

# up close and personal

FOCUSING ON WHAT REALLY MATTERS

 **First Calgary**  
SAVINGS



2008 ANNUAL REPORT

A heightened focus on our responsibility  
to stakeholders ensures that we advocate

**courageously**

for our member-owners' financial well-being,

**innovatively**

for our employees' wellness,

**passionately**

for the vitality of our communities and

**relentlessly**

in pursuit of good corporate citizenship.

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# credit unions are unique



...but this uniqueness isn't enough to ensure First Calgary Savings continues to grow and thrive in an ever-changing, highly competitive market. Our success hinges on cultivating a culture that nurtures member-owner advocacy.

**For us...it's business and it's personal.**

## MESSAGE FROM THE BOARD CHAIR

To our member-owners,  
2008 showed that we live in an ever-changing world, one that requires First Calgary Savings to do more than the same old things. Then again, First Calgary Savings has never been content with doing the same old things to ensure it continues to operate successfully.



### INVENTING THE FUTURE

In many ways, we are inventing the future with our Pathways Project, an inter-provincial joint venture with two British Columbia-based credit unions. This unique project was an important focus for First Calgary Savings' Board of Directors in fiscal 2008. The joint venture is a fundamental step in building an innovative financial services organization that provides our member-owners with access to competitive financial services throughout Western Canada. Pathways received a strong endorsement

in October 2008 when Valley First Credit Union, in the Okanagan, agreed to enter merger discussions with our original Pathways partner, Envision Financial.

Your Board remains committed to developing this new business model and, ultimately, merging with our Pathways partners. Although the merger requires enabling provincial legislation for First Calgary Savings, we are encouraged by the government and regulatory support we have received. We are confident that necessary legislative changes and support will be forthcoming.

In the meantime, we are seeking your approval at our annual general meeting to continue Pathways and press forward with the merger. This proposed merger is unlike a traditional merger where the parties often lose their identity. Instead the board is committed to creating a structure that enables First Calgary Savings to maintain its identity, community focus and local decision-making. We believe this balanced approach will harness the strength of a larger asset-base to best ensure our credit union remains strong, healthy and financially sustainable. We therefore encourage you to continue to support Pathways.

#### FOCUSING ON GOVERNANCE

Good governance requires a commitment to maintaining the highest standards and to fostering a values-driven environment. Both are critical to our credit union's performance and to member-owner confidence.

The Board maintained a heightened focus on risk and credit management during 2008. This process required the directors to evaluate issues that could influence or impact First Calgary Savings and to ensure that management is effectively controlling risk.

As part of this process, the Board reviewed and, where necessary, improved its system of governance. For example, we retained a consultant to advise the Board on committee structure and subsequently followed recommendations to strengthen some committees. The Board also conducted a thorough self-assessment to ensure directors are well-trained and well-versed in relevant financial environment issues. In addition, the Board re-appointed our external auditor, KPMG, after a comprehensive review of the firm's performance and qualifications.

I believe your Board is functioning effectively and able to meet the future challenges our organization faces. Nevertheless, the Board is committed to regularly reviewing and improving its governance principles and performance to ensure best practices and its integrity.

#### A TEAM EFFORT

Running a successful credit union is a team effort. The success of our effort is clearly evident in our financial performance in 2008. We achieved several important milestones in revenue, earnings and asset-growth. In fact, our financial performance was better than expected despite the challenging operating conditions we faced. I heartily commend management and staff for a job well done.

I also want to thank a key member of our team, Mary Dalzell, who acted as Corporate Secretary before moving to another position within the credit union recently. Mary has been the Board's go-to person for 16 years, helping new directors hit the ground running and keeping the Board functioning as a unit through her day-to-day administrative support.

Finally, thank you to our member-owners for your loyalty and trust, and for making my final year as Board Chair so memorable and rewarding.



BRUNO FRIESEN

Board Chair

## MESSAGE FROM THE PRESIDENT AND CEO

Many people wouldn't expect a provincial credit union to grow and prosper in the turbulent financial environment we experienced during 2008. Yet, First Calgary Savings achieved significant growth despite last year's challenging operating conditions and the anxious economic times witnessed by our member-owners.



### STAYING TRUE TO OUR VALUES

I can point to many reasons for our strong performance. But what stands out for me is that First Calgary Savings continued to focus on its responsibility to member-owners. We took action. We got involved. We shaped our services in new ways. We helped member-owners overcome seemingly insurmountable obstacles and solve, or simplify, complex problems. In doing so, we continued to earn their trust and, in turn, more and more of their business.

We didn't earn this trust overnight. Nor do we take it for granted. To sustain and strengthen our connection with member-owners, we must do as we have done for many years—continuously innovate and create value, one transaction at a time, on a personal basis.

### GAINING STRENGTH FROM HEALTHY GROWTH AND PROFITS

Building on the energy and confidence gained in recent years, we enjoyed gratifying financial performance in our fiscal year ending October 31, 2008. Total assets reached \$2.1 billion at year-end, an increase of \$240 million or 13% over 2007. Our book of business managed on behalf of Calgarians reached approximately \$3.9 billion, an increase of \$420 million or 13%. Adjusted net earnings from operations before taxes reached \$13.2 million.

Reaching \$2 billion in assets is not only a significant achievement, it's a huge vote of confidence from member-owners. In addition, our book of business, which includes financial assets not reflected on our balance sheet, such as mutual funds, Qtrade accounts and syndicated loans, is poised to exceed \$4 billion.

Our strong balance sheet ensures we can continue to provide loans to member-owners while other organizations are cutting back because of financial limitations. Managed prudently, our liquidity will help us keep operating costs low and provide flexibility to meet opportunities without taking on unnecessary risk.

#### EXPANDING AND DIVERSIFYING OUR SERVICES

Winning local market share and building sustainable revenues are key to our growth and development. We made progress on several fronts in 2008 that will help us achieve these objectives.

We began construction of a new branch in Okotoks, one of the fastest growing communities in Canada. When it opens in 2009, the branch will offer residents our complete menu of financial products and services, in a convenient and prominent location.

We kept pace with member-owners' increasing use of technology by introducing a mobile banking service. This innovative service—the first of its kind in Canada—lets member-owners instantly check their account balances and activities from their cell phones, in a safe and secure way.

Small and medium-sized business owners have long recognized the high level of service and value available to them at credit unions. To better meet the needs of this important segment, we restructured our business banking division in 2008. These changes will help us partner with business owners as they deal with an increasingly challenging operating environment.

When we opened our Just Financial division in 2007 to help people with credit difficulties, we knew in theory the service was needed. But the economic downturn has proven Just Financial's practical application, as interest in its specialized services continues to grow.

#### WORKING WITH PASSION AND COMMITMENT

Few measures of accomplishment rank higher for First Calgary Savings than to be recognized for the ninth year in a row as one of Canada's 50 Best Managed Companies and requalified as a platinum club member. Once again, First Calgary Savings has been named one of the Top 40 Employers in Alberta. Doing this twice in a row is one thing. Doing it in consecutive years during challenging employment and financial markets is something we can all point to with considerable pride.

The award is well-earned recognition for the efforts of our leadership to communicate openly, foster teamwork, and empower staff to be the best they can be. It also speaks to the effectiveness of our human resource practices for ensuring employee wellness and helping to instill a sense of passion and commitment in each team member.

I am grateful to employees for their responses in our annual Employee Viewpoint Survey. This invaluable feedback challenges us to continue to find innovative ways to make our workplace the best for them.

#### ALIGNING WITH COMMUNITY LEADERS

Much of what we accomplish as an organization is made possible by reaching out to our communities. By investing in areas that make a sustainable difference, we align our organization with community leaders to help others survive and grow.

#### STAYING FOCUSED ON WHAT MATTERS


Recent events in global capital markets have put the financial services industry in the spotlight, raising questions about the health and safety of financial institutions. Fortunately, Canada enjoys one of the strongest and most highly regulated financial environments in the world. Thanks to this stable environment, a healthy credit union system and First Calgary Savings' robust balance sheet—the strongest in its history—we are in a favourable position today.

Moreover, we are wide awake to, and prepared for, the challenges that exist in the marketplace. Alberta will be impacted by the current economic downturn; of that we can be sure. However, we also believe its economy will be more resilient than other provinces. I remain cautiously optimistic that local market conditions will provide a foundation for prudent growth in 2009. At the same time, our priorities are to control operating costs, improve efficiency, enhance effectiveness and avoid unnecessary risk.

Longer term, I expect our Pathways Project will be a key driver of growth, new services and financial stability. With your vote to continue support of Pathways at our 2009 annual general meeting, the years ahead hold much promise for our member-owners, our employees, our communities and our wonderful partners.

#### TOGETHER WE MADE THINGS HAPPEN

I thank member-owners for entrusting First Calgary Savings with their financial assets. Our employees showed tremendous resiliency and drive last year. They embraced change such as our Pathways Project, stood their ground confidently through the evolving market uncertainty, while staying clearly focused on our core business—serving our member-owners. Thank you! We have much to be proud of and to protect.



DAVE GREGORY  
President and CEO

## EXECUTIVE MANAGEMENT TEAM



**Rod Banman**  
Senior Vice President,  
Credit Services

**Dave Gregory**  
President and CEO

**John Dundas**  
Senior Vice President,  
Marketing and Communications

**Jackie Barber**  
Senior Vice President,  
Human Resources

Rod Banman retired from First Calgary Savings after 30 years of credit union service on January 31, 2009.  
Thank you Rod for your important leadership and valued contributions over the years.

EXECUTIVE MANAGEMENT TEAM



Tim Wasilieff  
CEO, inUnison

Paul Kelly  
Chief Operating Officer

CALGARY-BASED  
MARKET EXECUTIVES



Warren Book  
Vice President,  
Finance



Harold Chornoboy  
Vice President,  
Commercial Banking



Debbie Pratt  
Vice President,  
Sales and Service

## ADVOCATE



courageously

### OPENING THE DOOR TO A LIFETIME OF MEMORIES

When Tom Rupprecht and his wife, Sandra, were expecting their third child over 20 years ago, they knew they needed a bigger place to live.

The problem, they found, was in getting a mortgage. "We didn't have a lot of cash. I'd just started out—I'd gone back to school. First Calgary Savings was the only financial institution that would even look my way. They took the risk and we've never looked back."

Tom arrived at First Calgary Savings thanks to a referral from a mortgage broker he'd done business with a few years before. A former electrician, Tom had returned to the Southern Alberta Institute of Technology (SAIT) to get his diploma in industrial instrumentation. He'd built a home in the 1980s but, like many other people, lost it in the economic turmoil that accompanied the introduction of the National Energy Program, the ensuing energy crisis as well as the recession. With a growing family and in a new phase of his career, Tom and his family were looking for a bigger home.

"Those were two very tough years," he says of his time at SAIT, "but we made it through."

The mortgage he got at First Calgary Savings not only allowed him to buy a bigger house in the northwest section of the city, it also opened other doors for the Rupprechts. Several years later, Tom turned to First Calgary Savings for another mortgage. This time the family wanted to buy 70 acres of land near Okotoks. "First Calgary Savings was definitely instrumental in making that happen," he says. "At that time, it was very hard to get an appraisal on that property, and they definitely stepped up to the plate."

## FOR MEMBER-OWNERS' FINANCIAL WELL-BEING



As the Rupprechts raised their sons—who are now aged 27, 25, 23 and 21—they've continued to do business with First Calgary Savings. "The relationship got me in there," he says of his initial meeting at First Calgary Savings. "Ultimately, what keeps you at any financial institution is the relationship you have. It's who you're dealing with."

Today, Tom is a partner in his own industrial controls business, a company that got its financial start at First Calgary Savings, and his holding company still does business with us. Sandra and Tom still conduct

**As the Rupprechts raised their sons—who are now aged 27, 25, 23 and 21—they've continued to do business with First Calgary Savings. "The relationship got me in there," he says of his initial meeting at First Calgary Savings. "Ultimately, what keeps you at any financial institution is the relationship you have. It's who you're dealing with."**

The house in Okotoks became what the Rupprechts now consider their "family home." They moved there in 1994, when Okotoks had a population of just 7,000 people. "It was this great piece of land along the river with an old farmhouse," says Tom. "Right in town, so it was the ultimate in terms of convenience, and yet we had total privacy. It was a great place to raise young boys, and that's what we did. We raised our four boys there."

their personal banking through First Calgary Savings, including trust accounts, which Tom used to help distribute funds to each of his sons during their post-secondary education.

