Inc. (CAI Acquiring). The Company has determined CAI Acquiring is a variable interest entity in which the Company is not the primary beneficiary; as such, the Company's investment in CAI Acquiring is being accounted for under the equity method of accounting. Income is recorded in non-interest income in the discontinued operations.

**Celero Solutions** - The Company's 5.8% interest in Celero Solutions, an unincorporated entity, is recorded using the cost method of accounting. Under this method the investment is initially recorded at cost and income is recognized only to the extent any distributions are received or receivable. Losses, other than a temporary decline in value, are recorded in other non-interest income.

### Significant Accounting Changes

On January 1, 2008, the Company adopted three new accounting 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*. These sections resulted in additional note disclosure.

Section 1535 specifies the disclosure of (i) the Company's objectives, policies and processes for managing capital; (ii) quantitative data about what the Company regards as capital; (iii) whether the Company has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace handbook section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new standards place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

On January 1, 2007, the Company adopted five new accounting standards that were issued by the CICA: handbook section 1530, *Comprehensive Income*; handbook section 3251, *Equity*; handbook section 3855, *Financial Instruments - Recognition and Measurement*; handbook section 3861, *Financial Instruments - Disclosure and Presentation* and handbook section 3865, *Hedges*. These sections were adopted on a retrospective basis as at January 1, 2007, and comparative amounts for prior periods were restated.

The transition adjustments attributable to the re-measurement of financial assets and financial liabilities at fair value, other than financial assets classified as available-for-sale, were recognized as a transition adjustment in retained earnings as at January 1, 2007. Adjustments arising from re-measuring financial assets classified as available-for-sale at fair value were recognized as a transition adjustment in accumulated other comprehensive income (loss) (AOCI) as at that date. For cash flow hedging relationships existing prior to adopting section 3865 that continued to qualify for hedge accounting under the new standard, the effective portion of any gain or loss on the hedging instrument was recorded in AOCI and the cumulative ineffective portion was included in the transition adjustment in retained earnings.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

On January 1, 2007, the Company recorded the following transition adjustment in the consolidated financial statements: (i) a decrease of \$1,204, net of taxes, to retained earnings, representing changes made to the value of certain financial instruments and hedging relationships existing prior to adopting section 3865 that no longer qualified for hedge accounting; and (ii) recognition in AOCI of \$2,566, net of taxes, related to the net losses for available-for-sale financial assets. The effect of these adjustments on the consolidated balance sheet at January 1, 2007, was to decrease securities by \$3,123, decrease loans by \$391, decrease other assets by \$240, increase deposits by \$477, and decrease other liabilities by \$461.

### Cash Resources

Cash resources consist of cash and securities maturing within one business day.

### Securities

Securities are classified, based on management's intentions, as available-for-sale and held-for-trading.

Investments in equity and debt securities, which may be sold in response to changes in market conditions or for liquidity purposes, are classified as available-for-sale securities. These securities are carried at their fair value with unrealized gains or losses recorded in OCI, net of tax. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Gains and losses realized on disposal of available-for-sale securities are included in loss on securities. Dividend and interest income accruing on available-for-sale securities is recorded in securities interest income. These securities are also subject to periodic impairment review. Declines in fair value deemed to be temporary are recorded in OCI and those deemed to be other than temporary are recorded in net income. Transactions to purchase or sell these items are recorded on the trade date and transaction costs are immediately recorded in other direct expenses. Purchase premiums or discounts on available-for sale securities are amortized over the life of the security using the effective interest method and are recognized in securities interest income.

Securities which are purchased principally for the purpose of selling in the near term are classified as held-for-trading securities and reported at their fair value. Obligations to deliver held-for-trading securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realized and unrealized gains and losses on these securities are recorded in non-interest income. Dividend and interest income accruing on held-for-trading securities is recorded in securities interest income. Interest accrued and dividends received on interest-bearing and equity securities sold short are recorded in other direct expenses. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recorded in other direct expenses.

Securities under repurchase agreements are treated as collateralized borrowing transactions and are classified as available-for-sale and recorded at fair value. Interest incurred on repurchase agreements is included in loans and notes interest expense. Obligations related to assets sold under repurchase agreements are recorded in loans and notes payable.

### Loans

Loans are recorded at amortized cost, less any allowances for credit losses plus accrued interest.

Loans are classified as impaired and the accrual of interest is discontinued when, in management's judgment, there is no longer reasonable assurance of the timely repayment of principal and interest.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectability of principal or interest.

Property held for sale acquired through the settlement of loans is valued at the lower of the outstanding balance of the loan at the date of acquisition adjusted for costs incurred subsequent to foreclosure or repossession and the estimated net realizable value of the property.

Loan fees, premiums and commissions paid on the acquisition of loans are amortized to loan interest income using the effective interest method.

### **Allowance for Credit Losses**

The Company maintains an allowance to absorb credit-related losses in portfolios of both on-and off-balance sheet items. The allowance for credit losses consists of specific and general allowances, which are reviewed by management on a quarterly basis. The allowance for credit losses is deducted from the related asset category.

Specific allowances are established as a result of reviews of individual assets and represent the amount required to reduce the carrying values to estimated realizable amounts. For loans, specific allowances are established by reviewing specific arrears, the credit-worthiness of individual borrowers and the collateral underlying the loan. When there is reasonable doubt that the full amount of principal and interest will be collected, the carrying amount of the loan is reduced to its estimated realizable value. In cases where it is practical to estimate future cash flows, the loan is written down to the estimated future net cash flows from the loan discounted at the rate inherent in the loan. In subsequent periods, recoveries of amounts previously written off and any increase in carrying value of the loan are charged to the provision for credit losses.

General allowances are established to reflect provisions for losses which are prudent in nature but cannot be determined on an individual basis. The Company maintains general allowances at a level commensurate with the underlying credit risk within the Company's loan portfolio based upon management's judgment considering historical credit experience, portfolio composition and business and economic conditions.

### **Asset Securitization**

The Company periodically securitizes groups of assets by selling them to independent special purpose trusts. As part of these transactions, the Company generally retains an interest in the securitized assets, such as servicing rights and various forms of recourse including over-collateralization, rights to excess spread and a cash reserve account.

Securitization transactions are recorded in accordance with Canadian accounting guidelines for transfers of receivables. These transactions are accounted for as sales and the assets are removed from the consolidated balance sheet when the Company is deemed to have surrendered control over the assets and receives consideration other than the beneficial interests in the transferred assets.

Gains and losses on these transactions are recorded in income from securitized assets on the date of the transaction and depend in part on the allocation of the previous carrying amount between the assets sold and any retained interests based on their relative fair value at the date of transfer.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value is based on market prices when available. However, as quotes are usually not available for retained interests, fair value is determined using the present value of future expected cash flows estimated in relation to assumptions on yield, payment rates, excess spread, the cost of funds, credit losses, and discount rates commensurate with the risks involved.

Retained interests in securitized assets are classified as securities on the consolidated balance sheet and recorded at the lower of the allocated carrying value and the fair value. Retained interests are periodically reviewed for impairment. Declines in fair value deemed to be temporary are recorded in OCI and those deemed to be other than temporary are recorded in income from securitized assets.

Assets are transferred on a fully serviced basis and a servicing liability is recorded in deferred revenue in other liabilities at the date of sale at fair value and is amortized to income over the average expected life of the assets. Servicing liabilities are periodically reviewed for impairment with any excess in fair value charged to income from securitized assets.

### Premises and Equipment

Premises and equipment are stated at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the related assets which has been determined to be: 40 years for the building; 5 years for building improvements; 10 years for office equipment and 3 to 5 years for computer equipment. Gains and losses on disposals are recorded in non-interest expense.

### Business Combinations, Goodwill and Intangibles

All business combinations are accounted for using the purchase method of accounting. Goodwill represents the excess of the purchase price over the fair value of net identifiable assets acquired in business combinations and is assigned to specific reporting units of a business segment. Goodwill is evaluated for impairment on an annual basis or more often if events or circumstances indicate there may be impairment. If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill. Any goodwill impairment is charged to income in the period in which the impairment is identified.

Identifiable intangibles are recognized separately from goodwill and are included in other assets. Intangible assets with a finite life arising from the acquisition of business assets are recorded at their fair value at the time of the purchase and amortized on a straight-line basis over the period in which the Company expects to derive the economic benefit from those assets.

### Income Taxes

The Company follows the asset and liability method of accounting for income taxes whereby future income taxes are determined based on the difference between the carrying value of assets or liabilities and their tax bases using the tax rates expected to be in effect when the asset or liability is settled. Income taxes recorded in the consolidated statement of income include the current and future portion of the expenses. Income taxes applicable to items charged to members' equity are netted against such items. Future income tax assets and future income tax liabilities are recorded in other assets or other liabilities as applicable.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fair Value of Financial Instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices, as appropriate, in the most advantageous active market for that instrument to which the Company has immediate access. Where bid and ask prices are unavailable, the Company uses the closing price of the most recent transaction of that instrument. In the absence of an active market, the Company determines fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market-based inputs. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company looks primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates, and price and rate volatilities, as applicable. In limited circumstances, the Company uses input parameters that are not based on observable market data and the Company believes that using possible alternative assumptions will not result in significantly different fair values.

### Comprehensive Income

Section 1530 introduced comprehensive income, which consists of net income and other comprehensive income (loss) (OCI), net of tax. Comprehensive income represents changes in members' equity during the year arising from transactions and other events with non-owner sources. OCI includes unrealized gains and losses on financial assets classified as available-for-sale, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments. The Company includes in the consolidated financial statements a consolidated statement of comprehensive income for the changes in these items. The cumulative changes in OCI are included in AOCI, which is presented as a category of members' equity on the consolidated balance sheet.

### Financial Instruments – Recognition and Measurement

Section 3855 established standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Commissions on residential mortgages originated by the Company, and transaction costs incurred in the issuance of subordinated debentures, are capitalized on initial recognition and amortized using the effective interest rate method. Transaction costs on other financial instruments are expensed as incurred.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recorded in gain on securities. Financial assets classified as loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial assets are presented as securities on the consolidated balance sheet and measured at fair value with unrealized gains and losses being recorded in OCI.

Derivative instruments are recorded on the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

contracts. Changes in the fair values of derivative instruments are recorded in unrealized and realized gains and losses on derivatives, with the exception of derivative instruments designated in effective cash flow hedges which are recorded in OCI.

Other significant accounting implications of section 3855 include the use of the effective interest method for capitalized transaction costs or fees, premiums or discounts earned on financial instruments measured at amortized cost, and the recognition of the inception fair value of the obligation undertaken in issuing a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline 14, Disclosure of Guarantees. Subsequent re-measurement at fair value is not required unless the financial guarantee also meets the definition of a derivative. These guarantees are re-measured at fair value and reported as a derivative in other assets or other liabilities, as appropriate.

### Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In the ordinary course of business, the Company enters into derivative transactions to hedge interest rate and foreign currency risks, for economic and asset/liability management, and for trading purposes. The Company also enters into derivative transactions on an intermediary basis on behalf of credit unions.

Economic and asset/liability management derivatives are used to manage interest rate and currency exposure on the Company's balance sheet, but do not meet the specific criteria to qualify as hedge derivatives. These derivatives include contracts that reposition the Company's overall interest rate and foreign exchange risk profile. Bond options are part of interest rate derivatives and the option premium is included in fee for service income.

Economic and asset/liability management derivatives are reported on the balance sheet at their fair value. Derivatives with a positive fair value are recorded in other assets as derivative related assets and derivatives with a negative fair value are recorded in other liabilities as derivative related liabilities. Realized gains and losses are recorded in unrealized and realized gains and losses on derivatives. Unrealized gains and losses are recorded in unrealized and realized gains and losses on derivatives.

Derivatives are also used in trading activities and are reported on the consolidated balance sheet at their fair value. Derivatives with a positive fair value are recorded in other assets as derivative related assets and derivatives with a negative fair value are recorded in other liabilities as derivative related liabilities. Realized and unrealized gains and losses on trading derivatives are recorded in gain on securities.

The Company may enter into derivative contracts or may act as an intermediary on behalf of a client or credit union utilizing derivative contracts. These derivatives do not qualify for hedge accounting and are carried at fair value on a gross basis as derivative-related amounts in other assets or other liabilities with changes in fair value recorded in unrealized and realized gains and losses on derivatives.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivative are the same as those of a free standing derivative; and, c) the combined instrument or contract is not measured at fair value with changes in fair value recorded in unrealized and realized gains and losses on derivatives. These embedded derivatives are measured at fair value with changes therein recorded in unrealized and realized gains and losses on derivatives. The Company selected January 1, 2003 as the transition date for embedded

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

derivatives; as such those contracts issued, acquired or substantively modified on or after the transition date were examined.

### Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. The Company uses derivatives and non-derivative financial instruments in hedging strategies to manage its exposures to interest rate and foreign currency risks. When derivatives are used to manage exposures, the Company determines for each derivative whether hedge accounting can be applied. Hedge accounting is applied where a derivative is highly effective in offsetting either changes in the fair value or cash flows attributable to the risk being hedged, both at inception and over the life of the underlying asset or liability. The hedging relationship is documented at inception detailing the hedging relationship and the particular risk management objective and strategy for undertaking the hedge transaction. The documentation must demonstrate a high correlation at inception and throughout the contract period between the derivative contract and the Company's exposure. If these criteria are not met, the derivative contract does not qualify for hedge accounting treatment and is designated as asset/liability management. When derivatives qualify for hedge accounting, the net return is recognized over the life of the agreement as an adjustment to net interest income.

Hedge accounting is discontinued prospectively when it is determined that the derivative is not highly effective as a hedge, or the derivative is terminated or sold. Any gains or losses previously recognized in OCI are carried forward and recognized in net interest income in the same period or periods during which the hedged item affects income. Hedge accounting is also discontinued upon the sale or early termination of the hedged item and any gains or losses previously recognized in OCI are charged to net interest income immediately upon closing of the hedged item.

### Cash flow hedge

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of taxes, is recorded in OCI while the ineffective portion is recorded in net interest income. When hedge accounting is discontinued, the amounts previously recorded in AOCI are reclassified to net interest income during the periods when the variability in the cash flows of the hedged item affects net interest income. Gains and losses on derivatives are reclassified immediately to net income when the hedged item is sold or early terminated. The Company uses interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability, and all components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness.