With their kids grown, Tom and Sandra decided it was time to move on, literally. The Rupprechts sold the farmhouse in Okotoks, but the family still looks back on it with fond memories. It was, after all, their family home—a home that got its start in that initial meeting with First Calgary Savings.

## ADVOCATE

innovatively



### ADVENTURES FARAWAY AND CLOSE TO HOME

Janice Iverson couldn't sleep. It wasn't work pressures that kept her awake. Instead, it was the symphony of sounds that arose each night deep in the jungles of Costa Rica, along with the slithering and furry visitors that could have come calling. Why? Her home at that time was a giant treehouse perched metres up in the jungle canopy and gave new meaning to the concept of open design.

"You'd think being on an eight-month sabbatical, practicing the fine art of doing nothing, that I'd sleep like a baby. But it was a bit nerve-racking until I finally decided what will be, will be," laughs Janice Iverson, Assistant Vice President, Corporate Citizenship, now back in her office in Langley.

That was just one of the many lessons she experienced from January to September of 2008—a period that included exploring California, her new neighbourhood in the Fraser Valley, and the west coast of British Columbia. Just a year earlier, Janice had assumed responsibility for Corporate Citizenship at both Envision Financial and First Calgary Savings and moved from Calgary to B.C.

The move was one thing, but taking an unpaid sabbatical meant stepping away from the rigours and routines of a 22-year career. Reflecting back on the sabbatical experience, Janice says while it gave her

**“Both Envision Financial and First Calgary Savings are committed to working through our personal life stages with us, whether it’s a honeymoon leave early in our career or elder care leave later on.”**

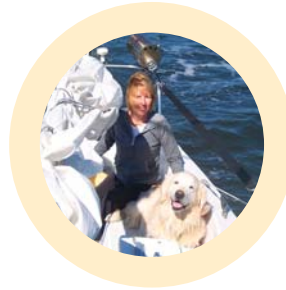
the chance to relax, as well as satisfy her curiosity and sense of adventure, it also revealed a great deal of insight into her profession and the philosophy of the two organizations she works for.

“I believe that people are hard-wired to work and contribute to society. So the angst I sometimes felt trying to master my new lifestyle of freedom, was a good angst that energized me for the return to my role,” says Janice.

It was also a great exercise in trust. Trust that her employer would be flexible and supportive of her need for time away. Trust that when she returned, they would still want her. Trust that her teams at Envision Financial and First Calgary Savings would effectively execute the plans mapped out for the year.

The process was a success in all aspects. Janice credits this success to her teams at both Envision Financial and First Calgary Savings for moving corporate citizenship initiatives forward, as well as the vision and values of the two organizations.

## FOR OUR EMPLOYEES' WELLNESS



“Both Envision Financial and First Calgary Savings are committed to working through our personal life stages with us, whether it’s a honeymoon leave early in our

career or elder care leave later on. They’re open to the reality that every individual has a story that’s continually unfolding. I believe it’s an environment that leads to healthy people and progressive and vibrant organizations,” says Janice. “I’ve already told my team and my boss, that I’d welcome the opportunity to return the favour by supporting other employees with similar dreams. In the meantime, I’m very happy to be back contributing to the success of two great organizations.”





Two lives. Two provinces. Two companies.  
The same approach to valuing people.

While Janice was leaving Alberta for British Columbia, Kelly Derbyshire was on her way back to Alberta from British Columbia.

#### NEW BEGINNINGS BACK HOME

If there is one thing that is certain in life, it is that nothing is certain.

When Kelly Derbyshire decided to move from Langley, British Columbia back to her hometown of Calgary, Alberta, she expected to take on all the challenges anyone does when they relocate; that included leaving her position as an Executive Assistant at Envision Financial, a job she really enjoyed, and starting over. These were challenging times that required change. Kelly knew she'd have to find a place to live and, of course, a new place to work.

That wasn't quite how it all turned out. When Kelly met with her boss, Bev Brown, Chief Operating Officer, to tender her resignation, she got a pleasant surprise. "Bev didn't want me to quit," Kelly said. "She said the company wanted to keep me because I was a good employee." Bev offered to speak to her colleagues at First Calgary Savings, which shares a unique partnership with Envision Financial, to see if there was a position in Calgary at a similar level.

Kelly was thrilled with Bev's suggestion, as having a job waiting for her in Calgary would make the move much easier. "It was just one less thing I had to think about in making this major change," she says. "It speaks volumes about the people at Envision Financial."

With a new job in place (as Executive Assistant to Jackie Barber, Senior Vice President, Human Resources), Kelly packed up and moved at the end of September 2008, able to start her new position a couple of weeks later.

For Kelly, having a new job to go to was a blessing. "Going through a tough transition and not having to worry about my career and a position when I got to Calgary was a big load off my shoulders," she says.



For Kelly, knowing that First Calgary Savings also wanted to keep her as an employee made her view her work in a new light. "I was a loyal employee before I moved, but my situation and transition really demonstrates what both these credit unions are made of and their desire to retain their employees."

Now that she's settled in her new position, Kelly is looking toward the future. She spends her spare time with family and friends and enjoys winter fun, such as skiing and snowboarding, travelling, cooking and whatever new challenges and opportunities life throws her way. "I can see my career being here with First Calgary Savings for the foreseeable future. It's a wonderful place to work."

**That feeling of family is something Kelly believes sets both Envision Financial and First Calgary Savings apart.**

**"Both organizations genuinely want you to succeed and be happy," she says.**

**"They go above and beyond—personally and professionally."**

"It was incredible. They worked with me on the timing, when was I going to be settled and when could I start work. It's been great ever since, as everyone has been wonderful to me and everyone has truly become like family."

That feeling of family is something Kelly believes sets both Envision Financial and First Calgary Savings apart. "Both organizations genuinely want you to succeed and be happy," she says. "They go above and beyond—personally and professionally."

Kelly got the fresh start she wanted with her move home. "Everything is wonderful and it really does help to have a nice place to go to work," she says. "Life is good."

## ADVOCATE



passionately

### SHARING THE FUTURE AND THE PAST

What can a seven-year-old child and a 70-year-old senior—who start as strangers, but agree to meet once a week during school—possibly share in common? You'd be amazed. Try knitting, shooting hoops, reading books, baking, doing crafts, playing board games,

listening to stories or going for a walk. Those activities are just the spark for the magic that grows *Between Generations*—the aptly named program that matches volunteer mentors who are 55+ with children in grades one to six.

In Calgary, *Between Generations* has been a thriving success for the past five years and is the result of a dynamic collaboration between First Calgary Savings and Big Brothers and Big Sisters (BBBS) of Calgary and Area. There are now 10 schools, over 45 mentors and more than 90 students involved in the program.

In 2008, the unique relationship between First Calgary Savings and Envision Financial, which includes aligning information and programs, prompted conversations with Big Brothers and Big Sisters, Upper Fraser Valley. The focus: the small idea in Calgary that had taken hold and whose reach was increasing each year. Everyone agreed to build on *Between Generations'* success and the program is now taking root in seven schools across communities such as Chilliwack, Hope and Agassiz. The same winning ingredients are already making a difference to the lives of 15 children and their 15 volunteer mentors.

**The *Between Generations* program truly proves that when you have a group of people with 'heart' dedicated to a common purpose, you can give kids hope. That's the gift we know can change lives forever.**

The program structure is straightforward. Volunteer mentors meet with the same student(s) for an hour once a week, during school time, throughout the school year. A mentor may see one or two children, individually. Guided by the school principal and teachers, a BBBS representative matches the student and mentor. That representative is also on-hand at the school to provide assistance and supervision whenever *Between Generations* is underway.

The host BBBS organization provides all the supplies for activities and the schools provide the space for the visit. As the Executive Director of BBBS Calgary and Area describes, the *Between Generations* format provides a foundation for the rich rewards that all involved clearly enjoy.

## FOR THE VITALITY OF OUR COMMUNITIES



"We rarely see volunteer retention rates of 90% or 100% for programs, but that's what *Between Generations* attracts. We have people ranging in age from 58 to 96 participating. Some work full-time while others are retired. Once they start, people stay committed for a number of reasons," says Sharon Moore.

"First, I believe it's because they see the benefits to the child. They see how one person can help build confidence and self-esteem in a young person's life through a relatively small, but consistent presence. Our mentors, who share their lifelong experience, feel valued and respected by the children, as well as teachers, the school administration and us," Sharon explains.

Sharon says organizers have also been pleasantly surprised by another benefit that's emerged: "Typically *Between Generations* involves groups of six to eight seniors who visit their assigned school at the same time each week. We've seen the groups really take ownership of the program. They grow to be good friends through their common interest in helping the children."



In general, mentoring is credited with helping students improve their grades, behaviour and relationships at school. As Sharon explains, the types of children who participate in *Between Generations* is a broad range from those who come from difficult personal circumstances to kids who do well academically, but socially are very shy, to all sorts of students in between.

"It's amazing what contact with one person who clearly believes in them can do to help these students reach their full potential. That's what we're all striving for, to help these children achieve...belief in themselves to reach their full potential."



*"My mentor has made me realize that I just need to be me and not act like other people."*

From his vantage point, David Bahr, Executive Director BBBS Upper Fraser Valley, says though the program is just taking hold, the schools and David are already seeing clear signs of the difference *Between Generations* makes.

"Each child knows exactly when their mentor is to visit. The schools have told us that students with a

"The Elders offer a very special cultural perspective to the children and we're anticipating that over the next few years several more will become involved with *Between Generations*. I think their presence is not only rewarding for the children, but also sends a strong message from the community's leaders that students truly are the future and investing time in this initiative is

*"I feel like I'm really making a difference in a child's life. It's the highlight of my week. I just love being involved in such a win-win program."*

history of absenteeism may miss other days, but they'll never miss a *Between Generations* day."

David says the program is currently focused on students who come from challenging personal and financial situations. In addition, his organization has developed a partnership with the Chehalis Indian Band and three Elders from that community have already agreed to help introduce *Between Generations* in their local school.

important," says David. "I believe all of our volunteers are pleasantly surprised as to how much they gain from *Between Generations* — how much it enriches their lives and gives them an opportunity to give something back."

Both David and Sharon agree that *Between Generations* is successful by design and due to the unique relationship and dedicated support of First Calgary Savings and Envision Financial.

"Big Brothers and Big Sisters has national sponsors, but to see two companies working together, across regions with a common grassroots focus is very refreshing," says David. "Through our experience with Envision Financial and getting to know First Calgary Savings, it's clear these two organizations match their message of community involvement with their feet and their resources. We've seen it through this project and other ongoing support the two credit unions give to us in their respective markets."



*"I learned that a friend can be any age. I thought all my friends had to be seven or eight."*

Both Envision Financial and First Calgary Savings have made a multi-year commitment to *Between Generations*, providing human and financial resource support, including a range of communications initiatives promoting both the program and helping recruit volunteers.

Together, we know *Between Generations* reaches the people who've shaped our past and are vital to our communities today. We know *Between Generations*

*Between Generations* in Calgary celebrates its fifth anniversary in 2009. Taking a step back, Sharon reflects on the award-winning program's exciting start and constant growth.

"This program truly proves that when you have a group of people with 'heart' dedicated to a common purpose you give kids hope. That's a gift we know can change lives forever."

*"My grandchildren live in Ontario and my mentees help me not to miss them so very much."*

reaches the youth who'll shape our future for years to come. We know from firsthand experience the lifelong impact individual relationships can have... what can happen when someone demonstrates through words, action and commitment that they stand behind you. It's fundamental to how we work with our member-owners and how we live in our communities.



## ADVOCATE

relentlessly



### ACHIEVING A GREENER WORLD ONE STEP AT A TIME

“We’re a member-owned, member-centred organization that treats our communities not just as places of business, but as communities where we live. As an organization, we don’t want to pollute our own ‘house.’ We want to have as little impact as possible on the environment.”

For Alex Bitiukov, Manager of Research and Insights for Envision Financial and First Calgary Savings, that’s the fundamental starting point for his

organizations’ environmental initiatives. Alex speaks from experience, as he’s a member of Envision Financial’s Environmental Advocacy Team established two years ago. Kristin Raugust, Human Resources Coordinator for First Calgary Savings, and member of the First Calgary Savings’ Environmental Advocacy Team established in 2008, echoes his sentiment. “You won’t see a lot of grand gestures. You won’t see big media campaigns announcing our latest go-green project. Instead, I’d say

we're quietly working at putting our respective 'houses' in order," says Kristin, who adds that team members come from many areas of the organization. "We're remaining true to our credit union roots—taking prudent and practical steps that will help us achieve progress over time."