### Fair value hedge

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk and recognized in net interest income. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which are also recognized in net interest income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged items are amortized to net income over the remaining term of the original hedging relationship.

The Company predominantly uses interest rate swaps to hedge exposure to the changes in a fixed interest rate instrument's fair value caused by changes in interest rates.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Assets Under Administration

Assets administered or managed by the Company on behalf of estates, trusts and agencies are recorded separately from the Company's assets and are not included on the consolidated balance sheet.

### Subordinated Debentures

Transaction costs, premiums and discounts incurred in the issuance of subordinated debentures are amortized to interest expense using the effective interest method.

### Future Accounting Changes

Section 3064, issued February 2008, *Goodwill and Intangible Assets*, replaced Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

In February 2008, the Canadian Accounting Standards Board announced that all publicly accountable entities, such as the Company due to its fiduciary responsibilities, will be required to adopt International Financial Reporting Standards (IFRS) for financial statements relating to fiscal years beginning on or after January 1, 2011, including the restatement of comparative period financial statements on the same basis. The transition from Canadian generally accepted accounting principles to IFRS will be applicable to the Company for the year-ended December 31, 2011. The Company is currently assessing the potential impact of the transition to IFRS on financial statements, disclosures, financial reporting systems and controls, and business activities.

In December 2008, the CICA issued Section 1582, *Business Combinations*, which replaced Section 1581 *Business Combinations*, and Section 1601 *Consolidated Financial Statements* and Section 1602 *Non-controlling Interests*, which replaced Section 1600, *Consolidated Financial Statements*. The new Sections will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2011. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the requirements under IFRS. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

### 3. DISCONTINUED OPERATIONS

Effective January 1, 2008, CAI Acquiring sold its partnership interest in United Network Payment Solutions.

The consideration received, net assets sold and other deductions were:

|   | <b>2008 (\$)</b> |
|---|------------------|
| Consideration received                            |                  |
| Cash  | 13,241           |
|   | 13,241           |
| Net assets sold                                   |                  |
| Investment in United Network Payment Solutions    | 11,358           |
| Liabilities assumed by purchaser                  | (26)             |
|   | 11,332           |
| Other deductions                                  |                  |
| Intangible assets related to partnership interest | 932              |
| Costs incurred on sale                            | 148              |
|   | 1,080            |
| Gain on sale of partnership interest              | 829              |

This gain on sale of partnership interest is included in the net earnings for 2008 of CAI Acquiring of \$1,208 and is included in non-interest income of discontinued operations. See also note 19.

On May 30, 2007, it was announced that an agreement was reached to sell the retail credit card business. This transaction required approval of OSFI, which was received on September 21, 2007. The sale transaction date was October 1, 2007. Prior to the sale of the net assets, the securitization of credit card receivables was wound up. The balance of the net assets related to the credit card receivables at the time of the sale was:

|   | <b>Prior to<br/>wind-up (\$)</b> | <b>After<br/>wind-up (\$)</b> |
|---|----------------------------------|-------------------------------|
| Receivables                             |                                  |                               |
| Gross credit card receivables           | 520,799                          | 520,799                       |
| Credit card portfolio securitized       | (294,250)                        | -                             |
| Provision for losses                    | (9,418)                          | (12,974)                      |
| Net credit card receivables             | 217,131                          | 507,825                       |
| Retained interest in securitized assets | 22,945                           | -                             |
| Securitized asset servicing liability   | 1,381                            | -                             |

The loss on the securitized assets was \$1,746. In addition, the net cost of the wind-up was \$517.

### 3. DISCONTINUED OPERATIONS (continued)

The consideration received, net assets sold and other deductions were:

|   | <b>2007 (\$)</b> |
|---|------------------|
| Consideration received                      |                  |
| Cash  | 500,176          |
| Note receivable                             | 16,696           |
|   | <u>516,872</u>   |
| Net assets sold                             |                  |
| Credit card receivables                     | 511,866          |
| Accounts payable                            | (25,272)         |
| Deferred revenue                            | (4,175)          |
|   | <u>482,419</u>   |
| Other deductions                            |                  |
| Goodwill (Note 10)                          | 1,580            |
| Other intangible assets                     | 1,675            |
| Costs incurred on sale                      | 2,714            |
|   | <u>5,969</u>     |
| Gain on sale                                | 28,484           |
| Deferred revenue on sale (Note 14)          | (6,844)          |
| Gain on sale of retail credit card business | <u>21,640</u>    |

As a condition of the purchaser purchasing the net assets of the retail credit card business, the Company entered into a non-competition and non-solicitation agreement (NCA) with the purchaser. The NCA imposes certain restrictions on the Company including restrictions on business activities involving credit cards and on business restructurings, such as mergers, acquisitions and sales, involving an entity that offers credit card services or holds credit risk associated with credit cards other than for passive investment purposes. The purchase price allocated to this NCA has been deferred and is being amortized from the date of sale over the four year restriction period. As such, the amount that is attributed to the period after year end is recorded as deferred revenue and will be recorded in net income over the remaining months of the restriction period. The allocation of the NCA is 7% to the Class A shareholders and 93% to the Class C shareholders.

The related assets and liabilities have been reported as assets from discontinued operations and liabilities from discontinued operations on the consolidated balance sheet. The related results of operations have been presented as discontinued operations in the consolidated statement of income and cash flows for the periods presented.

|                                       | <b>2008 (\$)</b> | <b>2007 (\$)</b> |
|---------------------------------------|------------------|------------------|
| <b>Statement of Assets</b>            |                  |                  |
| Securities (Note 5)                   | 6,937            | 33,543           |
| Other assets <sup>(1)</sup> (Note 11) | 2,168            | 28,921           |
| Assets from discontinued operations   | <u>9,105</u>     | <u>62,464</u>    |

<sup>(1)</sup> Includes investment in CAI Acquiring of \$43 (2007 - \$10,865) (Note 11)

### 3. DISCONTINUED OPERATIONS (continued)

|  | 2008 (\$) | 2007 (\$) |
|--|-----------|-----------|
| <b>Statement of Liabilities</b>          |           |           |
| Other liabilities (Note 14)              | 5,030     | 9,660     |
| Subordinated debentures (Note 15)        | -         | 32,468    |
| Liabilities from discontinued operations | 5,030     | 42,128    |

|   | 2008 (\$) | 2007 (\$) |
|---|-----------|-----------|
| <b>Statement of Income</b>                                |           |           |
| Interest income   | 1,144     | 21,144    |
| Interest expense  | 938       | 7,116     |
| Net interest income                                       | 206       | 14,028    |
| Provision for credit losses (Note 7)                      | -         | 4,688     |
| Net interest margin                                       | 206       | 9,340     |
| Non-interest income <sup>(1)</sup>                        | 1,208     | 40,667    |
| Non-interest expense                                      | 157       | 47,143    |
| Income before gain and income taxes                       | 1,257     | 2,864     |
| Gain on sale of retail credit card business               | 1,825     | 21,640    |
| Income before income taxes                                | 3,082     | 24,504    |
| Provision for income taxes (Note 18)                      | 210       | 3,646     |
| Income from discontinued operations, net of tax (Note 23) | 2,872     | 20,858    |

<sup>(1)</sup> Includes CAI Acquiring net earnings of \$1,208 (2007 - \$2,865) (Note 19)

|   | 2008 (\$) | 2007 (\$) |
|---|-----------|-----------|
| <b>Statement of Cash Flows</b>            |           |           |
| <b>Cash flows provided from (used in)</b> |           |           |
| Operating activities                      | (3,731)   | 33,691    |
| Investing activities                      | 55,332    | 189,707   |
| Financing activities                      | (51,601)  | (223,398) |
| Net increase in cash resources            | -         | -         |

## 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments are based on relevant market prices and information available at that time. Due to the use of subjective judgment and uncertainties, the aggregate fair value amounts shown should not be interpreted as necessarily being realizable in an immediate settlement of the instruments. The table outlines the fair values for financial instruments only and does not include assets or liabilities that are not considered financial instruments, such as premises and equipment, goodwill and intangible assets.

Cash resources, accounts receivable (included in other assets) and accounts payable and accrued expenses (included in other liabilities) are all short-term in nature and as such, their carrying value approximates fair value.

The fair value of securities is established using market prices when available. The fair value of retained interests in securitized assets classified as available-for-sale is calculated using discounted cash flows based on various assumptions.

The estimated value of loans reflects changes in general interest rates which have occurred since the loans were originated. Moreover, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. The fair value of fixed interest rate loans is calculated using discounted cash flows based on current rates of interest for similar lending arrangements. The fair value of floating interest rate loans is approximately equal to carrying value.

The carrying value of deposits with no stated maturity or loans and notes payable due on demand is assumed to approximate fair value. For the remainder of the deposits, fair value is calculated using discounted cash flows based on current market interest rates for similar maturities.

The fair value of subordinated debentures is calculated using discounted cash flows based on current market interest rates for similar maturities.

The fair value of derivative financial instruments is calculated by referring to the appropriate current market yields with matching terms to maturity. The fair values reflect the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date.

Any changes in the fair values of financial instruments classified or designated as held-for-trading and available-for-sale securities are recorded in net income and OCI, respectively. The cumulative changes in the fair values of available-for-sale securities previously recorded in AOCI are reclassified to net income when they are derecognized or the decline in value is considered to be other than temporary. Available-for-sale securities measured at fair value or cost are assessed for impairment at each reporting date. As at December 31, 2008, the pre-tax and after-tax unrealized losses for available-for-sale securities measured at fair value amounted to \$20,517 (2007 - \$18,724) and \$16,781 (2007 - \$15,400) respectively. The Company does not consider the available-for-sale securities measured at fair value of \$885,500 (2007 - \$1,145,909) to be other than temporarily impaired as at December 31, 2008, and the Company has the ability and intent to hold them until the fair values recover. As at December 31, 2008, the pre-tax and after-tax unrealized gains on the available-for-sale securities totaled \$4,592 (2007 - \$920) and \$3,756 (2007 - \$757), respectively. The net after-tax unrealized losses for the year are reflected in unrealized gains and losses on available-for-sale securities in AOCI. Derivatives that are not designated in hedging relationships are classified as held-for-trading and changes in the fair values of such derivative instruments are recorded in net income.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

|                                     | 2008 (\$)   |   |   |   |                      |            |
|-------------------------------------|---|---|---|---|----------------------|------------|
|                                     | Financial Instruments Required to be Classified as Held-for Trading | Available-for-Sale Instruments Measured at Fair Value | Available-for-Sale Instruments Measured at Cost | Loans and Receivables and Other Liabilities | Total Carrying Value | Fair Value |
| <b>Financial assets</b>             |   |   |   |   |                      |            |
| Securities                          | -   | 878,563   | 3,770   | -   | 882,333              | 882,333    |
| Loans                               | -   | -   | -   | 2,874,771                                   | 2,874,771            | 2,916,604  |
| Derivative related amounts          |   |   |   |   |                      |            |
| Trading                             | -   | -   | -   | -   | -                    | -          |
| Other than trading                  | 34,865  | -   | -   | -   | 34,865               | 34,865     |
| Assets from discontinued operations | -   | 6,937   | -   | -   | 6,937                | 6,937      |
| <b>Financial liabilities</b>        |   |   |   |   |                      |            |
| Deposits                            | -   | -   | -   | 3,534,393                                   | 3,534,393            | 3,592,748  |
| Loans and notes payable             | -   | -   | -   | 9,115                                       | 9,115                | 9,115      |
| Subordinated debentures             | -   | -   | -   | 53,570                                      | 53,570               | 41,563     |
| Derivative related amounts          |   |   |   |   |                      |            |
| Trading                             | -   | -   | -   | -   | -                    | -          |
| Other than trading                  | 58,788  | -   | -   | -   | 58,788               | 58,788     |

|  | 2007 (\$)      |            |
|--|----------------|------------|
|  | Carrying Value | Fair Value |
| <b>Financial assets</b>                  |                |            |
| Securities                               | 1,149,678      | 1,149,678  |
| Loans                                    | 2,317,382      | 2,295,191  |
| Derivative related amounts               |                |            |
| Trading                                  | -              | -          |
| Other than trading                       | 9,215          | 9,215      |
| Assets from discontinued operations      | 33,543         | 33,543     |
| <b>Financial liabilities</b>             |                |            |
| Deposits                                 | 2,989,537      | 2,986,740  |
| Loans and notes payable                  | 361,010        | 361,012    |
| Subordinated debentures                  | 28,511         | 29,607     |
| Derivative related amounts               |                |            |
| Trading                                  | -              | -          |
| Other than trading                       | 11,934         | 11,934     |
| Liabilities from discontinued operations | 32,468         | 32,468     |

## 5. SECURITIES

The securities portfolio is comprised of a large number of securities carrying a variety of terms and conditions. Approximately 84.34% (2007 – 87.75%) of the portfolio bears interest at fixed rates and pays interest semi-annually and/or upon maturity. The remainder of the portfolio earns interest at variable rates and pays interest monthly or quarterly, provides a return of dividends over varying periods of time or provides an index-linked return.

Government securities are comprised of securities issued or guaranteed by Canadian federal, provincial and municipal governments. Corporate securities are comprised of commercial paper, medium term notes and equities.

Securities of \$264,998 (2007 – \$564,171) have been pledged as collateral or held in a segregated safekeeping account for various obligations of the Company. Of these securities, \$nil (2007 - \$349,920) are securities sold under repurchase agreements.