The environmental goals, plans and actions of each credit union are guided by environmental impact assessments conducted in concert with the Pembina Institute, a national not-for-profit organization focused on developing a sustainable energy future through education, consulting and advocacy. The assessment involved gathering data which measures green house gas emissions across all areas of business and operations. It resulted in both organizations gaining a better understanding of their respective environmental footprints, which are quite similar. Both, for instance, have room to lighten their impact in areas such as heat, water, electricity, employee commuting, business travel and paper use. The environmental footprints also form the foundation for the goal-setting, targets and initiatives launched by each team.

Alison Cretney, Senior Project Manager, Pembina Institute, conducted the assessments with Envision Financial and First Calgary Savings. Having worked with numerous companies, Alison says the two credit

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unions are definitely on the right track: "Real change usually begins with small steps. An organization needs to demonstrate progress, build confidence internally, and then move forward with more substantive change down the road."

"What I've personally enjoyed about working with Envision Financial and First Calgary Savings is that they're approaching their environmental challenges with a fresh mindset, passion and commitment. They're being very

## IN PURSUIT OF GOOD CORPORATE CITIZENSHIP



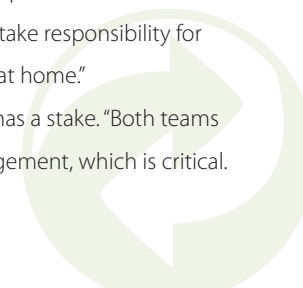
smart about prioritizing which challenges to tackle first—looking at what makes economic sense and the biggest opportunities for reducing their environmental impact," says Alison. "Their plans aren't being driven by what may look best from the outside, but rather what's going to work best on the inside—for their people and their member-owners. I believe these factors combined are really setting Envision Financial and First Calgary Savings up for long-term success."


### GOING GREEN IS EVERYBODY'S BUSINESS

Ask Alex why a grassroots approach is so important and he gets straight to the point. "No one person or team owns the environmental progress we're trying to achieve. This is not about us telling other areas of our business

what to do. Instead, we're encouraging business units to make environmental factors an integral part of their decision-making—to take ownership of the small changes that add up. I think it's important to understand that each of us individually must take responsibility for making a difference at work and at home."

Kristin agrees that everyone has a stake. "Both teams are championed by senior management, which is critical.





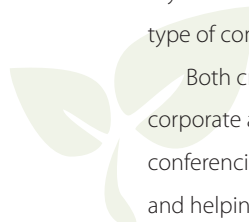
We're also getting feedback that tells us employees are anxious to learn more about how they can make change happen. They're keen to contribute ideas or point out where improvement can be made, that starts with one person or one department taking the initiative. There's a very engaging conversation going on throughout our organization that will continue to build momentum."

At First Calgary Savings, for example, people were generally dissatisfied with the paper towel dispensers. Why? Pull one out and you got a handful of towels instead. Vera Groen, Manager of Corporate Services, successfully searched out a new option that dispenses a single towel at a time, which are made of 100% recycled material. The result: saved paper, saved trees, saved money.

"That's one small example, but it's clear that if we put the systems in place to make it easier for people to reduce, reuse and recycle, they will. Each of these projects is part of our bigger ambition and that's developing a new way of doing business that incorporates advocating for the environment in everything we do," explains Kristin.

An area in which Envision Financial has really stepped up and taken leadership is the organization's pursuit of Leadership in Energy and Environmental Design (LEED) certification with every new branch they build, which means, "a building project is environmentally responsible, profitable and a healthy place to work." Three new branches now stand as LEED certified.

"We're achieving a high standard of construction based on our awareness and understanding that such projects are part of being a responsible corporate citizen. We're making a commitment now and for the future," says Alex. First Calgary Savings is also pursuing a similar type of commitment.



Both credit unions are also monitoring their corporate air travel habits very carefully, using video conferencing as an effective means of managing costs and helping the environment. In addition, scaled



donations are being made to a corporate carbon offset plan that funds reforestation, landfill and river projects, to name a few examples.

Alex and Kristin agree these are still relatively early days in the environmental journey of both organizations, particularly for First Calgary Savings. But both organizations gained momentum in 2008 and began to see results. Change is happening.

For Alex and Kristin, it's a hopeful sign for the future. "It's exciting to work for an organization that's made helping protect our planet a long-term priority," says Kristin. "Now the values I apply at home are aligned with my workplace, which is important to me. There's a lot to learn and even more to do. That's why it's so important for everyone to be involved, even in a small way. It starts with the decisions we make and the steps we take to be environmentally responsible. Working together, we know real progress is possible."



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERVIEW

#### An introduction to our organization

Management's Discussion and Analysis (MD&A) provides additional commentary and information on the results of operations and financial condition of First Calgary Savings & Credit Union Ltd. for the years ending October 31, 2008 and 2007. The MD&A is an integral part of the consolidated financial statements.

Like the financial statements, the MD&A gives First Calgary Savings the opportunity to demonstrate its accountability to member-owners for effective stewardship of resources and for meeting strategic objectives. The financial statements reflect what happened, while the MD&A explains why these changes occurred. By providing a balanced discussion of results of operations, financial conditions and future prospects, the MD&A lets member-owners look at First Calgary Savings through the eyes of management.

The following discussion and analysis is the responsibility of management and is as of December 9, 2008.

#### About First Calgary Savings

First Calgary Savings is Alberta's second-largest credit union with approximately \$2.1 billion in assets under administration. In addition to 16 retail banking branches, our operations are comprised of 12 financial consulting centres, a commercial banking group, a Business Solutions Centre, a Dealer Services team, a local contact centre and Just Financial. Our almost 500 employees are proud to be leading, learning and living in the communities they serve. First Calgary Savings has been selected as one of Canada's 50 Best Managed Companies every year since 1999, achieving 50 Best Platinum Club status in 2006, and was named one of Alberta's Top 40 Employers in 2008 and 2009.

#### Vision, mission and values

##### Our Vision

We are a community-oriented credit union creating value for our membership, and taking pride in our service and staff.

##### Our Mission

Building relationships to help member-owners realize their goals and dreams.

##### Our Values

We care about:

- Our member-owners, by satisfying their changing needs and exceeding their expectations for excellence with innovative value-added products and services provided by our caring, professional staff.
- Our staff, by providing a challenging environment that rewards both team and individual contributions and supports their journey to personal excellence.
- Our communities, by participating in programs and initiatives that contribute to their general well-being.

#### Our service commitment

We recognize member-owners have unique needs and expect exceptional service from First Calgary Savings. Our promise is that each and every interaction with a member-owner will be:

- friendly
- approachable
- knowledgeable
- competent
- reliable

## 2008 FINANCIAL PERFORMANCE REVIEW

### Balance sheet

Total assets increased \$240 million, or 13 per cent, over the previous year. This increase was largely attributable to strong growth in member-owner deposits.

Total loans to member-owners increased \$154 million, or 10 per cent, from a year ago. The increase was due primarily to growth in our commercial loan portfolio of \$137 million, or 30 per cent.

Residential mortgages make up 56 per cent of our loan portfolio, down from 61 per cent a year ago. The decline was the result of significant growth in commercial loans, which increased to 34 per cent of our loan portfolio from 29 per cent in 2007.

Member-owner deposits at year-end rose \$215 million, or 13 per cent, compared to 2007. The increase was driven by growth in term deposits of \$220 million, or 25 per cent.

Member-owners' equity improved \$19.3 million, or 19 per cent, in 2008. By increasing member-owners' equity through profits, we can provide capital for growth and pay patronage and dividends to member-owners. In 2008, we paid \$5 million or 38 per cent of adjusted net earnings from operations before tax to member-owners. Over the past decade, we have paid out more than \$45 million in patronage and dividends.



### Income statement

The difference between short-term and long-term interest rates remained small for much of 2008. This environment continues to challenge us to achieve adequate financial margin. Nevertheless, we again managed our margin in 2008 by maintaining an interest-rate hedging program and by active portfolio management. These strategies, together with loan and deposit growth, increased financial margin by \$1.6 million before unrealized hedge gains, or three per cent, to \$57.1 million. Importantly, this is the eleventh consecutive year we have improved our financial margin.

Non-interest revenue, which includes banking fees, mutual fund sales fees, foreign exchange services and insurance-related services, was \$14.6 million in 2008. This was an increase of \$946,000, or seven per cent, from 2007 and reflected the growing demand from member-owners for these services.

Operating expenses in 2008 increased \$2.9 million, or five per cent, to \$58.3 million. The largest increase was in personnel expenses, which rose \$1.2 million, or five per cent. This increase was attributable to staff additions to meet growing member-owner demand for financial products and services and to higher payroll costs to ensure a competitive wage in Calgary's marketplace.

Despite growth in our loan portfolios, charges for loan impairment remained low and well below industry benchmarks. As of October 31, 2008, 0.21 per cent of loans were in arrears compared with 0.05 per cent in 2007.

Adjusted net earnings from operations before income tax, decreased \$50,000 to \$13.2 million in 2008. Net income after patronage allocation and income taxes was \$20.9 million in 2008.

#### ADJUSTED NET EARNINGS FROM OPERATIONS

| (\$ Thousands)   | 2008          | 2007          | 2006          | 2005         | 2004         |
|--|---------------|---------------|---------------|--------------|--------------|
| Net earnings as reported                                 | 20,872        | 6,597         | 8,367         | 4,016        | 4,136        |
| Patronage allocation                                     | 2,600         | 2,600         | 1,737         | 1,814        | 2,000        |
| Unrealized loss/(gain) on cash flow hedges**             | (15,961)      | 2,118         | —             | —            | —            |
| <b>Adjusted net earnings from operations</b>             | <b>7,511</b>  | <b>11,315</b> | <b>10,104</b> | <b>5,830</b> | <b>6,136</b> |
| Income tax provisions                                    | 5,663         | 1,909         | 2,460         | 1,425        | 1,421        |
| <b>Adjusted net earnings from operations before tax*</b> | <b>13,174</b> | <b>13,224</b> | <b>12,564</b> | <b>7,255</b> | <b>7,557</b> |

\* The company evaluates its performance based on adjusted net earnings from operations, which are calculated and presented using methods other than in accordance with generally accepted accounting principles (non-GAAP). Adjusted net earnings from operations reflect certain items of a non-operational nature and may not be comparable to similar measures presented by other companies.

\*\* We record derivative financial instruments at fair value on the balance sheet, with changes in the fair value of non-designated hedges flowing through earnings. The amounts ultimately realized may be materially different than amounts reflected in the financial statements due to future changes in prices of the underlying items hedged.



## FINANCIAL DATA - FIVE YEAR HISTORY

### Balance sheet

| (\$ Thousands)                           | 2008             | 2007             | 2006             | 2005             | 2004             |
|--|------------------|------------------|------------------|------------------|------------------|
| <b>ASSETS</b>                            |                  |                  |                  |                  |                  |
| Cash                                     | 101,718          | 4,332            | 19,479           | 24,559           | 15,048           |
| Investments                              | 196,555          | 223,141          | 196,600          | 200,459          | 145,210          |
| Loans to member-owners                   | 1,755,743        | 1,602,008        | 1,514,170        | 1,279,600        | 1,194,358        |
| Interest receivable                      | 7,175            | 6,926            | 6,047            | 5,914            | 5,290            |
| Other assets                             | 18,368           | 3,186            | 1,675            | 1,989            | 1,965            |
| Foreclosed property                      | 438              | —                | —                | 408              | —                |
| Capital assets                           | 22,778           | 23,032           | 22,803           | 18,376           | 14,827           |
|  | <u>2,102,775</u> | <u>1,862,625</u> | <u>1,760,774</u> | <u>1,531,305</u> | <u>1,376,698</u> |
| <b>LIABILITIES</b>                       |                  |                  |                  |                  |                  |
| Member-owners' deposit accounts          | 1,926,326        | 1,711,127        | 1,619,557        | 1,426,399        | 1,284,815        |
| Accounts payable and accrued liabilities | 10,724           | 10,254           | 7,525            | 4,122            | 3,187            |
| Interest payable                         | 15,031           | 13,656           | 12,776           | 12,292           | 11,563           |
| Loans payable                            | 25,000           | 25,000           | 25,000           | —                | —                |
| Future income tax liability              | 4,954            | 1,148            | 1,246            | 567              | 261              |
|  | <u>1,982,035</u> | <u>1,761,185</u> | <u>1,666,104</u> | <u>1,443,380</u> | <u>1,299,826</u> |
| <b>MEMBER-OWNERS' EQUITY</b>             |                  |                  |                  |                  |                  |
| Patronage allocation                     | 2,600            | 2,600            | 1,737            | 1,814            | 2,000            |
| Common shares                            | 19,646           | 17,944           | 17,079           | 16,204           | 14,991           |
| Investment Shares                        | 44,996           | 46,378           | 46,193           | 47,302           | 39,944           |
| Investment Share dividends declared      | 2,362            | 2,435            | 2,302            | 1,858            | 1,814            |
| Retained earnings                        | 51,136           | 32,083           | 27,359           | 20,747           | 18,123           |
|  | <u>120,740</u>   | <u>101,440</u>   | <u>94,670</u>    | <u>87,925</u>    | <u>76,872</u>    |
|  | <u>2,102,775</u> | <u>1,862,625</u> | <u>1,760,774</u> | <u>1,531,305</u> | <u>1,376,698</u> |

## Statement of operations

| (\$ Thousands)                                   | 2008          | 2007          | 2006          | 2005          | 2004          |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>FINANCIAL INCOME</b>                          |               |               |               |               |               |
| Interest on loans to member-owners               | 100,345       | 92,264        | 79,332        | 65,738        | 62,547        |
| Interest on investments                          | 8,200         | 10,695        | 7,545         | 7,231         | 5,801         |
|  | 108,545       | 102,959       | 86,877        | 72,969        | 68,348        |
| Unrealized gain/(loss) on interest rate swaps    | 15,961        | (2,118)       | —             | —             | —             |
|  | 124,506       | 100,841       | 86,877        | 72,969        | 68,348        |
| <b>FINANCIAL EXPENSE</b>                         |               |               |               |               |               |
| Interest on member-owners' deposit accounts      | 50,147        | 46,531        | 38,353        | 32,738        | 31,444        |
| Interest on loans payable                        | 1,272         | 943           | 95            | 52            | 229           |
|  | 51,419        | 47,474        | 38,448        | 32,790        | 31,673        |
| Financial margin                                 | 73,087        | 53,367        | 48,429        | 40,179        | 36,675        |
| Other income                                     | 14,607        | 13,661        | 12,955        | 12,338        | 11,874        |
| Gross margin                                     | 87,694        | 67,028        | 61,384        | 52,517        | 48,549        |
| Charge for loan impairment                       | 250           | 552           | 699           | 1,164         | 659           |
| <b>Income before operating expenses</b>          | <b>87,444</b> | <b>66,476</b> | <b>60,685</b> | <b>51,353</b> | <b>47,890</b> |
| <b>Operating expenses</b>                        |               |               |               |               |               |
| Personnel  | 26,287        | 25,086        | 22,769        | 20,487        | 18,927        |
| Occupancy  | 5,321         | 4,738         | 4,401         | 4,325         | 3,992         |
| Member-owner security                            | 3,523         | 3,136         | 2,824         | 2,504         | 2,285         |
| General  | 22,108        | 21,509        | 17,324        | 16,030        | 14,421        |
| Organization                                     | 1,070         | 901           | 803           | 752           | 708           |
|  | 58,309        | 55,370        | 48,121        | 44,098        | 40,333        |
| <b>Income before patronage and income taxes</b>  | <b>29,135</b> | <b>11,106</b> | <b>12,564</b> | <b>7,255</b>  | <b>7,557</b>  |
| Patronage  | 2,600         | 2,600         | 1,737         | 1,814         | 2,000         |
| Income taxes                                     |               |               |               |               |               |
| Current  | 1,857         | 2,007         | 1,781         | 1,119         | 1,207         |
| Future   | 3,806         | (98)          | 679           | 306           | 214           |
|  | 5,663         | 1,909         | 2,460         | 1,425         | 1,421         |
| <b>Net income</b>                                | <b>20,872</b> | <b>6,597</b>  | <b>8,367</b>  | <b>4,016</b>  | <b>4,136</b>  |
| Adjusted net earnings from operations before tax | 13,174        | 13,224        | 12,564        | 7,255         | 7,557         |
| Return on assets                                 | 0.66%         | 0.73%         | 0.76%         | 0.50%         | 0.57%         |
| Return on equity                                 | 11.86%        | 13.49%        | 13.76%        | 8.80%         | 10.26%        |
| Operating efficiency                             | 81.29%        | 80.08%        | 78.39%        | 83.97%        | 83.08%        |

Returns on assets, equity and operating efficiency were calculated based on adjusted net earnings from operations before tax.

## 2009 Objectives

Each year, the Board of Directors approves financial targets for the next fiscal year. The following table compares our targets for fiscal 2009 with results and targets from fiscal 2008.



We are targeting adjusted net earnings of \$14.0 million in 2009, an 8 per cent increase over 2008 plan.

For 2009, our deposit growth target is \$129.5 million.

We have set a loan growth target for 2009 of \$175.0 million.

## OUTLOOK AND STRATEGY FOR 2009

### Alberta economic forecast

The US credit crisis has now spread beyond America's borders to encompass most major global economies, pushing them into a downturn. This threatens to worsen and slow global economic growth to under 1% in 2009. Economies in North America, Europe and Japan will likely contract in 2009 as weakness spreads to emerging markets. Coordinated efforts by the world's economic policy makers to soften massive recessionary forces should allow global economies to bottom near mid-2009 and then make possible a slow recovery at the end of the year and into 2010.

The year-long US recession is worsening, with accelerating job losses causing consumers to pull-back on discretionary spending. This suggests the downturn could not only be the longest in the post-war era, but among the deepest. A weakened banking system will probably remain impaired for the foreseeable future as financial institutions continue to repair damage to their balance sheets resulting from sub-prime mortgage problems. Since the US Federal Reserve has reduced its overnight lending rate to almost zero, further measures to combat the recession must be in the form of easing longer-term rates, increasing the supply of loans from outside the banking system and expanding fiscal policy.

Canada's economy was hit by spending cuts associated with a potentially deep recession in the US, and by lower commodity prices, which peaked in the summer of 2008. Previously resilient domestic demand has also been undercut by a bear market in equities, tighter credit conditions and a weaker housing market, which together have taken a toll on consumer confidence. The Canadian recession is expected to last through the summer of 2009 followed by a modest recovery in the third or fourth quarter and a return to moderate growth in 2010.

The plunge in energy prices combined with tightening credit conditions has stalled economic growth in Alberta, taking the momentum out of consumer and real estate sectors. The oil patch, the engine of the province's growth, has reacted to lower energy prices by either delaying or cancelling new projects, which may result in layoffs. After several years of leading economic growth in Canada, Alberta's economy is expected to slow to 1.9% in 2008 followed by a 0.7% contraction in 2009.

### First Calgary Savings' outlook and strategy

We will hold to the long-term strategic plan we developed in 2006, which we believe remains valid through these tough economic times. Our strategic priority is to focus on maintaining loan growth, while generating deposit growth to ensure adequate liquidity levels. We expect adjusted net earnings to grow marginally and lower interest rates to moderate balance sheet growth. Expense management remains a priority to ensure we withstand longer-term economic and competitive pressures.

Initiatives are in place to manage through this next year, and with our strategic planning process, we will be prepared for these uncertain times.

### Enterprise-wide risk management

Risk is defined as the likelihood of an event occurring that impedes the achievement of an organization's objectives. The consequences of risk include financial loss, damage to reputation and missed business opportunities.

Our goal is to implement effective risk management practices at all levels of the organization through an Enterprise-Wide Risk Management (EWRM) program. The purpose of the program is to mitigate risk, not eliminate it. EWRM is also meant to add value and preserve the sound business and financial operations of the credit union. Accountability for the program is a fundamental responsibility of the Board of Directors and management.

EWRM is a process for proactively identifying, measuring, managing, controlling and reporting on all significant risks inherent in the business strategy and operations of the credit union. The core risk categories affecting the credit union are operational, credit, market, liquidity, regulatory and strategic. These risks are highlighted in the sections below.

### Operational risk management

Operational risk can arise during the performance of business functions or processes. Exposure to this risk can result from deficiencies or breakdowns in internal controls and processes, technology failures, human error, dishonesty and natural disasters.

We manage operational risk through education and communication, policies and procedures, regular risk assessments and risk-based audits that measure actual performance relative to policies and EWRM standards. By following these practices, we either avoid, accept, transfer or mitigate operational risk.

The key components of our operational risk management are a well-trained staff and effective communication of risk issues. Because of the wide and pervasive nature of operational risk, we believe the best way to manage this risk is through regular meetings, information sharing and the resolution of identified risks.

Management reports to the Board's Audit Committee in detail on these matters and to the Board of Directors on a quarterly basis. Internal audit staff attends all Audit Committee meetings to report their activities and findings on operational risk and management's representations regarding the EWRM program and overall control environment.

### **Credit risk management**

We face credit risk from borrowers who default on loans that are insufficiently covered by the value of security held against the loan. This risk is confined primarily to our lending portfolios, but it is also present in other transactions, including derivatives. We establish acceptable levels of credit risk by way of Board policies and monitor this risk through the Board's Investment and Credit Risk Committee. We manage credit risk by examining loan performance relative to our credit policies.

We produce loan-performance reports on a monthly basis. We also conduct regular reviews of the effectiveness of our credit-risk policies and the quality of our credit portfolio. We report the findings of these reviews to the Management Credit Committee, which meets at least quarterly. The committee comprises First Calgary Savings' President and CEO; Chief Operating Officer; Vice President, Credit; Vice President, Finance; Vice President, Sales and Service; and staff members from credit risk management and retail and commercial business lines.

In addition, internal auditors regularly review compliance with our credit risk policies. They also test for loan quality, loan documentation and credit reporting. Internal audit staff attends the Audit Committee meetings to report their activities and findings.

The Investment and Credit Risk Committee reviews the lending policies of First Calgary Savings at least annually. At least quarterly, the committee reviews reports on issues required by policy or those identified by management or internal audit staff members.

### **Market risk management**

Market risk arises from changes in interest or foreign-exchange rates that affect our net interest income. Exposure to this risk is what allows the credit union to make money on its loan and deposit portfolios. Our objective is to earn an acceptable return on these portfolios, without taking unreasonable risk, while meeting member-owner needs. Policies approved by the Board and monitored by its Investment and Credit Risk Committee determine acceptable levels of risk.

We manage market risk by developing and implementing asset and liability management policies. Our goal is to achieve satisfactory and consistent profits, liquidity, and safety. These policies define acceptable market risk limits caused by changes in the volume, mix, maturity and quality as well as interest and exchange rate sensitivity of assets and liabilities. Safety and soundness issues are an important part of this definition.

We recognize the need for consistent profits balanced with appropriate market risk management and measured against capital. Our treasury department manages day-to-day market risk within approved policies and reports monthly to management's Asset and Liability Committee to ensure policy compliance. Management provides quarterly reports on these matters to the Investment and Credit Risk Committee.

At least annually, the Investment and Credit Risk Committee reviews First Calgary Savings' investment policies. Reports required by policy or identified by management, treasury or internal audit staff are submitted to the committee at least quarterly.

### **Liquidity risk management**

Liquidity risk is the risk of having insufficient liquid financial resources to meet either the credit union's cash and funding requirements or statutory liquidity requirements, or both. The acceptable amount of risk is defined by policies approved by the Board and monitored by its Investment and Credit Risk Committee.

We manage liquidity by monitoring and managing cash flows and the concentration of assets and liabilities according to approved policies. Our treasury department manages day-to-day liquidity within these policies and reports monthly to management's Asset and Liability Committee to ensure policy compliance. Management provides quarterly reports on these matters to the Investment and Credit Risk Committee.

### Regulatory risk management

Regulatory risk arises from non-compliance with applicable laws, rules and regulations, prescribed practices, and ethical standards. Failure to manage this risk can lead to financial and reputation loss.