## 5. SECURITIES (continued)

The maturity dates and weighted average effective interest rates for the securities portfolio are as follows:

|  | 2008 (\$)          |                               |                              |                 |                      | 2007 (\$) |           |
|--|--------------------|-------------------------------|------------------------------|-----------------|----------------------|-----------|-----------|
|  | Within<br>3 Months | Over<br>3 Months<br>to 1 Year | Over<br>1 Year<br>to 5 Years | Over<br>5 Years | No Fixed<br>Maturity | Total     | Total     |
| <b>Available-For-Sale</b>              |                    |                               |                              |                 |                      |           |           |
| <b>Government</b>                      |                    |                               |                              |                 |                      |           |           |
| Federal                                |                    |                               |                              |                 |                      |           |           |
| Fair value (\$)                        | 999                | -                             | -                            | 20,020          | -                    | 21,019    | 56,910    |
| Amortized cost (\$)                    | 996                | -                             | -                            | 19,708          | -                    | 20,704    | 57,104    |
| Rate (%) <sup>(1)</sup>                | 3.19%              | -                             | -                            | 4.36%           | -                    | 4.30%     | 3.84%     |
| Provincial                             |                    |                               |                              |                 |                      |           |           |
| Fair value (\$)                        | -                  | -                             | 41,149                       | 147,449         | -                    | 188,598   | 435,007   |
| Amortized cost (\$)                    | -                  | -                             | 40,913                       | 145,272         | -                    | 186,185   | 438,484   |
| Rate (%) <sup>(1)</sup>                | -                  | -                             | 4.20%                        | 4.23%           | -                    | 4.22%     | 4.30%     |
| Municipal                              |                    |                               |                              |                 |                      |           |           |
| Fair value (\$)                        | -                  | -                             | 8,205                        | 15,199          | -                    | 23,404    | 23,201    |
| Amortized cost (\$)                    | -                  | -                             | 7,979                        | 14,978          | -                    | 22,957    | 23,294    |
| Rate (%) <sup>(1)</sup>                | -                  | -                             | 3.80%                        | 4.48%           | -                    | 4.24%     | 4.32%     |
| <b>Corporate</b>                       |                    |                               |                              |                 |                      |           |           |
| Chartered banks                        |                    |                               |                              |                 |                      |           |           |
| Fair value (\$)                        | 7,992              | 21,141                        | 20,911                       | 86,334          | -                    | 136,378   | 139,887   |
| Amortized cost (\$)                    | 7,993              | 20,673                        | 20,979                       | 96,083          | -                    | 145,728   | 144,124   |
| Rate (%) <sup>(1)</sup>                | 1.50%              | 4.99%                         | 4.52%                        | 5.37%           | -                    | 4.95%     | 4.64%     |
| Co-operatives                          |                    |                               |                              |                 |                      |           |           |
| Fair value (\$)                        | -                  | -                             | 1,500                        | 20,012          | 3,770                | 25,282    | 51,281    |
| Amortized cost (\$)                    | -                  | -                             | 1,512                        | 20,012          | 3,770                | 25,294    | 51,259    |
| Rate (%) <sup>(1)</sup>                | -                  | -                             | 4.35%                        | 3.95%           | -                    | 3.38%     | 4.17%     |
| Other corporate                        |                    |                               |                              |                 |                      |           |           |
| Fair value (\$)                        | 122,864            | 21,337                        | 93,245                       | 28,661          | 872                  | 266,979   | 142,326   |
| Amortized cost (\$)                    | 122,855            | 21,709                        | 95,896                       | 32,141          | 818                  | 273,419   | 148,685   |
| Rate (%) <sup>(1)</sup>                | 2.11%              | 4.09%                         | 4.25%                        | 5.54%           | 4.71%                | 3.39%     | 4.89%     |
| <b>Mortgage-backed</b>                 |                    |                               |                              |                 |                      |           |           |
| Fair value (\$)                        | 37,059             | 19,150                        | 80,358                       | 6,008           | -                    | 142,575   | 275,348   |
| Amortized cost (\$)                    | 37,034             | 19,500                        | 80,840                       | 6,436           | -                    | 143,810   | 278,766   |
| Rate (%) <sup>(1)</sup>                | 3.31%              | 2.84%                         | 5.17%                        | 4.72%           | -                    | 4.36%     | 5.20%     |
| <b>Asset-backed</b>                    |                    |                               |                              |                 |                      |           |           |
| Fair value (\$)                        | 3,975              | 4,581                         | 62,029                       | 8,189           | -                    | 78,774    | 49,469    |
| Amortized cost (\$)                    | 3,975              | 4,581                         | 63,690                       | 8,591           | -                    | 80,837    | 49,517    |
| Rate (%) <sup>(1)</sup>                | 1.23%              | 4.90%                         | 5.41%                        | 4.80%           | -                    | 5.11%     | 5.98%     |
| <b>Held-for-Trading</b>                |                    |                               |                              |                 |                      |           |           |
| Fair value (\$)                        | -                  | -                             | -                            | -               | -                    | -         | -         |
| Amortized cost (\$)                    | -                  | -                             | -                            | -               | -                    | -         | -         |
| Rate (%) <sup>(1)</sup>                | -                  | -                             | -                            | -               | -                    | -         | -         |
| Total fair value                       | 172,889            | 66,209                        | 307,397                      | 331,872         | 4,642                | 883,009   | 1,173,429 |
| Total amortized cost                   | 172,853            | 66,463                        | 311,809                      | 343,221         | 4,588                | 898,934   | 1,191,233 |
| Total carrying value                   | 172,889            | 66,209                        | 307,397                      | 331,872         | 4,642                | 883,009   | 1,173,429 |
| Accrued interest                       |                    |                               |                              |                 |                      | 6,261     | 9,792     |
|  |                    |                               |                              |                 |                      | 889,270   | 1,183,221 |
| Continuing operations                  |                    |                               |                              |                 |                      | 882,333   | 1,149,678 |
| Discontinued operations <sup>(2)</sup> |                    |                               |                              |                 |                      |           |           |
| (Note 3)                               |                    |                               |                              |                 |                      | 6,937     | 33,543    |

<sup>(1)</sup> The weighted average rate is based on the carrying value at the end of the year for the respective securities.

<sup>(2)</sup> Includes carrying value of \$6,937 (2007 - \$33,543) and accrued interest of \$nil (2007 - \$nil).

## 5. SECURITIES (continued)

### Unrealized Gains and Losses on Securities

|  | 2008 (\$)      |                  |                   |            | 2007 (\$)      |                  |                   |            |
|--|----------------|------------------|-------------------|------------|----------------|------------------|-------------------|------------|
|  | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Government                             | 229,846        | 3,275            | (100)             | 233,021    | 518,882        | 398              | (4,162)           | 515,118    |
| Corporate                              | 444,441        | 917              | (16,719)          | 428,639    | 344,068        | 398              | (10,972)          | 333,494    |
| Mortgage backed                        | 143,810        | 389              | (1,624)           | 142,575    | 278,766        | 100              | (3,518)           | 275,348    |
| Asset backed                           | 80,837         | 11               | (2,074)           | 78,774     | 49,517         | 24               | (72)              | 49,469     |
| Accrued interest                       | 6,261          | -                | -                 | 6,261      | 9,792          | -                | -                 | 9,792      |
|  | 905,195        | 4,592            | (20,517)          | 889,270    | 1,201,025      | 920              | (18,724)          | 1,183,221  |
| Continuing operations                  | 898,258        | 4,592            | (20,517)          | 882,333    | 1,167,482      | 920              | (18,724)          | 1,149,678  |
| Discontinued operations <sup>(1)</sup> | 6,937          | -                | -                 | 6,937      | 33,543         | -                | -                 | 33,543     |

<sup>(1)</sup> Includes carrying value of \$6,937 (2007 - \$33,543) and accrued interest of \$nil (2007 - \$nil)

### Realized Gains and Losses on Securities

|   | 2008 (\$) | 2007 (\$) |
|---|-----------|-----------|
| Realized gains  | 3,575     | 1,158     |
| Realized losses   | (8)       | (273)     |
| Other than temporary impairment   | (11,755)  | (2,748)   |
| Other than temporary impairment related to assets managed on behalf of estates, trusts and agencies | (1,094)   | (1,762)   |
|   | (9,282)   | (3,625)   |
| Recovery of general allowance   | -         | 610       |
| Loss on securities  | (9,282)   | (3,015)   |

In August 2007, a market disruption event occurred in the Canadian financial sector. A large number of non-bank sponsored or third-party Asset Backed Commercial Paper (ABCP) conduits experienced a liquidity event or market disruption. Due to the lack of liquidity in the ABCP market, a group representing banks, assets providers and major investors reached the "Montreal Accord" on August 16, 2007, with respect to most of the conduits for ABCP. The Montreal Accord provides for a standstill agreement with respect to actions relating to ABCP outstanding for each of the covered conduits and is focused on restructuring the outstanding ABCP into long-term floating rate notes (FRNs).

In September 2007, the Pan-Canadian Investors Committee (the Committee) on non-bank-sponsored ABCP was formed. The Committee developed a restructuring plan (the Plan) for the frozen ABCP. On March 17, 2008, the Committee announced that it had filed an application with the Superior Court of Justice of Ontario under the *Companies' Creditors Arrangement Act* asking the court to call a meeting of ABCP noteholders to vote on the Committee's restructuring plan. The Plan proposes to replace the affected ABCP with new longer-term floating rate notes with maturities designed to more closely match the maturities of the underlying assets. The Plan also provides, in certain circumstances, for the pooling of certain assets

## 5. SECURITIES (continued)

into Master Asset Vehicles (MAV) as well as the establishment of new margin funding facilities to support any collateral calls that may occur in the future. The series of affected ABCP supported in whole or in part by synthetic assets will be pooled into MAV I for those investors who have elected to commit their pro rata share of a margin funding facility associated with their underlying assets and MAV II for investors who have elected to commit less than, or none of their pro rata share of a margin funding facility, in which case third parties will fund the remaining portion. In connection with the contribution to MAV I or MAV II of assets supported by the margin funding facility, investors will receive a mix of Class A-1, Class A-2, Class B, Class C and IA Tracking notes with an expected maturity of December 2016. A further vehicle secured exclusively by traditional assets or by 100% ineligible assets will be created under MAV III. Two main types of notes will be created in MAV III: TA tracking notes for traditional assets and IA tracking notes for ineligible assets. All tracking notes will be tied to the net return and maturities of their respective underlying assets.

The Plan was approved by approximately 96% of the noteholders on April 25, 2008 and, on June 5, 2008, the Superior Court of Justice of Ontario sanctioned the Plan for third-party structured ABCP. On December 24, 2008, the Committee announced that it had finalized a series of revisions to the existing Plan and announced a scheduled closing date of January 16, 2009 for the reorganization. Based on current holdings, the Company will receive various classes of MAV II and MAV III notes on the closing date. DBRS Limited (DBRS) provisionally rated the Class A-1 and Class A-2 Notes of MAV I and MAV II at A. DBRS is not rating any other notes that will be held by the Company.

As at December 31, 2008, the Company holds \$22,945 (2007 - \$11,945) principal amount of securities covered by the Montreal Accord. An additional \$11,000 of securities that are held by the Company were added to the Montreal Accord during 2008. Subsequent to December 31, 2008, on January 7, 2009 a \$6,000 holding included in the principal amount of securities covered by the Montreal Accord at December 31, 2008, matured and was repaid in full. On January 20, 2009, an additional \$3,145 holding included in the principal amount of securities covered by the Montreal Accord was repaid in full. Based on the anticipated repayment of these securities, the Company did not recognize an other than temporary impairment on these holdings at December 31, 2008.

It also manages \$14,800 (2007 - \$14,800) principal amount of ABCP with respect to assets managed on behalf of estates, trusts and agencies. These amounts represent approximately 4% (2007 - 2%) of the carrying value of the securities held by the Company. At the dates at which the Company acquired the investments, the ABCP was rated R-1 (High) by DBRS, the highest credit rating for commercial paper, since the ABCP is issued by conduits that are set up as special purpose entities holding tranches of securities rated AAA.

For purposes of valuation, the Company has based the valuation on existing underlying assets using the following approach: (1) review each conduit and classify the holding by asset type; (2) find model values for that asset class by applying appropriate leverage for the underlying assets; (3) model using appropriate indices to measure credit spreads; and, (4) recognize a value for cash that has been accumulated in the conduits that will be disbursed on closing of the Plan.

The Company has recorded as at December 31, 2008, a fair value impairment that is considered to be other than temporary in the amount of \$3,678 (2007 - \$2,748) related to the available-for-sale securities of the Company covered by the Montreal Accord and \$2,856 (2007 - \$1,762) related to the assets managed on behalf of estates, trusts and agencies.

## 5. SECURITIES (continued)

On January 21, 2009, the Company received various classes of MAV II and MAV III TA Tracking notes in exchange for the remaining principal amount of securities covered by the Montreal Accord at December 31, 2008. The Company also received MAV II notes of various classes in exchange for the principal amount of ABCP held at December 31, 2008 with respect to assets managed on behalf of estates, trust and agencies. In addition, the Company received approximately \$600 of interest (net of expenses) that had been accumulated in its holdings.

At December 31, 2008, the Company holds \$21,000 principal in Collateralized Debt Obligation (CDO) securities. At the date that the Company acquired these securities, they were rated AA or above. All of the CDO securities are currently performing in accordance with the contractual terms of the instrument, however, the Company has concluded that there is an other than temporary impairment due to concerns over credit quality as confirmed by deterioration in the published market rating from the original AA or above to BBB or below. Through a determination of the fair value of the holdings using a market based valuation model, as there is currently no active market for the CDO securities, the Company recorded an other than temporary fair value impairment of \$10,825 at December 31, 2008.

## 6. LOANS

|  | 2008 (\$)             |                      |                  |                    | 2007 (\$) |           |
|--|-----------------------|----------------------|------------------|--------------------|-----------|-----------|
|  | Residential Mortgages | Commercial Mortgages | Commercial Loans | Credit Union Loans | Total     | Total     |
| Performing                                     | 2,050,963             | 304,414              | 454,427          | 43,561             | 2,853,365 | 2,307,356 |
| Impaired                                       | 12,152                | -                    | 8,510            | -                  | 20,662    | 7,982     |
| Specific allowance                             | (69)                  | -                    | (2,227)          | -                  | (2,296)   | (3,219)   |
| Net impaired                                   | 12,083                | -                    | 6,283            | -                  | 18,366    | 4,763     |
| Property held for resale                       | 192                   | -                    | -                | -                  | 192       | 165       |
| Specific allowance                             | -                     | -                    | -                | -                  | -         | -         |
| Net property held for sale                     | 192                   | -                    | -                | -                  | 192       | 165       |
|  | 2,063,238             | 304,414              | 460,710          | 43,561             | 2,871,923 | 2,312,284 |
| General allowance                              |                       |                      |                  |                    | (10,422)  | (6,677)   |
| Accrued interest                               |                       |                      |                  |                    | 13,270    | 11,775    |
| Total loans net of allowance for credit losses |                       |                      |                  |                    | 2,874,771 | 2,317,382 |

Approximately 80.9% (2007 – 86.5%) of the loan portfolio bears interest at fixed rates and the remainder bears interest at variable rates. Approximately 71.3% (2007 – 74.9%) of the total loan portfolio is subject to interest penalties if the borrower repays or resets the interest rate prior to maturity.

## 6. LOANS (continued)

The repricing dates, which approximate maturity dates, and weighted average effective interest rates for the loan portfolio are as follows:

|                              | 2008 (\$)       |                         |                        |                |                  | 2007 (\$)        |
|------------------------------|-----------------|-------------------------|------------------------|----------------|------------------|------------------|
|                              | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years   | Total            | Total            |
| <b>Residential Mortgages</b> |                 |                         |                        |                |                  |                  |
| Amortized cost (\$)          | 90,266          | 235,806                 | 1,639,339              | 97,827         | 2,063,238        | 1,655,332        |
| Rate (%)                     | 5.97%           | 5.94%                   | 5.49%                  | 5.36%          | 5.56%            | 5.54%            |
| <b>Commercial mortgages</b>  |                 |                         |                        |                |                  |                  |
| Amortized cost (\$)          | 16,176          | 75,292                  | 169,255                | 43,691         | 304,414          | 265,911          |
| Rate (%)                     | 5.71%           | 5.18%                   | 5.94%                  | 5.25%          | 5.64%            | 6.10%            |
| <b>Commercial loans</b>      |                 |                         |                        |                |                  |                  |
| Amortized cost (\$)          | 139,791         | 78,376                  | 180,062                | 62,481         | 460,710          | 343,771          |
| Rate (%)                     | 4.27%           | 5.07%                   | 5.50%                  | 5.63%          | 5.08%            | 5.91%            |
| <b>Credit Union loans</b>    |                 |                         |                        |                |                  |                  |
| Amortized cost (\$)          | 28,561          | 15,000                  | -                      | -              | 43,561           | 47,270           |
| Rate (%)                     | 4.26%           | 3.17%                   | -                      | -              | 3.88%            | 5.18%            |
| <b>Amortized cost</b>        | <b>274,794</b>  | <b>404,474</b>          | <b>1,988,656</b>       | <b>203,999</b> | <b>2,871,923</b> | <b>2,312,284</b> |

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (1) less than 90 days past due, or (2) fully secured and collection efforts are reasonable expected to result in repayment.

|                                | 2008 (\$)     |               |                     |               | 2007 (\$)     |               |                     |               |
|--------------------------------|---------------|---------------|---------------------|---------------|---------------|---------------|---------------------|---------------|
|                                | 1 - 29 Days   | 30 - 89 Days  | 90 Days and Greater | Total         | 1 - 29 Days   | 30 - 89 Days  | 90 Days and Greater | Total         |
| Residential mortgages          | 42,357        | 18,127        | 17,046              | 77,530        | 25,710        | 11,328        | 7,840               | 44,878        |
| Commercial mortgages and loans | 635           | 93            | 819                 | 1,547         | 27            | 251           | 295                 | 573           |
| <b>Total</b>                   | <b>42,992</b> | <b>18,220</b> | <b>17,865</b>       | <b>79,077</b> | <b>25,737</b> | <b>11,579</b> | <b>8,135</b>        | <b>45,451</b> |

## 7. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the Company's general and specific allowances:

|  | 2008 (\$)                       |                |            |                                   |                    | Balance<br>End of<br>Year |
|--|---------------------------------|----------------|------------|-----------------------------------|--------------------|---------------------------|
|  | Balance<br>Beginning<br>of Year | Write<br>offs  | Recoveries | Provision<br>for Credit<br>Losses | Sale<br>Adjustment |                           |
| Residential mortgages                    | 1,501                           | (268)          | -          | 953                               | -                  | 2,186                     |
| Commercial mortgages                     | 1,485                           | -              | -          | 646                               | -                  | 2,131                     |
| Commercial loans                         | 6,910                           | (2,015)        | 135        | 3,371                             | -                  | 8,401                     |
| <b>Total allowance for credit losses</b> | <b>9,896</b>                    | <b>(2,283)</b> | <b>135</b> | <b>4,970</b>                      | <b>-</b>           | <b>12,718</b>             |
| Specific allowances                      |                                 |                |            |                                   |                    |                           |
| Residential mortgages                    | 97                              | (268)          | -          | 240                               | -                  | 69                        |
| Commercial mortgages                     | -                               | -              | -          | -                                 | -                  | -                         |
| Commercial loans                         | 3,122                           | (2,015)        | 135        | 985                               | -                  | 2,227                     |
| <b>Total specific allowances</b>         | <b>3,219</b>                    | <b>(2,283)</b> | <b>135</b> | <b>1,225</b>                      | <b>-</b>           | <b>2,296</b>              |
| General allowances                       |                                 |                |            |                                   |                    |                           |
| Residential mortgages                    | 1,404                           | -              | -          | 713                               | -                  | 2,117                     |
| Commercial mortgages                     | 1,485                           | -              | -          | 646                               | -                  | 2,131                     |
| Commercial loans                         | 3,788                           | -              | -          | 2,386                             | -                  | 6,174                     |
| <b>Total general allowances</b>          | <b>6,677</b>                    | <b>-</b>       | <b>-</b>   | <b>3,745</b>                      | <b>-</b>           | <b>10,422</b>             |
| <b>Total allowance for credit losses</b> | <b>9,896</b>                    | <b>(2,283)</b> | <b>135</b> | <b>4,970</b>                      | <b>-</b>           | <b>12,718</b>             |
| <b>2007 (\$)</b>                         |                                 |                |            |                                   |                    |                           |
| Continuing operations                    | 9,350                           | (138)          | 502        | 182                               | -                  | 9,896                     |
| Discontinued operations (Note 3)         | 9,597                           | (9,316)        | 4,449      | 4,688                             | (9,418)            | -                         |

## 8. ASSET SECURITIZATION

The Company sells portfolios of insured residential mortgages to a qualifying special purpose entity under the Canada Mortgage Bond Program. At December 31, the outstanding principal mortgage balance was \$639,551 (2007 - \$272,955). The Company has accounted for these transactions as a sale and has transferred all the risks and rewards associated with these assets to the third-party. The Company has retained the responsibility for servicing these mortgages. At December 31, the retained interest in the mortgage portfolio was \$29,719 (2007 - \$7,595) with an estimated fair value of \$32,801 (2007 - \$8,074). The Company does not expect to incur credit losses on insured residential mortgages.

The Company also sells Retirement Compensation Arrangement (RCA) loans to a qualifying special purpose entity. At December 31, the outstanding principal loan balance was \$233,989 (2007 - \$241,009). The Company has accounted for these transactions as a sale and has transferred all the risks and rewards associated with these assets to the third-party. The Company has retained the responsibility for servicing these loans in return for a fee for service. The Company does not hold a retained interest in the loan portfolio and is not liable for credit losses on the portfolio.

## 8. ASSET SECURITIZATION (continued)

In 2007, the Company wound up its securitization program related to the credit card receivable portfolio. This included the wind up of the cash reserve, retained interest, and servicing liability in the securitized credit card receivable portfolio, as a condition of the sale of the retail credit card business.

Prior to 2007, the Company sold a portfolio of uninsured residential mortgages to a qualifying special purpose entity. At December 31, the outstanding principal mortgage balance was \$83,556 (2007 - \$133,872). The Company has accounted for this transaction as a sale and has transferred all the risks and rewards associated with these assets to the third-party. The Company has retained the responsibility for servicing these mortgages. At December 31, the retained interest in the mortgage portfolio was \$3,536 (2007 - \$1,722) with an estimated fair value of \$3,536 (2007 - \$1,722) and the present value of the servicing liability was \$283 (2007 - \$538).

The following table summarizes the Company's securitization activities for 2008 and 2007, including certain cash flows.

|   | 2008 (\$)                            |                                    |           |                             |                         |
|---|--------------------------------------|------------------------------------|-----------|-----------------------------|-------------------------|
|   | Uninsured Residential Mortgage Loans | Insured Residential Mortgage Loans | RCA Loans | Total Continuing Operations | Discontinued Operations |
| Securitized and sold                        | -                                    | 417,489                            | -         | 417,489                     | -                       |
| Retained interest, allocated carrying value | -                                    | 27,510                             | -         | 27,510                      | -                       |
| Retained interest, estimated fair value     | -                                    | 29,291                             | -         | 29,291                      | -                       |
| Pre-tax gain on sale                        | -                                    | 21,163                             | -         | 21,163                      | -                       |
| Proceeds from new securitizations           | -                                    | 417,257                            | -         | 417,257                     | -                       |
| Proceeds from securitization wind-up        | -                                    | -                                  | -         | -                           | -                       |

|   | 2007 (\$)                            |                                    |           |                             |                         |
|---|--------------------------------------|------------------------------------|-----------|-----------------------------|-------------------------|
|   | Uninsured Residential Mortgage Loans | Insured Residential Mortgage Loans | RCA Loans | Total Continuing Operations | Discontinued Operations |
| Securitized and sold                        | -                                    | 276,698                            | 41,174    | 317,872                     | 75,000                  |
| Retained interest, allocated carrying value | -                                    | 8,120                              | -         | 8,120                       | -                       |
| Retained interest, estimated fair value     | -                                    | 8,347                              | -         | 8,347                       | -                       |
| Pre-tax gain on sale                        | -                                    | 4,298                              | -         | 4,298                       | 659                     |
| Proceeds from new securitizations           | -                                    | 275,694                            | 41,174    | 316,868                     | 73,875                  |
| Proceeds from securitization wind-up        | -                                    | -                                  | -         | -                           | 271,350                 |

## 8. ASSET SECURITIZATION (continued)

The following key assumptions are used to value the Company's retained interest:

|   | 2008 (%)                             |                                    | 2007 (%)                             |                                    |
|---|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
|   | Uninsured Residential Mortgage Loans | Insured Residential Mortgage Loans | Uninsured Residential Mortgage Loans | Insured Residential Mortgage Loans |
| <b>Expected weighted average life of pre-payable receivables (in years)</b> | 1.73                                 | 4.11                               | 2.28                                 | 4.55                               |
| Yield   | 5.04                                 | 5.78                               | 5.01                                 | 5.62                               |
| Payment rate  | 15.21                                | 20.10                              | 18.09                                | 19.73                              |
| Discount rate   | 2.32                                 | 2.69                               | 4.47                                 | 4.46                               |
| Cost of funds   | 2.25                                 | 3.78                               | 4.14                                 | 4.46                               |
| Expected credit losses  | 0.01                                 | 0.01                               | 0.01                                 | 0.02                               |
| Servicing rates   | 0.25                                 | 0.25                               | 0.25                                 | 0.25                               |

The following table presents key economic assumptions and the sensitivity of the current fair value of the retained interest in the event of two adverse changes in each key assumption as at December 31. This sensitivity analysis is hypothetical and should be used with caution.

|   | 2008 (\$)                            |                                    | 2007 (\$)                            |                                    |
|---|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
|   | Uninsured Residential Mortgage Loans | Insured Residential Mortgage Loans | Uninsured Residential Mortgage Loans | Insured Residential Mortgage Loans |
| <b>Weighted average remaining service life (in years)</b> | 1.73                                 | 4.11                               | 2.28                                 | 4.55                               |
| Yield   |                                      |                                    |                                      |                                    |
| Impact on fair value at 10% adverse change                | -                                    | -                                  | -                                    | -                                  |
| Impact on fair value at 20% adverse change                | -                                    | -                                  | -                                    | -                                  |
| Payment rate  |                                      |                                    |                                      |                                    |
| Impact on fair value at 10% adverse change                | (33)                                 | (136)                              | (29)                                 | (35)                               |
| Impact on fair value at 20% adverse change                | (66)                                 | (380)                              | (58)                                 | (117)                              |
| Discount rate   |                                      |                                    |                                      |                                    |
| Impact on fair value at 10% adverse change                | (13)                                 | (9)                                | -                                    | -                                  |
| Impact on fair value at 20% adverse change                | (44)                                 | (36)                               | -                                    | -                                  |
| Cost of funds   |                                      |                                    |                                      |                                    |
| Impact on fair value at 10% adverse change                | (241)                                | -                                  | (941)                                | -                                  |
| Impact on fair value at 20% adverse change                | (483)                                | -                                  | (1,882)                              | -                                  |
| Expected credit losses                                    |                                      |                                    |                                      |                                    |
| Impact on fair value at 10% adverse change                | 0                                    | 0                                  | 0                                    | 0                                  |
| Impact on fair value at 20% adverse change                | 0                                    | 0                                  | 0                                    | 0                                  |

## 8. ASSET SECURITIZATION (continued)

The Company acts as an intermediary with a third-party in a securitization of residential mortgages, in exchange for a fixed program fee. The outstanding balance of the securitized mortgages at December 31 was \$27,553 (2007 - \$49,576). The Company has retained a counterparty risk in these transactions if one party fails to meet their obligations under the securitization agreements.

The Company also provides securitization co-ordination services to credit unions across Canada on a fee for service basis.

## 9. PREMISES AND EQUIPMENT

|                           | 2008 (\$) |                          |                | 2007 (\$) |                          |                |
|---------------------------|-----------|--------------------------|----------------|-----------|--------------------------|----------------|
|                           | Cost      | Accumulated Amortization | Net Book Value | Cost      | Accumulated Amortization | Net Book Value |
| Land                      | 517       | -                        | 517            | 517       | -                        | 517            |
| Building and improvements | 7,985     | 5,796                    | 2,189          | 7,712     | 5,361                    | 2,351          |
| Equipment                 | 6,651     | 4,003                    | 2,648          | 6,501     | 3,596                    | 2,905          |
|                           | 15,153    | 9,799                    | 5,354          | 14,730    | 8,957                    | 5,773          |

Current year amortization expense of \$1,439 (2007 - \$1,338) is included in non-interest expense.

Equipment with a carrying value of \$470 (2007 - \$304) is under development and therefore has not been amortized during the year.

## 10. GOODWILL

The Company has completed the annual test for goodwill impairment and has determined that the goodwill is not impaired. In the prior year, the retail credit card business was disposed of and the corresponding goodwill related to that business was written off.