We manage compliance risk by identifying the federal, provincial, and municipal legislation and code by which the credit union is governed. Management continually monitors and identifies relevant regulatory requirements and then develops appropriate policies to ensure compliance. Management provides regular reports on these matters to the Board.

### Strategic risk management

Strategic risk arises from an inability to develop or implement effective business plans, tactics, decisions, and resource allocation. It also can result from a failure to adapt to changes in the business environment.

We developed a new five-year strategic plan in 2006 as part of the Pathways Project with Envision Financial. In 2007, management developed its three-year corporate plan, which outlined initiatives in support of our strategic objectives, including annual business plans and budgets.

Management presents strategic and corporate plans to the Board for approval. To evaluate First Calgary Savings' performance against these plans, management prepares regular reports for the Board that compares actual financial and operating results with benchmarks and budgets.

### International Financial Reporting Standards (IFRS)

The accounting framework under which financial statements in Canada are prepared for publicly accountable enterprises such as First Calgary Savings is scheduled to change in 2011 to International Financial Reporting Standards (IFRS). Canadian generally accepted accounting principals (GAAP) will cease to apply for these enterprises, and be replaced with IFRS. First Calgary Savings will start reporting under the new rules for fiscal year 2012.

Converting to IFRS will be a significant undertaking for First Calgary Savings. Over the next few years, we must make broad changes in our financial reporting, which may, in turn, result in substantial differences in what and how items are reported on our financial statements. Our financial results may also reflect increased volatility.

Therefore, we plan to increase and broaden disclosure to help stakeholders understand the differences between the old and new accounting standards. Because conversion to IFRS will be a transitional process, we will also provide regular updates on new developments from accounting and regulatory bodies.

First Calgary Savings is a working partner in the National IFRS Task Force for Credit Unions. Our contributions to this group and our internal steering committee will help ensure a successful conversion to IFRS.

## BOARD OF DIRECTORS



Ken Bolstad  
Director

Bob Petryk  
Board Secretary

Ron Ziegler  
Director

Gary Cerantola  
Director

Jeannette Kirchner  
Director

Hazel Corcoran  
Director

Bruno Friesen  
Chair

Judy Martin  
Director

Ron Gibson  
Vice Chair

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

First Calgary Savings & Credit Union Ltd.

To the Members of First Calgary Savings & Credit Union Ltd.:

The Management of First Calgary Savings & Credit Union Ltd. prepared these financial statements and is responsible for their reliability, completeness and integrity. They were prepared in accordance with the requirements of the Credit Union Act and conform in all material respects to Canadian generally accepted accounting principles.

Management maintains the necessary reporting and internal control systems to provide reasonable assurance of the timely production of reliable and accurate financial information, the protection of assets against loss or unauthorized use, and the promotion of operational efficiency. Internal audit provides management with the ability to assess the adequacy of these controls. The Audit Committee has implemented a plan to review internal controls as deemed appropriate for this Credit Union. The Board of Directors, acting through its Audit Committee, oversee management's responsibilities for the financial reporting and internal control systems.

KPMG LLP, appointed by the Board of Directors, conducted an audit of these financial statements in accordance with Canadian generally accepted auditing standards. The Audit Committee reviewed these financial statements before recommending their approval to the Board of Directors.



**Dave Gregory**

PRESIDENT & CEO



**Paul Kelly**

CHIEF OPERATING OFFICER

Calgary, Canada  
December 9, 2008

## AUDITORS' REPORT

First Calgary Savings & Credit Union Ltd.

To the Members of First Calgary Savings & Credit Union Ltd.:

We have audited the balance sheet of First Calgary Savings & Credit Union Ltd. as at October 31, 2008 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

*KPMG LLP*

Chartered Accountants

Calgary, Canada

December 9, 2008

## BALANCE SHEET

First Calgary Savings & Credit Union Ltd.

As at October 31, 2008

(with comparative figures for 2007)

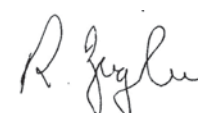
| (\$ Thousands)                                | <b>2008</b>         | 2007                |
|---|---------------------|---------------------|
| <b>ASSETS</b>                                 |                     |                     |
| Cash and cash equivalents                     | \$ 101,718          | \$ 4,332            |
| Investments (Note 5)                          | 196,555             | 223,141             |
| Loans to members (Note 6)                     | 1,755,743           | 1,602,008           |
| Interest receivable                           | 7,175               | 6,926               |
| Other assets (Note 8)                         | 18,368              | 3,186               |
| Foreclosed property                           | 438                 | –                   |
| Capital assets (Note 7)                       | 22,778              | 23,032              |
|   | <b>\$ 2,102,775</b> | <b>\$ 1,862,625</b> |
| <b>LIABILITIES</b>                            |                     |                     |
| Members' deposit accounts (Note 9)            | \$ 1,926,326        | \$ 1,711,127        |
| Accounts payable and accrued liabilities      | 10,724              | 10,254              |
| Interest payable                              | 15,031              | 13,656              |
| Loans payable (Note 17)                       | 25,000              | 25,000              |
| Future income tax liability (Note 14)         | 4,954               | 1,148               |
|   | <b>\$ 1,982,035</b> | <b>\$ 1,761,185</b> |
| <b>MEMBERS' EQUITY</b>                        |                     |                     |
| Patronage allocation (Note 11)                | 2,600               | 2,600               |
| Common shares (Note 12)                       | 19,646              | 17,944              |
| Investment Shares (Note 12)                   | 44,996              | 46,378              |
| Investment Share dividends declared (Note 12) | 2,362               | 2,435               |
| Retained earnings                             | 51,136              | 32,083              |
|   | <b>120,740</b>      | <b>101,440</b>      |
| Commitments and contingencies (Note 10)       | <b>\$ 2,102,775</b> | <b>\$ 1,862,625</b> |

See accompanying notes to the financial statements.

On behalf of the Board:



Board Chair



Chair, Audit Committee

## STATEMENT OF OPERATIONS

First Calgary Savings & Credit Union Ltd.  
For the Year Ended October 31, 2008  
(with comparative figures for 2007)

| (\$ Thousands)   | 2008             | 2007      |
|--|------------------|-----------|
| <b>FINANCIAL INCOME</b>                                    |                  |           |
| Interest on loans to members                               | \$ 100,345       | \$ 92,264 |
| Interest on investments                                    | 8,200            | 10,695    |
|  | 108,545          | 102,959   |
| Unrealized gain/(loss) on interest rate swaps (Note 18)    | 15,961           | (2,118)   |
|  | 124,506          | 100,841   |
| <b>FINANCIAL EXPENSE</b>                                   |                  |           |
| Interest on members' deposit accounts                      | 50,147           | 46,531    |
| Interest on loans payable                                  | 1,272            | 943       |
|  | 51,419           | 47,474    |
| Financial margin   | 73,087           | 53,367    |
| Other income   | 14,607           | 13,661    |
| Gross margin   | 87,694           | 67,028    |
| Operating expenses (Note 13)                               | 58,309           | 55,370    |
| Charge for loan impairment (Note 6)                        | 250              | 552       |
| <b>Income before patronage allocation and income taxes</b> | <b>29,135</b>    | 11,106    |
| Patronage allocation (Note 11)                             | 2,600            | 2,600     |
| Income before income taxes                                 | 26,535           | 8,506     |
| Income taxes (Note 14)                                     |                  |           |
| Current  | 1,857            | 2,007     |
| Future (reduction)   | 3,806            | (98)      |
|  | 5,663            | 1,909     |
| <b>Net income</b>  | <b>\$ 20,872</b> | \$ 6,597  |

See accompanying notes to the financial statements.

## STATEMENT OF RETAINED EARNINGS

First Calgary Savings & Credit Union Ltd.

For the Year Ended October 31, 2008

(with comparative figures for 2007)

| (\$ Thousands)                           | <b>2008</b> | 2007      |
|--|-------------|-----------|
| Retained earnings, beginning of period   | \$ 32,083   | \$ 27,359 |
| Add:                                     |             |           |
| Net Income                               | 20,872      | 6,597     |
|  | 52,955      | 33,956    |
| Deduct:                                  |             |           |
| Dividends on Investment Shares (Note 12) | 2,362       | 2,435     |
| Current income tax recovery              | (543)       | (562)     |
|  | 1,819       | 1,873     |
| Retained earnings, end of year           | \$ 51,136   | \$ 32,083 |

See accompanying notes to the financial statements.

## STATEMENT OF CASH FLOWS

First Calgary Savings & Credit Union Ltd.  
For the Year Ended October 31, 2008  
(with comparative figures for 2007)

| (\$ Thousands)                                       | <b>2008</b> | 2007      |
|--|-------------|-----------|
| <b>OPERATING ACTIVITIES</b>                          |             |           |
| Net Income   | \$ 20,872   | \$ 6,597  |
| Depreciation   | 3,857       | 3,765     |
| Provision for loan impairment                        | 250         | 552       |
| Unrealized (gain)/loss on interest rate swaps        | (15,961)    | 2,118     |
| Patronage allocation                                 | 2,600       | 2,600     |
| Future income taxes                                  | 3,806       | (98)      |
| Increase in interest receivable                      | (249)       | (879)     |
| Decrease/(increase) in other assets                  | 779         | (611)     |
| Increase in accounts payable and accrued liabilities | 470         | 611       |
| Increase in interest payable                         | 1,375       | 880       |
| Cash flows from operating activities                 | 17,799      | 15,485    |
| <b>FINANCING ACTIVITIES</b>                          |             |           |
| Increase in members' deposits                        | 215,199     | 91,570    |
| Common share redemptions, net                        | (898)       | (872)     |
| Investment Share redemptions                         | (3,817)     | (2,117)   |
| Current income tax recovery on dividends             | 543         | 562       |
| Cash flows from financing activities                 | 211,027     | 89,143    |
| <b>INVESTING ACTIVITIES</b>                          |             |           |
| Decrease/(increase) in investments                   | 26,586      | (26,541)  |
| Increase in loans to members, net of repayments      | (154,423)   | (89,240)  |
| Purchase of capital assets, net of disposals         | (3,603)     | (3,994)   |
| Cash flows used in investing activities              | (131,440)   | (119,775) |
| Net increase/(decrease) in cash                      | 97,386      | (15,147)  |
| Cash, beginning of year                              | 4,332       | 19,479    |
| Cash, end of year                                    | \$ 101,718  | \$ 4,332  |
| Supplementary cash flow information:                 |             |           |
| Interest paid  | \$ 50,044   | \$ 47,537 |
| Income taxes paid                                    | \$ 1,748    | \$ 1,743  |

See accompanying notes to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

First Calgary Savings & Credit Union Ltd.

For the year ended October 31, 2008

(with comparative figures for 2007)

### 1. NATURE OF OPERATIONS

First Calgary Savings & Credit Union Ltd. ("First Calgary" or the "Credit Union") was formed on March 18, 1987 pursuant to the Credit Union Act of the Province of Alberta as an amalgamation of seven open bond credit unions. The amalgamation was effective November 1, 1986. First Calgary operates a network of credit union branches in the City of Calgary.

The Credit Union Deposit Guarantee Corporation ("CUDGC"), a Provincial Corporation, guarantees the repayment of all deposits, including accrued interest, held with Alberta credit unions. The Credit Union Act of Alberta ("the Act") provides that the Province of Alberta will ensure that this obligation of CUDGC is carried out.

### 2. CHANGES IN ACCOUNTING POLICY

The Canadian Institute of Chartered Accountants (CICA) has issued Section 3862: Financial Instruments-Disclosures, which requires additional disclosure of the risks associated with financial instruments and how the Credit Union manages those risks. This standard was implemented by the Credit Union effective October 31, 2008 on a prospective basis. The required disclosures are included in notes 18 and 19.

Section 1535: Capital Disclosures requires the Credit Union disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing capital. This standard was implemented effective October 31, 2008 on a prospective basis. The required disclosures are included in note 4.

### 3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions, which have been made by management using careful judgement. Actual results may differ from estimates.

The significant accounting policies adopted by the Credit Union are summarized below:

#### (a) Basis of Presentation

The Credit Union conducts certain of its business through a joint venture ("InUnison Financial") where it exercises joint control through an agreement with Envision Financial. The Credit Union's proportionate share of the assets, liabilities, revenues and expenses of the joint venture are included in these statements. All significant inter-company transactions and balances are eliminated.