The carrying amounts of goodwill are as follows:

|                            | 2008 (\$)                |                                  | 2007 (\$)                |                                  |
|----------------------------|--------------------------|----------------------------------|--------------------------|----------------------------------|
|                            | Financial Intermediation | Discontinued Operations (Note 3) | Financial Intermediation | Discontinued Operations (Note 3) |
| Balance, beginning of year | 19,248                   | -                                | 19,248                   | 1,580                            |
| Disposals during the year  | -                        | -                                | -                        | 1,580                            |
| Balance, end of year       | 19,248                   | -                                | 19,248                   | -                                |

## 11. OTHER ASSETS

|  | 2008 (\$)             |                                  | 2007 (\$)             |                                  |
|--|-----------------------|----------------------------------|-----------------------|----------------------------------|
|  | Continuing Operations | Discontinued Operations (Note 3) | Continuing Operations | Discontinued Operations (Note 3) |
| Accounts receivable and other accruals | 5,359                 | 1,546                            | 13,203                | 17,267                           |
| Prepaid and deferred costs             | 138                   | -                                | 141                   | -                                |
| Derivative related assets (Note 21)    | 34,865                | -                                | 9,215                 | -                                |
| Investment in CAI Acquiring (Note 19)  | -                     | 43                               | -                     | 10,865                           |
| Other investments                      | -                     | -                                | 5                     | -                                |
| Future income tax assets (Note 18)     | 1,434                 | 579                              | 3,817                 | 789                              |
|  | 41,796                | 2,168                            | 26,381                | 28,921                           |

## 12. DEPOSITS

The repricing dates, which approximate maturity dates, and weighted average effective interest rates for the Company's deposits are as follows:

|                     | 2008 (\$) |                 |                         |                        |              | 2007 (\$) |           |
|---------------------|-----------|-----------------|-------------------------|------------------------|--------------|-----------|-----------|
|                     | On Demand | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total     | Total     |
| Deposits            |           |                 |                         |                        |              |           |           |
| Amortized cost (\$) | 555,497   | 488,716         | 1,200,588               | 1,240,843              | 3,150        | 3,488,794 | 2,946,642 |
| Rate (%)            | 1.33%     | 3.42%           | 3.97%                   | 4.33%                  | 4.57%        | 3.60%     | 4.24%     |
| Accrued interest    |           |                 |                         |                        |              | 45,599    | 42,895    |
|                     |           |                 |                         |                        |              | 3,534,393 | 2,989,537 |

Deposits bear interest at rates determined by market conditions.

## 13. LOANS AND NOTES PAYABLE

|  | 2008 (\$) | 2007 (\$) |
|--|-----------|-----------|
| Lines of credit  | 9,115     | -         |
| Notes payable  | -         | 7,919     |
| Obligations related to assets sold under repurchase agreements | -         | 353,091   |
|  | 9,115     | 361,010   |

The Company maintains a line of credit facility with SaskCentral of \$50,000 (2007 - \$50,000). The line of credit bears interest at prime less 0.50% (2007 - prime less 0.50%) with an effective interest rate at December 31 of 3.00% (2007 - 5.50%) and an outstanding balance of \$9,115 (2007 - \$nil). The line of credit is partially secured by a deposit of \$20,000 (2007 - \$20,000) held by SaskCentral.

### 13. LOANS AND NOTES PAYABLE (continued)

The Company also maintains line of credit facilities with another financial institution of \$250,000 (2007 - \$250,000). The lines of credit bear interest at the bankers acceptance rate plus 0.45% (2007 - 0.25%) and are secured by residential mortgages.

The Company is authorized to issue a maximum of \$300,000 (2007 - \$300,000) under a commercial paper program. The Company has pledged securities with a market value of \$210,000 (2007 - \$210,000) to support commercial paper issuance. Notes payable, which consists of commercial paper maturing within 90 days and at December 31 had a weighted average effective interest rate of nil% (2007 - 5.23%). The Company has additional credit facilities of \$500,000 (2007 - \$500,000) related to securities repurchase agreements, subject to availability of qualified securities, for which outstanding balances of \$nil (2007 - \$353,091) are secured by pledged securities. At December 31, 2007, these repurchase agreements matured within three months and had a weighted average effective interest rate of 4.31%.

### 14. OTHER LIABILITIES

|  | 2008 (\$)             |                                  | 2007 (\$)             |                                  |
|--|-----------------------|----------------------------------|-----------------------|----------------------------------|
|  | Continuing Operations | Discontinued Operations (Note 3) | Continuing Operations | Discontinued Operations (Note 3) |
| Accounts payable and accrued expenses    | 19,320                | 11                               | 11,806                | 2,816                            |
| Derivative related liabilities (Note 21) | 58,788                | -                                | 11,934                | -                                |
| Deferred revenue                         | 584                   | 5,019                            | 818                   | 6,844                            |
|  | 78,692                | 5,030                            | 24,558                | 9,660                            |

### 15. SUBORDINATED DEBENTURES

The debentures are unsecured obligations and are subordinate in right of payment to the claims of depositors and certain other creditors. All cancellations, redemptions and exchanges of subordinated debentures are subject to the consent and approval of OSFI.

During the year, the company issued Variable Rate subordinated debentures totalling \$25,000. The Company also redeemed the Class C subordinated debentures totalling \$22,468 and the No. 3 subordinated debentures totalling \$10,000 due to the sale and discontinuance of the Card Operations. In 2007, the Company issued Series A Reset subordinated debentures totalling \$15,000.

**15. SUBORDINATED DEBENTURES (continued)**

|   | <b>2008 (\$)</b> | <b>2007 (\$)</b> |
|---|------------------|------------------|
| <b>Continuing Operations</b>            |                  |                  |
| Series One                              | 13,350           | 13,350           |
| Series A Reset                          | 15,000           | 15,000           |
| Issuance costs                          | (323)            | (396)            |
| Premium on issuance                     | 11               | 13               |
| Series A Reset                          | 14,688           | 14,617           |
| Variable Rate                           | 25,000           | -                |
| Issuance costs                          | (26)             | -                |
| Variable Rate                           | 24,974           | -                |
| Accrued interest                        | 558              | 544              |
|   | <b>53,570</b>    | <b>28,511</b>    |
| <b>Discontinued Operations (Note 3)</b> |                  |                  |
| Class C                                 | -                | 22,468           |
| No. 3                                   | -                | 10,000           |
|   | <b>-</b>         | <b>32,468</b>    |

The Series One non-convertible subordinated debentures, issued August 15, 2006, are unsecured and subordinated to deposits and other liabilities of the Company. Interest for the first 10 years is payable at a fixed rate set on August 15, 2006 equal to the current Government of Canada ten-year bond rate as announced by the Bank of Canada, plus 1.50% (5.82% at December 31, 2008; 5.82% at December 31, 2007). Interest for the final 5 years is payable at a fixed rate set on August 15, 2016 equal to the Government of Canada five-year bond rate as announced by the Bank of Canada, plus 1.75%. The maturity date of the debentures is August 15, 2021. The debentures are redeemable, at the option of the Company and subject to the approval of OSFI, not earlier than August 15, 2016. These debentures qualify as tier 2B capital.

Series A Reset subordinated debentures in two tranches totaling \$15,000 were issued on June 26, 2007 and July 11, 2007 and are unsecured and subordinated to deposits and other liabilities of the Company. Interest for the first 5 years is payable semi-annually at a fixed rate equal to the current Government of Canada five-year bond rate as announced by the Bank of Canada, plus 1.55% (6.21% at December 31, 2008; 6.21% at December 31, 2007). Interest for the final 5 years is set equal to the 90-day bankers acceptance rate plus 2.05%, payable quarterly. The maturity date of the debentures is September 26, 2017. The debentures are redeemable at the option of the Company and subject to the approval of OSFI. These debentures qualify as tier 2B capital.

Variable Rate subordinated debentures, issued July 30, 2008, are unsecured and subordinated to deposits and other liabilities of the Company. Interest for the first 5 years is payable quarterly at an adjusted floating rate equal to the three month Canadian Deposit Offering Rate (CDOR) plus 2.00% (3.63% at December 31, 2008). Interest for the final 5 years is a quarterly adjusted floating rate equal to the three month CDOR plus 2.50%, payable quarterly. The maturity date of the debentures is September 26, 2018. The debentures are redeemable at the option of the Company and subject to the approval of OSFI. These debentures qualify as tier 2B capital.

## 15. SUBORDINATED DEBENTURES (continued)

During 2008, Class C subordinated debentures were redeemed on September 15 subsequent to receiving OSFI approval on September 5. These subordinated debentures, issued April 1, 2005, were unsecured and subordinated to deposits and other liabilities of the Company. The interest rate on the debentures was established quarterly and was not to exceed 10% (3.86% at September 15, 2008; 5.49% at December 31, 2007). The maturity date of the debentures was December 19, 2015. The Company could redeem all or any portion of the principal amount of the debentures subject to the approval of OSFI. These debentures qualified as tier 2B capital.

During 2008, the No. 3 subordinated debentures were redeemed on July 21 subsequent to receiving OSFI approval on July 15. These subordinated debentures, issued March 29, 2006, were unsecured and subordinated to deposits and other liabilities of the Company. The interest rate on the debentures was established quarterly at the average of the major bank three month bankers acceptance rates, plus 0.45% (3.74% at July 21, 2008; 5.26% at December 31, 2007). The maturity date of the debentures was March 29, 2017. The subordinated debentures could not be redeemed in any event, including maturity, without approval of OSFI. These debentures qualified as tier 2B capital.

## 16. SHARE CAPITAL

The Company is authorized to issue an unlimited number of membership shares, an unlimited number of Class A shares, 399,054 Class B shares and 2,000 Class C shares.

Membership shares may only be issued at such time and to such persons as determined by a resolution of the Board of Directors (the Board). Membership shares are issued and redeemed at Ten Dollars (\$10.00) per share and can only be transferred or redeemed subject to approval by the Board. Voting privileges are restricted to membership shares based on one vote per member, regardless of the number of membership shares held by a member.

Class A – Series 1 shares are entitled to receive dividends as declared by the Board and may only be issued to the holders of membership shares. Class A – Series 2 shares have the same entitlements as Class A – Series 1 shares except they may only be issued to SaskCentral or an affiliate of SaskCentral.

Class B shares are entitled to an annual, non-cumulative dividend of \$0.78 per share (2007 - \$0.78), subject to the rights of the Class C shares.

Class C shares are issued exclusively to SaskCentral or Alberta Central. Distribution of the earnings of the Card Operations is in accordance with the related Class C share agreements. These agreements result in 95% of the Card Operations earnings before October 1, 2007, and 100% of the subsequent Card Operations earnings, and 100% of the gain on any sale of the Card Operations being distributed by way of declaration of dividends to the Class C shareholders. Retained earnings of \$4,048 (2007 - \$12,142) are allocated to the Card Operations and are subject to distribution to the Class C shareholders based on the Class C share agreements.

The Class C shares were issued to provide capital for the Card Operations. Since the retail credit card business was sold effective October 1, 2007 and the merchant processing business conducted by CAI Acquiring through the UNPS partnership was sold effective January 1, 2008, the Card Operations held no active business assets and as such there were no further capital requirements. Therefore, on

## 16. SHARE CAPITAL (continued)

December 23, 2008, the stated capital of the Class C shares issued was reduced from \$8 million to \$2.00 in accordance with section 82 of the Cooperative Credit Associations Act (Canada) upon the approval of OSFI on December 19, 2008 and was credited to contributed surplus. Subsequently, on December 23, 2008, a dividend equal to the reduction in stated capital was paid to the holders of the Class C shares and was charged to contributed surplus. The issued Class C shares will remain outstanding until the expiration of the restriction period of the NCA (Note 3). Upon the expiration, the Class C shares can be redeemed for the book value which is defined as the stated value of the Class C shares plus any remaining retained earnings allocated to the Class C shares.

|   | 2008 (\$) | 2007 (\$) |
|---|-----------|-----------|
| <b>Contributed surplus</b>                    |           |           |
| Contributed surplus, beginning of year        | -         | -         |
| Reduction in stated capital of Class C shares | 8,000     | -         |
| Dividends paid to Class C shareholders        | (8,000)   | -         |
| Contributed surplus, end of year              | -         | -         |

The following table summarizes the shares issued and outstanding at December 31:

|                    | 2008                       |         | 2007                       |         |
|--------------------|----------------------------|---------|----------------------------|---------|
|                    | Number of<br>Shares Issued | \$      | Number of<br>Shares Issued | \$      |
| Membership Shares  | 3,381                      | 34      | 3,361                      | 34      |
| Class A – Series 1 | 3,400,582                  | 34,365  | 3,400,582                  | 34,365  |
| Class A – Series 2 | 6,186,170                  | 98,855  | 6,186,170                  | 98,855  |
| Class B            | 399,054                    | 3,990   | 399,054                    | 3,990   |
| Class C            | 2,000                      | -       | 2,000                      | 8,000   |
|                    |                            | 137,244 |                            | 145,244 |

The Company issued 20 (2007 – 12) membership shares during the year.

## 17. PENSION BENEFITS

The Company provides pension benefits to qualified employees. Pension benefits of \$1,410 (2007 - \$1,482) were paid to defined contribution and supplementary employee retirement plans. These costs are included in salaries and employee benefits. As a defined contribution pension plan, the Company has no future liability or obligation for future contributions to fund benefits to plan members.