#### (b) Investments

Investments held to maturity: Investments which the Credit Union both positively intends and has the ability to hold to maturity are classified as investments held to maturity and are carried at amortized cost. Intent and ability to hold are not considered to be satisfied

if an investment is available to be sold in response to changes in interest rates, prepayment rates, or other reasons as part of the overall asset/liability management strategy. All statutory liquidity investments are classified as held to maturity.

Investments available for sale: Investments that the Credit Union may not hold until maturity are classified as available for sale and reported at estimated fair value. Unrealized gains and losses, after applicable taxes, are reported in Other Comprehensive Income. All non-statutory liquidity investments are classified as available for sale. Shares held in Credit Union Central of Alberta ("Central") are not traded on an active market. Accordingly these assets are accounted for using the amortized cost method.

The Credit Union holds an investment in a company (InUnison Technology) where it exerts significant influence over operating, investing, and financing decisions. The investment is accounted for using the equity method whereby the Credit Union records its initial investment at cost and then records its equity share of any net income/loss. Dividends received are recorded as a reduction of the investment, which is included in investments in the consolidated balance sheet.

The Credit Union reduces the carrying value when declines in the value of investments are considered other than temporary and records the charge to income.

### **(c) Loans to Members**

Loans to members are financial instruments categorized as loans and receivables and are reported at amortized cost, using the effective interest rate method.

Interest income from loans is recorded on an accrual basis for all loans until such time as they are classified as impaired. When a loan is classified as impaired, recognition of interest income in accordance with the original loan agreement ceases. Accrued but uncollected interest is reversed. Any subsequent payments received on an impaired loan are applied to reduce the recorded investment in the loan. Interest income is recognized only after specific provisions have been recovered.

Loans are classified as impaired at the earlier of: when there is reasonable doubt as to the ultimate collection of some portion of principal or interest, or when principal or interest is contractually past due 60 days. Loans considered uncollectible are written off.

Mortgage prepayment fees are included in income when charged. Net fees earned and direct costs incurred in connection with lending activities are included in the loan balance and deferred and amortized over the estimated term of the loan using the effective interest rate method.

### **(d) Allowance for Credit Losses**

The Credit Union maintains an allowance to absorb credit-related losses in its portfolio. The allowance is increased by a charge to income, and reduced by write-offs, net of recoveries. The allowance includes specific and non-specific allowances as follows:

- i) Management regularly reviews individual loans and records specific allowances, when required, to reduce their carrying amounts to their estimated realizable values. The net amount represents management's best estimate of the expected future discounted cash flows at the effective interest rate inherent in the loans. When management cannot determine this amount, it bases its estimate on the value of the loan's security, net of expected selling costs.
- ii) The Credit Union records non-specific allowances when evidence of impairment loss within groups of loans exists but is not sufficient to allow determination of specific allowances. Impairment is estimated using a formula based on historical credit loss experience in relation to key economic indicators.

#### (e) Foreclosed Properties

Foreclosed properties held for sale are valued at estimated net realizable value.

#### (f) Capital Assets

Capital assets are recorded at cost. Amortization of capital assets is provided on a straight-line basis at the following annual rates based on the estimated useful life of the assets:

|                                 |                         |
|---------------------------------|-------------------------|
| Buildings                       | 2.5 percent             |
| Furniture and Equipment         | 5 to 20 percent         |
| Computer Equipment and Software | 14 to 30 percent        |
| Vehicles                        | 25 percent              |
| Leasehold Improvements          | Remaining term of lease |

#### (g) Income Taxes

The Credit Union has adopted the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between carrying amounts of assets and liabilities and their respective tax bases. The valuation of future tax assets is reviewed annually and adjusted, if necessary, to reflect the estimated realizable amount.

#### (h) Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the date of the financial statements. Revenues and expenses in foreign currencies are translated at the average exchange rates prevailing during the year. Realized and unrealized gains and losses on foreign currency positions are included in other income.

#### (i) Unauthorized Overdrafts

At the end of each fiscal year, unauthorized overdrafts outstanding for at least 90 days and considered to be uncollectible are written off.

#### (j) Derivative Contracts

In the normal course of business, the Credit Union periodically enters into swap agreements. The fair value of these derivative instruments is recorded on the balance sheet in accounts payable (in the case of a liability) or other assets (in the case of an asset). Changes in fair value are recorded in the Statement of Operations.

### 4. CAPITAL MANAGEMENT (\$ Thousands)

The Credit Union provides financial services to its members and is subject to capital requirements set out in the Act. During the year ended October 31, 2008, the Credit Union complied with these capital requirements.

The Credit Union is required under the Act to hold capital equal to or exceeding the greater of: 4.0% of balance sheet assets or 8.0% of risk-weighted assets. The Credit Union's objectives when managing capital are to maintain the minimum regulatory requirement plus a cushion of 2.0% of risk-weighted assets or 1.0% of balance sheet assets, whichever is greater, allowing for the impact of operational risk and strategic initiatives.

When determining sufficiency of capital, the Credit Union includes in its calculation amounts permitted under the Act including:

- i) Retained Earnings
- ii) Common Shares
- iii) Investment Shares
- iv) System Capital - The Credit Union's portion of qualifying retained earnings as calculated and provided by Central.
- v) Other forms of capital as determined from time to time by the Board of Directors and approved as capital by the regulator, CUDGC

The total value of the figures above is then adjusted by any amounts of future income taxes recoverable or payable.

The Credit Union management ensures compliance with capital adequacy through the following:

- i) Identifying the capital needed to support the current and planned operations of the Credit Union, including operations conducted or to be conducted through subsidiaries;
- ii) Developing and submitting to the Board of Directors for its approval appropriate and prudent capital management policies, including policies on the quantity and quality of capital needed to support the current and planned operations that reflect both the risks to which the Credit Union is exposed and its regulatory capital requirements;
- iii) Regularly measuring and monitoring capital requirements and capital position, and ensuring First Calgary meets its capital requirements;
- iv) Establishing appropriate and effective procedures and controls for managing capital, monitoring adherence to those procedures and controls, and reviewing them on a regular basis to ensure that they remain effective;
- v) Providing the Board of Directors with appropriate reports on its capital position and on the procedures and controls for managing capital; and providing the Board of Directors with appropriate reports that will enable it to assess whether the Credit Union has an ongoing effective capital management process;
- vi) Stress testing the capital levels is performed at a minimum on an annual basis. The tests include a variety of scenarios that vary growth and income assumptions. They include a test for the current year as well as for the plan period. A sufficient number of scenarios are tested to ensure that sensitivity levels can reasonably be assessed and planned for.

A five-year Capital Plan is reviewed and approved by the Board of Directors annually.

In addition, under the terms of the Act, the Credit Union may not pay dividends on shares (Common Shares or Investment Shares) if there are reasonable grounds for believing that the Credit Union is, or would by that payment become, insolvent. The Investment and Credit Risk Committee ("ICR") is responsible for conducting an annual review of capital procedures in place relative to the policy requirements established. The ICR reports its findings and recommends any necessary corrective action to the Board of Directors. The Board of Directors, which may be assisted by the ICR, reviews written correspondence from CUDGC regarding capital management matters, and investigates and responds as appropriate.

As at October 31, 2008 the Credit Union's total capital as a percent of assets was 6.45% and the total capital as a percent of risk-weighted assets was 11.46%. The Credit Union balance sheet has exceeded its minimum regulatory capital requirement as at October 31, 2008. As at October 31, 2008, the Credit Union's statutory capital is \$135,662 compared to the minimum capital requirement of \$94,470. For 2007, the statutory capital was \$109,362 compared to the minimum capital requirement of \$81,852.

## 5. INVESTMENTS (\$ Thousands)

|                                | 2008              |    | 2007           |
|--------------------------------|-------------------|----|----------------|
| Investments available for sale | \$ 2,239          | \$ | 2,164          |
| Central term deposits:         |                   |    |                |
| • Non-statutory                | 24,420            |    | 63,637         |
| • Statutory                    | 146,925           |    | 134,369        |
| Central shares                 | 22,971            |    | 22,971         |
|                                | <u>\$ 196,555</u> | \$ | <u>223,141</u> |

Statutory Central term deposits are held to maturity. Non statutory deposits and shares held in Central are available for sale investments.

The Credit Union is required by the Act to hold shares in Central, which are also a condition of membership in Central; however, these shares do not confer direct voting privileges. Credit Unions have the right to vote on certain issues at Central's annual general meeting ("AGM"). Most votes at the AGM are egalitarian but Credit Unions do have the right in certain circumstances to call for a weighted vote based on assets and membership. In a weighted vote the Credit Union would have approximately 14% of the votes (proportionate to its share holdings in Central).

As required by the Act, the Credit Union maintains statutory term deposits in Central to satisfy the legislated liquidity level.

## 6. LOANS TO MEMBERS AND ALLOWANCE FOR IMPAIRED LOANS (\$ Thousands)

Loans to members comprise as follows:

|                                   | 2008                |    | 2007             |
|-----------------------------------|---------------------|----|------------------|
| Performing Loans                  | \$ 1,753,458        | \$ | 1,602,809        |
| Non Performing Loans              | 3,736               |    | 784              |
|                                   | <u>1,757,194</u>    |    | <u>1,603,593</u> |
| Less Allowance for Impaired Loans | 1,451               |    | 1,585            |
| Total                             | <u>\$ 1,755,743</u> | \$ | <u>1,602,008</u> |

Performing loans to members and their maturities consist of the following:

|                       | 2008              |                   |                   |                   |                   |                   |                     |
|-----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
|                       | On Demand         | Within 1 Year     | 1 to 2 Years      | 2 to 3 Years      | 3 to 4 Years      | 5 Years & Over    | Total               |
| Residential Mortgages | \$ 366,491        | \$ 92,606         | \$ 61,442         | \$ 232,780        | \$ 171,174        | \$ 62,097         | \$ 986,590          |
| Consumer Loans        | 60,484            | 37,250            | 27,480            | 18,408            | 13,096            | 12,399            | 169,117             |
| Commercial Mortgages  | 14,967            | 178,022           | 40,801            | 104,163           | 100,156           | 93,814            | 531,923             |
| Commercial Loans      | 54,953            | 4,212             | 3,120             | 593               | 1,472             | 1,478             | 65,828              |
| Total                 | <u>\$ 496,895</u> | <u>\$ 312,090</u> | <u>\$ 132,843</u> | <u>\$ 355,944</u> | <u>\$ 285,898</u> | <u>\$ 169,788</u> | <u>\$ 1,753,458</u> |

|                       | 2007              |                   |                   |                   |                   |                   | Total               |
|-----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
|                       | On Demand         | Within 1 Year     | 1 to 2 Years      | 2 to 3 Years      | 3 to 4 Years      | 5 Years & Over    |                     |
| Residential Mortgages | \$ 321,756        | \$ 106,137        | \$ 75,671         | \$ 59,954         | \$ 240,343        | \$ 172,571        | \$ 976,432          |
| Consumer Loans        | 15,957            | 71,631            | 32,283            | 22,949            | 12,497            | 10,415            | 165,732             |
| Commercial Mortgages  | 95,540            | 53,588            | 28,604            | 44,688            | 84,590            | 96,550            | 403,560             |
| Commercial Loans      | 49,205            | 3,818             | 707               | 2,891             | 327               | 137               | 57,085              |
| Total                 | <u>\$ 482,458</u> | <u>\$ 235,174</u> | <u>\$ 137,265</u> | <u>\$ 130,482</u> | <u>\$ 337,757</u> | <u>\$ 279,673</u> | <u>\$ 1,602,809</u> |

Allowance for impaired loans consist of the following:

#### 2008 Allowance for Credit Losses

|                       | Gross Portfolio     | Specific      | Non-specific    | Net Loans           | Non Performing Loans |
|-----------------------|---------------------|---------------|-----------------|---------------------|----------------------|
| Residential Mortgages | \$ 989,233          | \$ 2          | \$ 100          | \$ 989,131          | \$ 2,643             |
| Consumer Loans        | 169,573             | 318           | 864             | 168,391             | 456                  |
| Commercial Mortgages  | 532,475             | —             | 124             | 532,351             | 624                  |
| Commercial Loans      | 65,913              | 13            | 30              | 65,870              | 13                   |
| Total                 | <u>\$ 1,757,194</u> | <u>\$ 333</u> | <u>\$ 1,118</u> | <u>\$ 1,755,743</u> | <u>\$ 3,736</u>      |