## 18. PROVISION FOR INCOME TAXES

Income taxes are included in the consolidated statement of income as follows:

|  | 2008 (\$) | 2007 (\$) |
|--|-----------|-----------|
| Continuing operations                                    |           |           |
| Current income tax (recovery) expense                    | (251)     | 1,152     |
| Future income tax expense (recovery)                     | 1,766     | (76)      |
|  | 1,515     | 1,076     |
| Income from discontinued operations, net of tax (Note 3) |           |           |
| Current income tax expense                               | -         | 4,883     |
| Future income tax expense (recovery)                     | 210       | (1,237)   |
|  | 210       | 3,646     |
|  | 1,725     | 4,722     |

Income taxes are included in the consolidated statement of comprehensive income as follows:

|   | 2008 (\$) | 2007 (\$) |
|---|-----------|-----------|
| Net unrealized gains (losses) on available-for-sale securities                |           |           |
| Current income tax recovery   | (2,168)   | (2,307)   |
| Future income tax expense (recovery)  | 858       | (497)     |
|   | (1,310)   | (2,804)   |
| Reclassification of (gains) losses on available-for-sale securities to income |           |           |
| Current income tax expense  | 1,499     | 273       |
|   | 189       | (2,531)   |

Income taxes are included in the consolidated statements of retained earnings and accumulated other comprehensive income (loss) as follows:

|   | 2008 (\$) | 2007 (\$) |
|---|-----------|-----------|
| Retained earnings                                     |           |           |
| Transition adjustment, financial instruments (Note 2) |           |           |
| Future income tax recovery                            | -         | (260)     |
| Reduction in income taxes due to payment of dividends |           |           |
| Current income tax recovery                           | (1,601)   | (3,745)   |
| Accumulated other comprehensive income (loss)         |           |           |
| Transition adjustment, financial instruments (Note 2) |           |           |
| Future income tax recovery                            | -         | (629)     |
|   | (1,601)   | (4,634)   |

Total income tax reported in the consolidated financial statements:

|  | 2008 (\$) | 2007 (\$) |
|--|-----------|-----------|
|  | 313       | (2,443)   |

## 18. PROVISION FOR INCOME TAXES (continued)

Dividends, which are reflected in retained earnings, are normally deductible in determining current income subject to tax. A portion of the dividends paid in the current year were paid subject to a tax election whereby the dividends were not deductible in determining current income subject to tax. The reduction in income tax resulting from the payment of dividends deductible in determining current income subject to tax is reflected in retained earnings.

Reconciliation of the provision for income taxes from continuing operations:

|   | 2008 (\$) | 2007 (\$) |
|---|-----------|-----------|
| Combined federal and provincial income tax rate applied to income from operations | 1,191     | 753       |
| Provision for income taxes adjusted for the effect of:                            |           |           |
| Non-taxable dividend income   | -         | (146)     |
| Non-deductible expenses   | 35        | 39        |
| Future income tax expense resulting from tax rate changes                         | -         | 66        |
| Other   | 289       | 364       |
|   | 1,515     | 1,076     |

The components of future income taxes are as follows:

|   | 2008 (\$)             |                                  | 2007 (\$)             |                                  |
|---|-----------------------|----------------------------------|-----------------------|----------------------------------|
|   | Continuing Operations | Discontinued Operations (Note 3) | Continuing Operations | Discontinued Operations (Note 3) |
| Future income tax assets                      |                       |                                  |                       |                                  |
| Securities                                    | 1,736                 | -                                | 224                   | -                                |
| Loans   | -                     | -                                | 2,051                 | -                                |
| Accumulated other comprehensive income (loss) | 254                   | -                                | 1,126                 | -                                |
| Deferred revenue                              | -                     | 556                              | -                     | 758                              |
| Other   | 156                   | 23                               | 134                   | 31                               |
|   | 2,146                 | 579                              | 3,535                 | 789                              |
| Future income tax liabilities                 |                       |                                  |                       |                                  |
| Loans   | (950)                 | -                                | -                     | -                                |
| Other   | (244)                 | -                                | (420)                 | -                                |
|   | (1,194)               | -                                | (420)                 | -                                |
| Net future income taxes                       | 952                   | 579                              | 3,115                 | 789                              |

## 18. PROVISION FOR INCOME TAXES (continued)

Net future income taxes are recorded in:

|                               | 2008 (\$)             |                                  | 2007 (\$)             |                                  |
|-------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|
|                               | Continuing Operations | Discontinued Operations (Note 3) | Continuing Operations | Discontinued Operations (Note 3) |
| Future income tax assets      |                       |                                  |                       |                                  |
| Other assets (Note 11)        | 1,434                 | 579                              | 3,817                 | 789                              |
|                               | 1,434                 | 579                              | 3,817                 | 789                              |
| Future income tax liabilities |                       |                                  |                       |                                  |
| Securities                    | (38)                  | -                                | (156)                 | -                                |
| Loans                         | (444)                 | -                                | (546)                 | -                                |
|                               | (482)                 | -                                | (702)                 | -                                |
| Net future income taxes       | 952                   | 579                              | 3,115                 | 789                              |

## 19. INVESTMENT IN CAI ACQUIRING

The Company purchased 100% of the common shares of CAI Acquiring on May 10, 2002. CAI Acquiring was incorporated to acquire and service the credit card merchant processing business through its 48% partnership interest in Unified Network Payment Solutions (UNPS). This partnership interest was sold effective January 1, 2008 as disclosed in Note 3. The shares held in CAI Acquiring were subsequently sold to the Class C shareholders effective January 1, 2009 at the net book value of the investment in CAI Acquiring, which approximated the fair value at the time of the sale.

The Company had contracted a third party to manage the operations of CAI Acquiring under the terms of the UNPS Support Services Agreement prior to the sale of the partnership interest.

Due to the provisions of the Class C Shares as described in Note 16, it has been determined that CAI Acquiring is a variable interest entity of which the Company is not the primary beneficiary as the majority of the variability in the earnings are absorbed by the holders of the Class C shares. As a result of the provisions of the Class C shares, the equity at risk of CAI Acquiring lacks the characteristics of a controlling financial interest.

The Company's maximum exposure to loss in relation to CAI Acquiring is restricted to the carrying value of the equity investment. Since the equity investment was sold subsequent to year end at net book value, no losses are expected.

The Company's investment in CAI Acquiring is being accounted for in accordance with the equity method of accounting as the Company does have significant influence through its equity investment. Distributions of Card Operations earnings derived from the Company's investment in CAI Acquiring are in accordance with the related Class C share agreements. These agreements result in 95% of the CAI Acquiring earnings before October 1, 2007, and 100% of the subsequent CAI Acquiring earnings, and 100% of the gain on any sale of the CAI Acquiring operations being distributed by way of declaration of dividends to the Class C shareholders.

## 19. INVESTMENT IN CAI ACQUIRING (continued)

The following table summarizes the consolidated financial statements of CAI Acquiring:

|  | 2008 (\$) | 2007 (\$) |
|--|-----------|-----------|
| Assets   | 395       | 17,631    |
| Liabilities                                      | 352       | 6,766     |
| Non-interest income                              | 275       | 30        |
| Non-interest expense                             | 104       | 1,455     |
| Income from significantly influenced partnership | -         | 4,314     |
| Gain on sale of partnership interest             | 829       | -         |
| Provision for income taxes                       | (208)     | 24        |
| Cash flows used in operating activities          | (5,058)   | (192)     |
| Cash flows from investing activities             | 16,519    | 2,099     |
| Cash flows used in financing activities          | (12,030)  | (2,714)   |

The following table summarizes the carrying amount of the Company's investment in CAI Acquiring:

|                               | 2008 (\$) | 2007 (\$) |
|-------------------------------|-----------|-----------|
| Equity, beginning of year     | 10,865    | 10,714    |
| Net earnings (Note 3)         | 1,208     | 2,865     |
| Distributions                 | (12,030)  | (2,714)   |
| Equity, end of year (Note 11) | 43        | 10,865    |

## 20. RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at the exchange amount which is the consideration established and agreed to by the parties. Some of these transactions and balances are recorded in the discontinued operations. The following table summarizes the balances outstanding at year end and transactions during the year not noted elsewhere in the consolidated financial statements.

SaskCentral provides banking and credit services for the Company. The Company provides consultative and administrative services to SaskCentral. It has been determined through the attributes of the Class C shares (Note 16) that SaskCentral is the primary beneficiary of the positive and negative variability of the Company's earnings.

CU Electronic Transaction Services (CUETS) provided management support for the Card Operations and CAI Acquiring under the terms of Management Support Services Agreement until the sale of the retail credit card business. CUETS is a joint venture owned equally by SaskCentral and Alberta Central.

Celero Solutions provides information technology services and support under the terms of a support services agreement.

## 20. RELATED PARTY TRANSACTIONS (continued)

|  | 2008 (\$) | 2007 (\$) |
|--|-----------|-----------|
| <b>SaskCentral</b>                             |           |           |
| Dividends paid to                              | 10,200    | 14,353    |
| Cash deposited with                            | -         | 33,005    |
| Securities invested with                       | 20,000    | 20,000    |
| Interest earned on deposits and securities     | 845       | 786       |
| Interest receivable on deposits and securities | 802       | -         |
| Interest paid to                               | 719       | 1,046     |
| Interest payable to                            | 21        | -         |
| Due from included in other assets              | 184       | 3,574     |
| Fee for service received from                  | 653       | 1,091     |
| Non-interest expenses paid to                  | 685       | 684       |
| <b>CUETS</b>                                   |           |           |
| Deposits payable to                            | 1,883     | 4,379     |
| Card fees paid to                              | -         | 13,005    |
| Revenue sharing received from                  | -         | 14,313    |
| Management fee paid to                         | -         | 15,630    |
| Due to included in other liabilities           | -         | 3,785     |
| Interest paid to                               | 63        | -         |
| <b>Celero Solutions</b>                        |           |           |
| Loan receivable from                           | 3,885     | 3,893     |
| Due to included in other liabilities           | 853       | 729       |
| Fee for service received from                  | 271       | 317       |
| Fee for service paid to                        | 4,957     | 4,331     |
| <b>CAI Acquiring</b>                           |           |           |
| Deposits payable to                            | 395       | 964       |
| Interest paid to                               | 279       | -         |

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. Derivative contracts are expressed in notional amounts. The notional amounts, which are off-balance sheet, do not represent amounts exchanged and, thus, are not a measure of the Company's exposure through the use of derivatives. The notional amount is the reference amount used to determine the payment required by contract and are a common measure of business volume.

Swaps are contractual agreements to exchange a series of cash flows based on agreed upon rates to a notional amount. Interest rate swaps are used to manage exposure to interest rate risk by modifying the repricing or maturity characteristics of assets and liabilities. Exposure is managed through the exchange of fixed and floating interest rate payments based on notional amounts.

**21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell financial instruments at a fixed price at a fixed future date or within a fixed future period. For options purchased, a premium is paid for the right to exercise the option.

Foreign exchange forward contracts are contractual obligations to buy or sell one currency against another, for settlement on the day the contract expires. A forward contract manages the risk of fluctuating exchange rates by locking in a current price for a transaction that will take place in the future. Exposure is managed through entering into forward contracts.

The derivatives currently held or issued are for non-trading purposes. These derivatives are used in managing the Company's asset/liability activities and include investing and hedging activities. The Company may also hold or issue derivatives for trading purposes.

**Notional Amounts and Term to Maturity**

|                                   | 2008 (\$)          |                               |                              |                 |           | 2007 (\$) |                          |           |
|-----------------------------------|--------------------|-------------------------------|------------------------------|-----------------|-----------|-----------|--------------------------|-----------|
|                                   | Within<br>3 Months | Over<br>3 Months<br>to 1 Year | Over<br>1 Year<br>to 5 Years | Over<br>5 Years | Total     | Trading   | Other<br>than<br>Trading | Total     |
| <b>Asset/Liability Management</b> |                    |                               |                              |                 |           |           |                          |           |
| Interest rate contracts           |                    |                               |                              |                 |           |           |                          |           |
| Interest rate swaps               | 25,000             | 108,022                       | 1,374,121                    | 87,669          | 1,594,812 | -         | 1,594,812                | 1,321,608 |
| Forward rate agreement            | -                  | -                             | 6,419                        | -               | 6,419     | -         | 6,419                    | 557       |
| Options purchased                 | -                  | -                             | 1,253                        | -               | 1,253     | -         | 1,253                    | 1,550     |
| Foreign exchange contracts        | 62,456             | -                             | -                            | -               | 62,456    | -         | 62,456                   | 20        |
|                                   | 87,456             | 108,022                       | 1,381,793                    | 87,669          | 1,664,940 | -         | 1,664,940                | 1,323,735 |
| <b>As intermediary</b>            |                    |                               |                              |                 |           |           |                          |           |
| Interest rate contracts           |                    |                               |                              |                 |           |           |                          |           |
| Interest rate swaps               | 40,000             | 146,714                       | 863,646                      | 22,181          | 1,072,541 | -         | 1,072,541                | 735,213   |
| Forward rate agreement            | -                  | -                             | 1,600                        | 1,600           | 3,200     | -         | 3,200                    | 3,200     |
| Foreign exchange contracts        | -                  | -                             | -                            | -               | -         | -         | -                        | 21,605    |
|                                   | 40,000             | 146,714                       | 865,246                      | 23,781          | 1,075,741 | -         | 1,075,741                | 760,018   |

## 21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### Fair Value of Derivative Financial Instruments

|                                   | 2008 (\$) |          | 2007 (\$) |          |
|-----------------------------------|-----------|----------|-----------|----------|
|                                   | Positive  | Negative | Positive  | Negative |
| <b>Asset/Liability Management</b> |           |          |           |          |
| Interest rate contracts           |           |          |           |          |
| Interest rate swaps               | 8,381     | 41,490   | 2,720     | 5,989    |
| Forward Rate Agreement            | 9,016     | -        | -         | -        |
| Options purchased                 | 183       | -        | 336       | -        |
| Foreign exchange contracts        | 18        | -        | -         | -        |
|                                   | 17,598    | 41,490   | 3,056     | 5,989    |
| <b>As intermediary</b>            |           |          |           |          |
| Interest rate contracts           |           |          |           |          |
| Interest rate swaps               | 17,134    | 17,182   | 2,497     | 2,388    |
| Forward rate agreement            | 133       | 116      | 64        | 64       |
| Foreign exchange contracts        | -         | -        | 370       | -        |
|                                   | 17,267    | 17,298   | 2,931     | 2,452    |

The Company is exposed to credit related losses in the event of non-performance by the counterparties to derivative contracts. The Company's credit exposure on the interest rate contracts is limited to the positive replacement cost (fair value) of the instruments as this represents the cost to replace these contracts at prevailing market rates if a default occurred. The Company mitigates exposures by limiting the counterparties to interest rate contracts to credit worthy Canadian financial institutions.