#### 2007 Allowance for Credit Losses

|                       | Gross Portfolio     | Specific      | Non-specific    | Net Loans           | Non Performing Loans |
|-----------------------|---------------------|---------------|-----------------|---------------------|----------------------|
| Residential Mortgages | \$ 976,801          | \$ —          | \$ 140          | \$ 976,661          | \$ 369               |
| Consumer Loans        | 166,987             | 375           | 900             | 165,712             | 377                  |
| Commercial Mortgages  | 402,720             | —             | 140             | 402,580             | —                    |
| Commercial Loans      | 57,085              | 26            | 4               | 57,055              | 38                   |
| Total                 | <u>\$ 1,603,593</u> | <u>\$ 401</u> | <u>\$ 1,184</u> | <u>\$ 1,602,008</u> | <u>\$ 784</u>        |

Changes in allowance for impaired loans:

|                                      | 2008            | 2007            |
|--------------------------------------|-----------------|-----------------|
| Balance, beginning of year           | \$ 1,585        | \$ 1,390        |
| Loans written off, net of recoveries | (384)           | (357)           |
| Provision for loan losses            | 250             | 552             |
| Balance, end of year                 | <u>\$ 1,451</u> | <u>\$ 1,585</u> |

## 7. CAPITAL ASSETS (\$ Thousands)

|                                 | 2008             |                          |                  | 2007             |                          |                  |
|---------------------------------|------------------|--------------------------|------------------|------------------|--------------------------|------------------|
|                                 | Cost             | Accumulated Depreciation | Net Book Value   | Cost             | Accumulated Depreciation | Net Book Value   |
| Land                            | \$ 1,379         | \$ —                     | \$ 1,379         | \$ 1,379         | \$ —                     | \$ 1,379         |
| Buildings                       | 5,590            | 3,210                    | 2,380            | 5,271            | 3,095                    | 2,176            |
| Furniture and Equipment         | 8,118            | 4,069                    | 4,049            | 7,697            | 3,921                    | 3,776            |
| Leasehold Improvements          | 15,484           | 6,896                    | 8,588            | 13,934           | 5,911                    | 8,023            |
| Computer Equipment and Software | 9,654            | 3,272                    | 6,382            | 9,988            | 2,310                    | 7,678            |
| Total                           | <u>\$ 40,225</u> | <u>\$ 17,447</u>         | <u>\$ 22,778</u> | <u>\$ 38,269</u> | <u>\$ 15,237</u>         | <u>\$ 23,032</u> |

## 8. OTHER ASSETS (\$ Thousands)

|                     | 2008             | 2007            |
|---------------------|------------------|-----------------|
| Accounts receivable | \$ 663           | \$ 344          |
| Prepaid expenses    | 3,494            | 1,716           |
| Fair value of swaps | 13,842           | —               |
| Other               | 369              | 1,126           |
|                     | <u>\$ 18,368</u> | <u>\$ 3,186</u> |

## 9. MEMBERS' DEPOSIT ACCOUNTS (\$ Thousands)

Members' deposits and their maturities consist of the following:

|                             | 2008              |                   |                   |                   |                  |                  | Total              |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|--------------------|
|                             | On Demand         | Within 1 Year     | 1 to 2 Years      | 2 to 3 Years      | 3 to 4 Years     | 5 Years & Over   |                    |
| Demand Deposits             | \$ 499,720        | \$ —              | \$ —              | \$ —              | \$ —             | \$ —             | \$ 499,720         |
| Registered Retirement Plans | 16,073            | 132,154           | 58,677            | 74,498            | 17,750           | 22,212           | 321,364            |
| Term Deposits               | 517               | 688,187           | 126,821           | 261,325           | 15,272           | 13,120           | 1,105,242          |
| Total                       | <u>\$ 516,310</u> | <u>\$ 820,341</u> | <u>\$ 185,498</u> | <u>\$ 335,823</u> | <u>\$ 33,022</u> | <u>\$ 35,332</u> | <u>\$1,926,326</u> |

|                             | 2007              |                   |                   |                   |                  |                  | Total              |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|--------------------|
|                             | On Demand         | Within 1 Year     | 1 to 2 Years      | 2 to 3 Years      | 3 to 4 Years     | 5 Years & Over   |                    |
| Demand Deposits             | \$ 512,707        | \$ —              | \$ —              | \$ —              | \$ —             | \$ —             | \$ 512,707         |
| Registered Retirement Plans | 33,446            | 118,574           | 71,934            | 55,816            | 11,546           | 21,502           | 312,818            |
| Term Deposits               | 128               | 633,472           | 108,225           | 69,118            | 11,398           | 63,261           | 885,602            |
| Total                       | <u>\$ 546,281</u> | <u>\$ 752,046</u> | <u>\$ 180,159</u> | <u>\$ 124,934</u> | <u>\$ 22,944</u> | <u>\$ 84,763</u> | <u>\$1,711,127</u> |

## 10. COMMITMENTS AND CONTINGENCIES (\$ Thousands)

### (a) Lease Commitments

Lease terms for premises range from one to ten years. Future minimum lease payments for premises over the next five years are as follows:

| Year | Amount   |
|------|----------|
| 2009 | \$ 4,443 |
| 2010 | \$ 4,371 |
| 2011 | \$ 4,072 |
| 2012 | \$ 2,805 |
| 2013 | \$ 1,814 |

### (b) Credit Commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These include credit commitments and letters of credit, which are not included in the balance sheet.

Standby letters of credit represent an irrevocable obligation to make payments to a third party in the event that the member is unable to meet its contractual financial or performance obligations. In the event of a call on such commitments, the Credit Union has recourse against the member.

Documentary and commercial letters of credit require the Credit Union to honour drafts presented by third parties upon completion of specific activities.

Commitments to extend credit represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

These credit arrangements are subject to the Credit Union normal credit standards and collateral may be obtained where appropriate. The contract amounts set out below represent the maximum future cash requirements should the contracts be fully drawn. However, many of these arrangements will expire or terminate without being drawn.

|  | 2008       | 2007       |
|--|------------|------------|
| Letters of credit  | \$ 13,936  | \$ 10,498  |
| Commitments to extend credit with a term to maturity of one year or less | \$ 330,057 | \$ 308,624 |

### (c) Contingencies

Various actions and legal proceedings arising from the normal course of business are pending against the Credit Union. Management does not anticipate that the ultimate loss, if any, of these actions and proceedings will be material.

## 11. PATRONAGE ALLOCATION

The Board of Directors has declared a patronage allocation to be paid in fiscal 2009 in respect of fiscal 2008 to members by way of an issuance of common shares.

## 12. SHARE CAPITAL (\$ Thousands)

|   | Number of Shares (Thousands) |                                      |
|---|------------------------------|--------------------------------------|
|   | Common Shares                | Series A, B, C & D Investment Shares |
| Issued and outstanding as at October 31, 2006 | 17,079                       | 46,193                               |
| Shares issued to members for cash             | 144                          | —                                    |
| Shares issued by dividend                     | —                            | 2,302                                |
| Patronage allocation, relating to fiscal 2006 | 1,737                        | —                                    |
| Shares redeemed                               | (1,016)                      | (2,117)                              |
| Issued and outstanding as at October 31, 2007 | 17,944                       | 46,378                               |
| Shares issued to members for cash             | 86                           | —                                    |
| Shares issued by dividend                     | —                            | 2,435                                |
| Patronage allocation, relating to fiscal 2007 | 2,600                        | —                                    |
| Shares redeemed                               | (984)                        | (3,817)                              |
| Issued and outstanding as at October 31, 2008 | 19,646                       | 44,996                               |
| Value   | \$ 19,646                    | \$ 44,996                            |

### (a) Common Shares

Common shares have the following characteristics:

- i) an unlimited number may be issued;
- ii) a par value of \$1, but fractional shares may be issued;
- iii) transferable only in restricted circumstances;
- iv) non-assessable;
- v) redemption is at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the Act;
- vi) adult members must hold a minimum of 25 shares (5 shares for minors) to retain membership in the Credit Union; and
- vii) carry the right to vote at the annual general meeting or through mail-in voting.

### (b) Series A, B, C and D Investment Shares

In October 2008, the Board of Directors approved a 5.25% dividend to holders of record of Series A, B, C and D Investment Shares as of October 31, 2008 in the aggregate amount of \$2.362 million (2007 - \$2.435 million). The payment will be made in December, 2008 through the issuance of additional Series A, B, C and D Investment Shares.

Series A, B, C and D Investment Shares have the following characteristics:

- i) no par value;
- ii) no voting rights;
- iii) transferable under limited circumstances;
- iv) callable at the discretion of the Credit Union upon 5 years written notice;
- v) dividends are non-cumulative and rank ahead of patronage allocation on common shares. They are also subject to the Credit Union's dividend policy which can be changed at the discretion of the Board of Directors; and
- vi) redemptions are permitted in the Credit Union's redemption policy, as approved by the Board of Directors, which is subject to change at their discretion. Redemptions are also subject to the limits outlined in the Act.

Common shares and Series A, B, C and D Investment Shares represent "at risk" capital and are not guaranteed by CUDGC.

### 13. OPERATING EXPENSES (\$ Thousands )

|   | 2008             |           | 2007          |
|---|------------------|-----------|---------------|
| Personnel                                     | \$ 26,287        | \$        | 25,086        |
| Occupancy                                     | 5,321            |           | 4,738         |
| Marketing                                     | 2,255            |           | 2,546         |
| Member security and deposit insurance premium | 3,523            |           | 3,136         |
| Technology                                    | 8,284            |           | 7,014         |
| Depreciation                                  | 3,857            |           | 3,765         |
| Organization                                  | 1,070            |           | 901           |
| General                                       | 7,712            |           | 8,184         |
| Total   | <u>\$ 58,309</u> | <u>\$</u> | <u>55,370</u> |

Operating lease expenses of \$3,788 (2007-\$3,327) are included in occupancy costs.

### 14. INCOME TAXES (\$ Thousands )

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory rate of 21.35% (2007 - 23.10%) to income before taxes. The reasons for the differences are as follows:

|                       | 2008            |           | 2007         |
|-----------------------|-----------------|-----------|--------------|
| Net income before tax | \$ 26,535       | \$        | 8,506        |
| Computed tax expense  | 5,665           |           | 1,965        |
| Change in tax rate    | (93)            |           | (67)         |
| Other                 | 91              |           | 11           |
| Tax expense           | <u>\$ 5,663</u> | <u>\$</u> | <u>1,909</u> |

The components of the net future income tax (liability)/asset as at October 31, 2008 and 2007 are as follows:

|  | 2008            |           | 2007         |
|--|-----------------|-----------|--------------|
| Excess of net book value over undepreciated capital cost of capital assets | \$ (1,746)      | \$        | (1,761)      |
| Unrealized (gain)/loss on interest rate swaps                              | (3,352)         |           | 490          |
| Other  | 144             |           | 123          |
| Future income tax liability  | <u>\$ 4,954</u> | <u>\$</u> | <u>1,148</u> |

### 15. RELATED PARTY TRANSACTIONS

Loans to directors, management and staff amount to \$45,968,088 (2007 - \$38,012,194) consisting of 546 (2007 - 508) loans.

A portion of the loans to management and staff is at discounted rates. The directors' loans are at market rates and are subject to the same credit policies as members. All of these loans are considered fully collectible. Loans to management and staff are recorded at their fair value, with an offsetting entry to other assets representing deferred compensation cost. This asset is then amortized over the term of the loan.

At October 31, 2008, management and staff had \$10,034,014 in deposits (2007- \$11,781,947).

First Calgary paid the following directors' fees and expenses:

|  | 2008       |    | 2007    |
|--|------------|----|---------|
| Directors' fees and committee remuneration | \$ 192,800 | \$ | 149,725 |
| Directors' expenses                        | \$ 10,055  | \$ | 20,736  |

Amounts paid to directors range from \$5,700 (2007 - \$5,500) to \$45,150 (2007 - \$33,650), with an average of \$19,875 (2007 - \$16,636) per annum.