Credit risk is measured by using a credit equivalent amount. The credit equivalent amount is derived from the sum of the positive replacement cost and the potential credit risk exposure which reflects the potential change in replacement cost in relation to the remaining term to maturity of the contract. The risk-weighted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

The following table provides information in relation to the Company's credit risk exposure for derivative financial transactions. Positive replacement cost is derived from the fair value of derivative financial instruments (Note 4). Potential credit risk exposure and risk-weighted equivalents are calculated in accordance with OSFI capital adequacy guidelines.

|                                | 2008 (\$)               |         |                            |           | 2007 (\$) |
|--------------------------------|-------------------------|---------|----------------------------|-----------|-----------|
|                                | Interest Rate Contracts | Options | Foreign Exchange Contracts | Total     | Total     |
| Notional amounts               | 2,676,972               | 1,253   | 62,456                     | 2,740,681 | 966,163   |
| Positive replacement cost      | 34,664                  | 183     | 18                         | 34,865    | 5,988     |
| Potential credit risk exposure | 12,901                  | 100     | 625                        | 13,626    | 6,000     |
| Credit equivalent amount       | 47,564                  | 283     | 643                        | 48,490    | 11,988    |
| Risk-weighted equivalent       | 9,513                   | 57      | 129                        | 9,699     | 2,512     |

## 21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### Unrealized and Realized Gains and Losses on Derivatives

|   | 2008 (\$) | 2007 (\$) |
|---|-----------|-----------|
| Realized (losses) gains on derivatives                | (4,938)   | (1,289)   |
| Unrealized (losses) gains on derivatives              | (19,209)  | (1,320)   |
| Unrealized and realized gains (losses) on derivatives | (24,147)  | (2,609)   |

## 22. CONTRACTUAL REPRICING SCHEDULE

The Company's exposure to interest rate risk can be measured by the mismatch, or gap, between the assets, liabilities and off-balance sheet instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time periods.

Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield. The table below shows the Company's gap position as at December 31.

The Company's interest rate sensitivity position, as measured based on the current position at December 31, 2008 and assuming a 1% decline in interest rates, would be a decrease in adjusted net interest income over the next 12 months of \$3,674 (2007 - \$5,005) if no remedial action was taken by the Company.

## 22. CONTRACTUAL REPRICING SCHEDULE (continued)

|  | 2008 (\$) |                 |                         |                        |              |                        |             |
|--|-----------|-----------------|-------------------------|------------------------|--------------|------------------------|-------------|
|  | On Demand | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Non-Interest Sensitive | Total       |
| <b>Assets</b>                                  |           |                 |                         |                        |              |                        |             |
| Cash resources                                 | 11,114    | -               | -                       | -                      | -            | -                      | 11,114      |
| Securities                                     | -         | 257,247         | 41,367                  | 269,331                | 303,485      | 10,903                 | 882,333     |
| Effective interest rate (%)                    | -         | 3.12%           | 4.40%                   | 4.63%                  | 4.68%        |                        |             |
| Loans  | 541,022   | 135,283         | 307,854                 | 1,720,798              | 161,409      | 8,405                  | 2,874,771   |
| Effective interest rate (%)                    | 4.08%     | 5.95%           | 5.93%                   | 5.80%                  | 5.57%        |                        |             |
| Other assets                                   | -         | -               | -                       | -                      | -            | 66,398                 | 66,398      |
| Assets from discontinued operations            | -         | 6,937           | -                       | -                      | -            | 2,168                  | 9,105       |
|  | 552,136   | 399,467         | 349,221                 | 1,990,129              | 464,894      | 87,874                 | 3,843,721   |
| <b>Liabilities</b>                             |           |                 |                         |                        |              |                        |             |
| Deposits                                       | 555,497   | 488,716         | 1,200,588               | 1,240,837              | 3,156        | 45,599                 | 3,534,393   |
| Effective interest rate (%)                    | 1.43%     | 3.42%           | 3.97%                   | 4.33%                  | 4.56%        |                        |             |
| Loans and notes payable                        | -         | 9,115           | -                       | -                      | -            | -                      | 9,115       |
| Effective interest rate (%)                    | -         | 3.00%           | -                       | -                      | -            |                        |             |
| Subordinated debentures                        | -         | 25,000          | -                       | 15,000                 | 13,350       | 220                    | 53,570      |
| Effective interest rate (%)                    | -         | 3.63%           | -                       | 6.21%                  | 5.82%        |                        |             |
| Other liabilities                              | -         | -               | -                       | -                      | -            | 78,692                 | 78,692      |
| Liabilities from discontinued operations       | -         | -               | -                       | -                      | -            | 5,030                  | 5,030       |
| Members' equity                                | -         | -               | -                       | -                      | -            | 162,921                | 162,921     |
|  | 555,497   | 522,831         | 1,200,588               | 1,255,837              | 16,506       | 292,462                | 3,843,721   |
| On-balance sheet gap                           | (3,361)   | (123,364)       | (851,367)               | 734,292                | 448,388      | (204,588)              | -           |
| <b>Off-balance sheet financial instruments</b> |           |                 |                         |                        |              |                        |             |
| Pay side instruments                           | -         | (664,493)       | (153,357)               | (1,775,744)            | (73,759)     | -                      | (2,667,353) |
| Effective interest rate (%)                    | -         | 2.42%           | 4.05%                   | 3.92%                  | 4.35%        |                        |             |
| Receive side instruments                       | -         | 1,483,956       | 101,379                 | 1,045,927              | 36,091       | -                      | 2,667,353   |
| Effective interest rate (%)                    | -         | 2.38%           | 4.08%                   | 3.86%                  | 4.21%        |                        |             |
| Derivatives used for trading purposes          | -         | -               | -                       | -                      | -            | -                      | -           |
| Effective interest rate (%)                    | -         | -               | -                       | -                      | -            |                        |             |
| Off-balance sheet gap                          | -         | 819,463         | (51,978)                | (729,817)              | (37,668)     | -                      | -           |
| Total gap                                      | (3,361)   | 696,099         | (903,345)               | 4,475                  | 410,720      | (204,588)              | -           |

|                                | 2007 (\$) |                 |                         |                        |              |                        |          |
|--------------------------------|-----------|-----------------|-------------------------|------------------------|--------------|------------------------|----------|
|                                | On Demand | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Non-Interest Sensitive | Total    |
| <b>Continuing Operations</b>   |           |                 |                         |                        |              |                        |          |
| On-balance sheet gap           | (136,868) | (580,400)       | (515,932)               | 797,159                | 579,724      | (164,019)              | (20,336) |
| Off-balance sheet gap          | -         | 560,433         | 140,000                 | (360,710)              | (339,723)    | -                      | -        |
| Total gap                      | (136,868) | (19,967)        | (375,932)               | 436,449                | 240,001      | (164,019)              | (20,336) |
| <b>Discontinued Operations</b> |           |                 |                         |                        |              |                        |          |
| On-balance sheet gap           | -         | 1,075           | -                       | -                      | -            | 19,261                 | 20,336   |
| Off-balance sheet gap          | -         | -               | -                       | -                      | -            | -                      | -        |
| Total gap                      | -         | 1,075           | -                       | -                      | -            | 19,261                 | 20,336   |

## 23. SEGMENTED INFORMATION

The Company operates three main operating segments and each segment is managed separately as individual business units.

Financial Intermediation includes residential mortgage and corporate lending activities, personal and corporate deposit products, securities and treasury services as well as commercial banking and leasing activities.

Trust Operations consist of both personal and corporate trust products and services.

Card Operations consist of credit card lending, merchant processing and acquiring operations and other card related products and services.

Inter-segment transactions take place at terms which approximate fair values. The following highlights key financial information for the operations of these segments.

|  | 2008 (\$)                |                  |                      |                            |           |
|--|--------------------------|------------------|----------------------|----------------------------|-----------|
|  | Financial Intermediation | Trust Operations | Card Operations      | Inter Segment Eliminations | Total     |
| Interest income  | 184,869                  | 324              | -                    | (947)                      | 184,246   |
| Interest expense   | 138,854                  | -                | -                    | (958)                      | 137,896   |
| Net interest income                                      | 46,015                   | 324              | -                    | 11                         | 46,350    |
| Provision for credit losses                              | 4,970                    | -                | -                    | -                          | 4,970     |
| Net interest margin                                      | 41,045                   | 324              | -                    | 11                         | 41,380    |
| Non-interest income                                      | 5,984                    | 5,521            | -                    | (1,675)                    | 9,830     |
| Non-interest expense                                     | 41,813                   | 4,676            | -                    | (1,664)                    | 44,825    |
| Income from continuing operations before income taxes    | 5,216                    | 1,169            | -                    | -                          | 6,385     |
| Provision for income taxes                               | 1,133                    | 382              | -                    | -                          | 1,515     |
| Net income from continuing operations                    | 4,083                    | 787              | -                    | -                          | 4,870     |
| Income from discontinued operations, net of tax (Note 3) | -                        | -                | 2,872                | -                          | 2,872     |
| Net income   | 4,083                    | 787              | 2,872                | -                          | 7,742     |
| Total assets   | 3,849,687                | 13,233           | 9,105 <sup>(1)</sup> | (28,304)                   | 3,843,721 |

<sup>(1)</sup> Discontinued operations (Note 3)

## 23. SEGMENTED INFORMATION (continued)

|  | 2007 (\$)                |                  |                       |                            |           |
|--|--------------------------|------------------|-----------------------|----------------------------|-----------|
|  | Financial Intermediation | Trust Operations | Card Operations       | Inter Segment Eliminations | Total     |
| Interest income  | 168,350                  | 319              | -                     | (3,620)                    | 165,049   |
| Interest expense   | 134,222                  | -                | -                     | (3,794)                    | 130,428   |
| Net interest income                                      | 34,128                   | 319              | -                     | 174                        | 34,621    |
| Provision for credit losses                              | 182                      | -                | -                     | -                          | 182       |
| Net interest margin                                      | 33,946                   | 319              | -                     | 174                        | 34,439    |
| Non-interest income                                      | 8,485                    | 6,110            | -                     | (2,043)                    | 12,552    |
| Non-interest expense                                     | 40,764                   | 5,143            | -                     | (1,869)                    | 44,038    |
| Income from continuing operations before income taxes    | 1,667                    | 1,286            | -                     | -                          | 2,953     |
| Provision for income taxes                               | 616                      | 460              | -                     | -                          | 1,076     |
| Net income from continuing operations                    | 1,051                    | 826              | -                     | -                          | 1,877     |
| Income from discontinued operations, net of tax (Note 3) | -                        | -                | 20,858                | -                          | 20,858    |
| Net income   | 1,051                    | 826              | 20,858                | -                          | 22,735    |
| Total assets   | 3,615,284                | 12,377           | 62,464 <sup>(1)</sup> | (71,780)                   | 3,618,345 |

<sup>(1)</sup> Discontinued operations (Note 3)

## 24. COMMITMENTS AND GUARANTEES

Lines of credit and loan commitments and letters of credit and guarantees represent a maximum credit exposure to the Company. Many of these contracts will expire without being drawn upon and thereby reduces the Company's credit risk from the maximum commitment. The Company earns minimal fees on commitments.

|   | 2008 (\$) | 2007 (\$) |
|---|-----------|-----------|
| <b>Lines of credit and loan commitments</b>     |           |           |
| Original term to maturity of one year or less   | 549,911   | 549,138   |
| Original term to maturity of more than one year | 427       | 934       |
| <b>Letters of credit and guarantees</b>         |           |           |
| Original term to maturity of one year or less   | 11,962    | 12,610    |
| Original term to maturity of more than one year | -         | -         |

The Company is responsible for its proportionate share of any operating and investment losses incurred by Celero Solutions.

## 25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

As a financial institution, the Company 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 these risks and how the exposure is managed.

### Credit Risk

Credit risk arises from a counterparty's inability or unwillingness to fully meet its contractual obligations. The credit risk on securities, loans, and mortgages relates to principal and interest amounts. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

### Objectives, Policies, and Methodologies

The Company manages credit risk by:

- Restricting the concentration of credit by issuer, issuer group, industry, and geographic region
- Aggregating credit exposures (including derivatives) to connected counterparties
- Determining appropriate levels of credit concentration commensurate with the ability to absorb credit losses while ensuring business continuity
- Restricting investments in commercial debt securities not rated by an approved rating agency
- Employing prudent credit granting criteria
- Using asset sales to manage credit exposure
- Managing monitored and non-productive assets effectively
- Monitoring the quality of the credit portfolio ensuring conservative valuation and timely recognition of losses through specific loss allowances and impairment charges
- Establishing general loss allowance levels based upon industry best practice methodology

The Board is responsible for approving the credit risk tolerances in the Balance Sheet Policy upon the recommendation of the Audit and Risk Committee. Further operating credit risk policies are outlined in the Balance Sheet Operating Policy which is within the authority of the President and Chief Executive Officer. Compliance to these policies is monitored on a monthly basis.

The Company has a credit risk management function which is segregated from business generation activities. Credit risk management is responsible for delegating credit approval limits to business units and approving loan, lease, and mortgage applications in excess of the credit authority delegated. In addition, credit risk management undertakes an overall systematic review of the credit adjudication process on an annual basis and the results of the review are reported to the Board.

The Credit Committee, established by the Board and comprised of members of executive management, has the authority to approve large loans, leases, and mortgages upon the recommendation of credit risk management. The Asset-Liability Committee, established by the Board and comprised of members of executive, senior, and operating management, has the authority to set credit risk strategies for the securities portfolio within the risk tolerances in the *Balance Sheet Policy* and *Balance Sheet Operating Policy*.

## 25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The following reports, related to the management of credit risk, are provided to the Board on a quarterly basis:

- Large Lending Credits Report
- Monitored and Non-productive Assets Report
- Risk Management Report

The credit risk objectives, policies, and methodologies have not changed materially from 2007.

### ***Risk Measurement***

In measuring credit risk under Basel II, the standardized approach is used. Under this approach, risk weights prescribed by OSFI are used to calculate risk-weighted assets for credit risk exposures.

The Company assumes credit risk in both the securities and loan portfolios. In the securities portfolio the Company supplements internal credit analysis with industry recognized rating agency data (DBRS or Standards and Poor's). In the loans portfolio the primary reliance is on internal risk ratings and a comprehensive review of the credit worthiness of the borrower. The Company does not transact in credit derivatives.

The overall credit risk position is monitored in reference to an internally generated composite weighted average risk rating calculation (weighted average risk rating of the securities and loan portfolio calculated based upon internal risk ratings). As at December 31, 2008 and December 31, 2007 the Company was well within the risk tolerance for this measure as set out by the Board in the Balance Sheet Policy.

### ***Credit Quality Performance***

Refer to Note 5 for information on the credit quality performance of the securities portfolio and Note 6 for information on the credit quality performance of the loan portfolio.

Credit risk concentrations indicate the relative sensitivity of performance to developments affecting a particular industry or geographic region. The following tables summarize the credit exposures associated with on- and off-balance sheet financial instruments.

## 25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

### *Credit risk exposure by industry*

|   | 2008 (\$)        |                     |                  | 2007 (\$)        |
|---|------------------|---------------------|------------------|------------------|
|   | Outstanding      | Undrawn Commitments | Total            | Total            |
| Accommodation and food services                                       | 106,026          | 27,615              | 133,641          | 84,754           |
| Administration and support, waste management and remediation services | 5,385            | -                   | 5,385            | 4,129            |
| Agriculture, forestry, fishing and hunting                            | 7,271            | 6,083               | 13,354           | 60,149           |
| Arts, entertainment and recreation                                    | 33,972           | 1,463               | 35,435           | 18,646           |
| Automobile financing  | 31,690           | -                   | 31,690           | 13,642           |
| Banking   | 147,192          | -                   | 147,192          | 175,173          |
| Construction  | 65,268           | 90,906              | 156,174          | 53,363           |
| Credit card issuing and financing                                     | 43,023           | -                   | 43,023           | 41,245           |
| Education services  | 3,417            | 28,242              | 31,659           | 32,676           |
| Health care and social assistance                                     | 30,171           | 23,688              | 53,859           | 41,873           |
| Information   | 58,980           | 183                 | 59,163           | 58,236           |
| Insurance carriers and related activities                             | 10,186           | -                   | 10,186           | 19,609           |
| Credit union  | 92,392           | 148,163             | 240,555          | 249,801          |
| Manufacturing   | 82,150           | 16,285              | 98,435           | 67,900           |
| Mining and oil and gas extraction                                     | 141,194          | 7,248               | 148,442          | 50,243           |
| Other   | 2,544            | 5,006               | 7,550            | 8,891            |
| Other depository  | 13,656           | -                   | 13,656           | 16,625           |
| Other - diversified holdings  | 90,667           | -                   | 90,667           | 234,285          |
| Other non-depository  | 21,707           | -                   | 21,707           | 42,706           |
| Other services  | 3,979            | -                   | 3,979            | 690              |
| Professional, scientific and technical services                       | 250              | 1,550               | 1,800            | 607              |
| Public administration   | 213,139          | 21,615              | 234,754          | 526,939          |
| Real estate   | 320,874          | 32,361              | 353,235          | 331,781          |
| Rental and leasing services   | 46,275           | 1,660               | 47,935           | 49,095           |
| Residential mortgages - conventional                                  | 1,157,918        | 46,258              | 1,204,176        | 909,109          |
| Residential mortgages - insured                                       | 943,614          | 42,985              | 986,599          | 768,272          |
| Retail trade  | 30,294           | 4,373               | 34,667           | 36,139           |
| Securities, commodity contracts and other financial institutions      | 50,270           | 12,000              | 62,270           | 61,640           |
| Transportation and warehousing  | 14,681           | -                   | 14,681           | 12,717           |
| Utilities   | 4,234            | 150                 | 4,384            | 5,097            |
| Wholesale trade   | 47,220           | 54,604              | 101,824          | 27,455           |
| <b>Total Exposure</b>   | <b>3,819,639</b> | <b>572,438</b>      | <b>4,392,077</b> | <b>4,003,487</b> |

## 25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

### *Credit risk exposure by geographic region (loans)*

|                     | 2008 (\$) |        |         |                          |                  |           |
|---------------------|-----------|--------|---------|--------------------------|------------------|-----------|
|                     | Atlantic  | Quebec | Ontario | Prairies and Territories | British Columbia | Total     |
| Outstanding         | 201,720   | 8,554  | 929,386 | 1,232,738                | 483,815          | 2,856,213 |
| Undrawn Commitments | 16,250    | -      | 50,149  | 385,192                  | 108,342          | 559,933   |
| Total Exposure      | 217,970   | 8,554  | 979,535 | 1,617,930                | 592,157          | 3,416,146 |

|                     | 2007 (\$) |        |         |                          |                  |           |
|---------------------|-----------|--------|---------|--------------------------|------------------|-----------|
|                     | Atlantic  | Quebec | Ontario | Prairies and Territories | British Columbia | Total     |
| Outstanding         | 180,630   | 3,215  | 813,041 | 1,032,476                | 283,092          | 2,312,454 |
| Undrawn Commitments | 10,065    | -      | 36,514  | 418,726                  | 68,666           | 533,971   |
| Total Exposure      | 190,695   | 3,215  | 849,555 | 1,451,202                | 351,758          | 2,846,425 |

### **Market Risk**

Market risk arises from three components:

- Interest rate risk which results from movements in interest rates. This risk primarily results from timing differences in the re-pricing of assets and liabilities, both on- and off-balance sheet, as they mature or are contractually re-priced.
- Price risk which results from changes in the market price of an asset or liability
- Foreign exchange risk which results from movements in foreign exchange rates

### **Objectives, Policies, and Methodologies**

The Company manages market risk by:

- Acquiring assets for asset/liability management purposes which are marketable with a minimal risk of price fluctuation
- Using off-balance sheet strategies
- Establishing market risk levels
- Monitoring exposure and simulating the impact of interest rate changes
- Monitoring exposure to changes in foreign exchange rates

At December 31, 2008, the Company did not have a Board authorized trading program. Risk management objectives, policies, and methodologies specific to this program have not been disclosed.

The Board is responsible for approving the market risk tolerances in the Balance Sheet Policy upon the recommendation of the Audit and Risk Committee. Compliance to these policies is monitored on a monthly basis. These policies outline maximum limits for the exposure of adjusted net interest income and the economic value of equity to market risk.

The Asset-Liability Committee, established by the Board and comprised of members of executive, senior, and operating management, has the authority to set market risk strategies for the balance sheet within the risk tolerances in the *Balance Sheet Policy* and *Balance Sheet Operating Policy*. In addition, this committee monitors the monthly simulation of the impact of interest rate changes to ensure market risk levels remain within policy and strategy parameters, and reviews derivative holdings.

**25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

The Risk Management Report, outlining market risk levels, is provided to the Board on a quarterly basis.

The market risk objectives and methodologies have not changed materially from 2007; however, the policy limits for restricting the impact of forecasted interest rate changes were materially reduced during 2008.

**Risk Measurement**

The risk position is measured on a monthly basis. Measurement of risk is based upon key assumptions such as future interest rate movements, asset growth, and funding mix. The short term (next 12 months) risk position is assessed by measuring both the impact of an immediate 100 basis points (bp) shock and a 30% rate ramp scenario on the adjusted net interest income which is the net interest income adjusted for realized gains and losses on derivatives. The long term risk position is measured by both the impact of an immediate 100 bp shock and a 30% rate ramp scenario on the economic value of equity.

|                          | 2008 (\$)                    |                          | 2007 (\$)                    |                          |
|--------------------------|------------------------------|--------------------------|------------------------------|--------------------------|
|                          | Adjusted Net Interest Income | Economic Value of Equity | Adjusted Net Interest Income | Economic Value of Equity |
| <b>Impact of:</b>        |                              |                          |                              |                          |
| 100 bp increase in rates | 8.4%                         | (7.5%)                   | (10.3%)                      | (22.2%)                  |
| 100 bp decrease in rates | (8.3%)                       | 8.5%                     | 13.4%                        | 23.5%                    |
| <b>Impact of:</b>        |                              |                          |                              |                          |
| 30% rate ramp increase   | 0.3%                         | 1.2%                     | (6.2%)                       | (22.7%)                  |
| 30% rate ramp decrease   | 0.1%                         | (1.6%)                   | 14.5%                        | 25.5%                    |

**Liquidity Risk**

Liquidity risk arises from the inability to generate or obtain necessary cash or equivalents in a timely manner, at a reasonable price, to meet on- and off-balance sheet commitments as they become due, without incurring unacceptable losses.

**Objectives, Policies, and Methodologies**

The Company manages liquidity risk by:

- Regular monitoring of cash flows
- Maintaining sufficient cash and high quality cash equivalents to support daily liquidity needs
- Investing a prudent portion of the security portfolio in liquid, low-risk, unencumbered instruments
- Acquiring credit union, commercial, and retail deposits
- Accessing capital markets by the issuance of commercial paper and accessing asset securitization vehicles
- Maintaining external credit facilities including lines of credit to support daily liquidity needs and unforeseen liquidity events
- Undertaking stress testing and maintaining a liquidity contingency plan

The Board is responsible for approving the liquidity risk tolerances in the *Balance Sheet Policy* upon the recommendation of the Audit and Risk Committee. Further operating liquidity risk policies are outlined in the *Balance Sheet Operating Policy* which is within the authority of the President and Chief Executive Officer. Compliance to these policies is monitored on a monthly basis.

## 25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Asset-Liability Committee, established by the Board and comprised of members of executive, senior, and operating management, has the authority to set liquidity risk strategies for the balance sheet within the risk tolerances in the *Balance Sheet Policy* and *Balance Sheet Operating Policy*. In addition, this committee monitors the liquidity position and projections, including the results of stress testing.

The Risk Management Report, outlining liquidity risk levels, is provided to the Board a quarterly basis.

The liquidity risk objectives, policies, and methodologies have not changed materially from 2007.

### **Contractual Obligations**

In the normal course of business the Company enters into contracts that give rise to commitments of future minimum payments which affect our liquidity. Depending on the nature of these commitments, the obligations may be recorded on- and off-balance sheet. The following table provides a summary of our primary future contractual funding commitments.

|                         | 2008 (\$) <sup>(1)</sup> |                         |                        |              |        | 2007 (\$) <sup>(1)</sup> |
|-------------------------|--------------------------|-------------------------|------------------------|--------------|--------|--------------------------|
|                         | Within 3 Months          | Over 3 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total  | Total                    |
| Loans and Notes Payable | 9,115                    | -                       | -                      | -            | 9,115  | 361,010                  |
| Subordinated Debentures | 558                      | -                       | -                      | 53,012       | 53,570 | 28,511                   |
| Total Exposure          | 9,673                    | -                       | -                      | 53,012       | 62,685 | 389,521                  |

<sup>(1)</sup> The amounts presented exclude accrued interest except for the category within 3 months.

### **Risk Measurement**

The assessment of the liquidity position reflects management's estimates, assumptions, and judgments relative to current and future company specific operations and market conditions.

The Company's liquidity position is monitored on a daily basis to ensure obligations can be met and cash resources are optimized for the balance sheet. The goal is to minimize the use of back stop liquidity facilities to ensure liquidity access during constrained liquidity conditions.

The on-balance sheet liquidity position is monitored in reference to the liquid asset ratio calculation (liquid assets as a percentage of total assets). At December 31, 2008, the liquid asset ratio was 23.3% (33.6% at December 31, 2007).

## 26. REGULATORY CAPITAL MANAGEMENT

The Company manages and monitors capital from several perspectives, including regulatory capital and Internal Capital Adequacy Assessment Process (ICAAP) capital.

Capital levels for the Company are regulated pursuant to Capital Adequacy Requirements guidelines issued by OSFI, known as Basel II. Effective January 1, 2008, the Company adopted Basel II, which introduced several changes from the predecessor framework, commonly referred to as Basel I. The regulatory capital and capital ratios, as calculated under Basel II, are required to be applied only on a prospective basis. The differences between Basel I and Basel II make it difficult to meaningfully compare the current year capital information and ratios to those as at December 31, 2007.

Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 regulatory capital comprises the more permanent components of capital and consists of share capital and retained earnings, excluding AOCI. In addition, goodwill and other items as prescribed by OSFI are deducted from Tier 1 regulatory capital. Tier 2 regulatory capital consists of subordinated debentures, which qualify as Tier 2B capital, less deductions as prescribed by OSFI. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital.

Regulatory ratios are calculated by dividing Tier 1 regulatory capital and Total regulatory capital by risk-weighted assets (RWA). The calculation of RWA is determined from OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for operational risk. The Company does not meet the qualifying criteria for computing market risk, which is the value of the trading book assets or liabilities being at least 10% of total assets and exceeding \$1 billion. In addition, OSFI formally establishes risk-based capital targets for deposit-taking institutions. Current OSFI targets are a minimum Tier 1 regulatory capital to RWA ratio of 7% and a minimum Total regulatory capital to RWA ratio of 10%. In addition to the Tier I regulatory capital to RWA ratio and Total regulatory capital to RWA ratio, Canadian financial institutions are required to ensure that their Assets to capital multiple, which is calculated by dividing gross adjusted assets by Total regulatory capital, does not exceed a maximum level prescribed by OSFI.

Throughout 2008 and 2007, the Company has been in compliance with OSFI prescribed capital adequacy requirements.

|   | <b>BASEL II<br/>2008</b> | <b>BASEL I<br/>2007</b> |
|---|--------------------------|-------------------------|
| <b>Capital</b>                                    |                          |                         |
| Tier 1 regulatory capital                         | 155,586                  | 168,067                 |
| Total regulatory capital                          | 208,825                  | 217,246                 |
| <b>Risk-weighted assets</b>                       |                          |                         |
| Credit risk                                       | 1,562,499                | 1,780,848               |
| Market risk                                       | -                        | -                       |
| Operational risk                                  | 125,271                  | -                       |
| Total risk-weighted assets                        | 1,687,770                | 1,780,848               |
| <b>Capital Ratios</b>                             |                          |                         |
| Tier 1 regulatory capital to risk-weighted assets | 9.2%                     | 9.4%                    |
| Total regulatory capital to risk-weighted assets  | 12.4%                    | 12.2%                   |
| Assets to capital multiple                        | 18.4X                    | 16.7X                   |

## 27. CONTINGENT LIABILITY

Concentra Trust, a wholly owned subsidiary of the Company, has been named in two legal actions in the Province of Quebec, both of which relate to the same issues. As these matters are in the early stages, Concentra Trust is unable to determine the eventual outcome, and at this time cannot reasonably estimate any potential losses. Management will defend against these actions.

## 28. COMPARATIVE FIGURES

Certain of the previous year's comparative figures have been reclassified to conform to the current year's presentation.



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