First Calgary's executive management earned the following remuneration and benefits:

|   | 2008                 |                                       |                             | 2007       |            |
|---|----------------------|---------------------------------------|-----------------------------|------------|------------|
|   | Base<br>Compensation | Performance<br>Incentive <sup>1</sup> | Total Benefits <sup>2</sup> | Total      | Total      |
| President & Chief Executive Officer               | \$ 276,461           | \$ 110,488                            | \$ 142,330                  | \$ 529,279 | \$ 530,136 |
| Chief Operating Officer & Chief Financial Officer | 185,734              | 57,674                                | 79,358                      | 322,766    | 306,097    |
| Senior Vice President, Marketing & Communications | 200,073              | 50,445                                | 77,439                      | 327,957    | 288,923    |
| Senior Vice President, Human Resources            | 194,085              | 55,924                                | 60,648                      | 310,657    | 244,925    |
| Senior Vice President, Credit                     | 163,999              | 38,608                                | 65,481                      | 268,088    | 258,459    |

<sup>1</sup> The Board administers a performance based Incentive compensation program for all eligible employees. Amounts are accrued as an expense in the fiscal year earned and paid to the individuals in the following year.

<sup>2</sup> Benefits include the Credit Union's contribution for: group RRSP, group benefits, taxable benefit on loans, car allowances, and club memberships.

## 16. ASSET AND LIABILITY MANAGEMENT (\$ Thousands)

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when the maturities of its financial liabilities are not matched with the maturities of its financial assets. In the normal course of business, the Credit Union enters into interest rate swaps and option contracts to manage exposure to interest rate fluctuations and to manage the asset and liability mismatch. These financial instruments are subject to normal credit standards, financial controls, and risk management and monitoring procedures.

Payments exchanged under the swaps are calculated on a receive fixed rate pay floating rate basis. The notional principal amounts, shown in the table below, are not exchanged by the Credit Union and its counterparties. They are used as the basis for determining payments under the contracts.

The fair value of these contracts, is included in other assets on the balance sheet if positive and accounts payable if negative, and represents the estimated consideration that would be received or paid, as applicable, to settle these derivative contracts. However, it is the intention of the Credit Union to maintain these contracts to maturity, when the contract expires with no value. Accordingly, over the life of each of these derivative contracts, cumulative unrealized gains and losses recognized will total nil.

Interest receivable or payable under the terms of the interest rate swaps is recorded as an adjustment to interest on loans to members on an accrual basis.

The table following summarizes key balance sheet categories by maturity dates and weighted average effective interest rates.

## 2008

|                        | Floating Rate     | Within<br>1 Year  | More than<br>1 Year | Non-rate<br>Sensitive | Total               |
|------------------------|-------------------|-------------------|---------------------|-----------------------|---------------------|
| <b>ASSETS</b>          |                   |                   |                     |                       |                     |
| Cash                   | \$ 92,119         | \$ —              | \$ —                | \$ 9,599              | \$ 101,718          |
| <i>Effective Yield</i> | 0.25%             | —                 | —                   | —                     | 0.23%               |
| Investments            | 35,202            | 161,345           | —                   | 8                     | 196,555             |
| <i>Effective Yield</i> | 3.34%             | 3.00%             | —                   | —                     | 3.06%               |
| Member loans           | 496,895           | 312,090           | 926,668             | 17,805                | 1,753,458           |
| <i>Effective Yield</i> | 5.09%             | 6.01%             | 5.76%               | —                     | 5.56%               |
| Other                  | —                 | —                 | —                   | 51,044                | 51,044              |
|                        | <u>\$ 624,216</u> | <u>\$ 473,435</u> | <u>\$ 926,668</u>   | <u>\$ 78,456</u>      | <u>\$ 2,102,775</u> |

### LIABILITIES AND MEMBERS' EQUITY

|  |                     |                     |                   |                     |              |
|--|---------------------|---------------------|-------------------|---------------------|--------------|
| Member deposits                                    | \$ 470,965          | \$ 820,341          | \$ 589,674        | \$ 45,346           | \$ 1,926,326 |
| <i>Effective Yield</i>                             | 0.46%               | 3.42%               | 3.95%             | —                   | 2.78%        |
| Loans payable                                      | —                   | 12,500              | 12,500            | —                   | 25,000       |
| <i>Effective Yield</i>                             | —                   | 3.11%               | 3.11%             | —                   | 3.11%        |
| Other  | —                   | —                   | —                 | 151,449             | 151,449      |
|  | <u>470,965</u>      | <u>832,841</u>      | <u>602,174</u>    | <u>196,795</u>      | <u>—</u>     |
| Balance Sheet Gap                                  | 153,251             | (359,406)           | 324,494           | (118,339)           | —            |
| Notional Value of Derivative Financial Instruments | (450,000)           | 125,000             | 325,000           | —                   | —            |
| Net Position                                       | <u>\$ (296,749)</u> | <u>\$ (234,406)</u> | <u>\$ 649,494</u> | <u>\$ (118,339)</u> | <u>—</u>     |

## 2007

|                        | Floating Rate     | Within<br>1 Year  | More than<br>1 Year | Non-rate<br>Sensitive | Total               |
|------------------------|-------------------|-------------------|---------------------|-----------------------|---------------------|
| <b>ASSETS</b>          |                   |                   |                     |                       |                     |
| Cash                   | \$ —              | \$ —              | \$ —                | \$ 4,332              | \$ 4,332            |
| Investments            | 25,127            | 198,006           | —                   | 8                     | 223,141             |
| <i>Effective Yield</i> | 4.88%             | 4.71%             | —                   | —                     | 4.73%               |
| Member loans           | 470,602           | 235,173           | 897,034             | —                     | 1,602,809           |
| <i>Effective Yield</i> | 6.65%             | 6.08%             | 5.63%               | —                     | 6.00%               |
| Other                  | —                 | —                 | —                   | 32,343                | 32,343              |
|                        | <u>\$ 495,729</u> | <u>\$ 433,179</u> | <u>\$ 897,034</u>   | <u>\$ 36,683</u>      | <u>\$ 1,862,625</u> |

### LIABILITIES AND MEMBERS' EQUITY

|  |                     |                     |                   |                     |              |
|--|---------------------|---------------------|-------------------|---------------------|--------------|
| Member deposits                                    | \$ 451,552          | \$ 752,046          | \$ 412,799        | \$ 94,730           | \$ 1,711,127 |
| <i>Effective Yield</i>                             | 0.68%               | 4.02%               | 4.20%             | —                   | 2.95%        |
| Loans payable                                      | —                   | 25,000              | —                 | —                   | 25,000       |
| <i>Effective Yield</i>                             | —                   | 5.10%               | —                 | —                   | 5.10%        |
| Other  | —                   | —                   | —                 | 126,498             | 126,498      |
|  | <u>451,552</u>      | <u>777,046</u>      | <u>412,799</u>    | <u>221,228</u>      | <u>—</u>     |
| Balance Sheet Gap                                  | 44,177              | (343,867)           | 484,235           | (184,545)           | —            |
| Notional Value of Derivative Financial Instruments | (275,000)           | —                   | 275,000           | —                   | —            |
| Net Position                                       | <u>\$ (230,823)</u> | <u>\$ (343,867)</u> | <u>\$ 759,235</u> | <u>\$ (184,545)</u> | <u>—</u>     |

## 17. LOANS PAYABLE (\$ Thousands)

The Credit Union has certain credit facilities in place allowing it to borrow funds on a short-term basis from Central. As at October 31, 2008, the following facilities were in place:

- (a) A line of credit authorized to a maximum amount of \$150,000 that is repayable on demand and bears interest at prime less one-half of one percent.
- (b) A term loan with an authorized limit of \$100,000 that is repayable in equal monthly installments over the term of the loan and bears interest at bankers' acceptance plus 0.25 percent for terms of less than one year and Government of Canada bonds plus 0.50 percent for terms of one year and over. As of October 31, 2008, an amount of \$25,000 (2007 - \$25,000) was drawn on the term loan. The loan is repayable over two years.

A security agreement covering substantially all of the Credit Union's assets is collateral for the credit facilities.

## 18. FAIR VALUE OF FINANCIAL INSTRUMENTS (\$ Thousands)

The amounts set out in the table below represent the fair values of the Credit Union's financial instruments using the valuations and assumptions described below. The amounts do not include the fair value of items that are not considered financial assets, such as premises and equipment.

The estimated fair value approximates amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act; however, many of the Credit Union's financial instruments lack an available trading market and are intended to be held to maturity. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

### 2008

#### ASSETS

|                           | Carrying Value | Fair Value | Favourable/(Unfavourable) |
|---------------------------|----------------|------------|---------------------------|
| Investments (Note 5)      | 196,555        | 196,645    | 90                        |
| Loans to members (Note 6) | 1,755,743      | 1,748,251  | (7,492)                   |

#### LIABILITIES

|                              |           |           |         |
|------------------------------|-----------|-----------|---------|
| Members' deposits (Note 9)   | 1,926,326 | 1,934,503 | (8,177) |
| Term loans payable (Note 17) | 25,000    | 25,000    | —       |

### 2007

#### ASSETS

|                           | Carrying Value | Fair Value | Favourable/(Unfavourable) |
|---------------------------|----------------|------------|---------------------------|
| Investments (Note 5)      | 223,141        | 223,141    | —                         |
| Loans to members (Note 6) | 1,602,008      | 1,579,051  | (22,957)                  |

#### LIABILITIES

|                              |           |           |       |
|------------------------------|-----------|-----------|-------|
| Member's deposits (Note 9)   | 1,711,127 | 1,705,034 | 6,093 |
| Term loans payable (Note 17) | 25,000    | 25,000    | —     |

The fair values of cash and other financial assets and liabilities are assumed to approximate book values, due to their short term nature. The estimated fair value of floating rate member loans and member deposits are assumed to equal book value as the interest rates automatically reprice to market. The estimated fair value of fixed rate member loans and fixed rate member deposits is determined by discounting the expected future cash flows of these loans and deposits at current market rates for products with similar terms and credit risks.

#### DERIVATIVE FINANCIAL INSTRUMENTS

The following table provides the notional value outstanding for derivative financial instruments and the related fair value.

#### 2008

|                     |    | Notional Amount |    | Positive Fair Value |
|---------------------|----|-----------------|----|---------------------|
| Interest Rate Swaps | \$ | 450,000         | \$ | 13,843              |

#### 2007

|                     |    | Notional Amount |    | Negative Fair Value |
|---------------------|----|-----------------|----|---------------------|
| Interest Rate Swaps | \$ | 275,000         | \$ | (2,118)             |

The fair values of derivative financial instruments are calculated based on market conditions at a specific point in time and may not be reflective of future fair values.

#### 19. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

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

##### a) Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally in lending activities that result in loans to members as described in Note 6. Credit risk is also present in interest rate swaps, cash and investments held for liquidity purposes; the Credit Union monitors counterparty credit ratings to mitigate risks with respect to these assets. Credit risk for our counterparties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

##### *Risk measurement*

The Credit Union employs a risk measurement process for its loan portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. Risk is measured by reviewing exposure to individual borrowers, and by reviewing qualitative and quantitative factors that impact the loan portfolios. Qualitative and quantitative analysis of a borrower's financial information are important factors used in determining the financial state of the counterparty.

Borrowers are subject to a credit review process. These reviews ensure that the borrower complies with internal policy and underwriting standards. The Credit Union reduces credit risk through various forms of collateral security, including mortgages. Credit risk is also managed through analysis of the ability of members and potential members to meet principal and interest repayment obligations and by changing lending limits where appropriate. Risk is generally assessed on mortgage loans based on their classification as either conventional mortgages or insured mortgages. Mortgages that do not meet specific underwriting standards are insured. A mortgage is classified as conventional if the amount borrowed does not exceed 80% of the assessed value of the property held as collateral. Consumer loans have a marginally higher credit risk, which is mitigated through a variety of methods including collateral requirements. Specialized risk management policies and underwriting practices also protect the Credit Union in commercial lending.

## b) Market Risk

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

### *Risk measurement*

The Credit Union's risk position is measured based upon the potential impact of a change in interest rates on interest payments charged to and received from member-owners, received on investments, and paid on borrowings. The Asset Liability Committee (ALCO) is a committee comprised of senior management that meets at least quarterly and ad-hoc as required. Every meeting must include either the Chief Executive Officer or Chief Operating Officer. Responsibilities include:

- i) Reviewing variances between actual, budgeted and projected financial margin
- ii) Reviewing management of interest rate sensitivity and financial margin including investing, liquidity management, hedging and securitization activities
- iii) Reviewing asset/liability management, ("ALM") and hedging strategies to manage interest rate risk in order to achieve policies
- iv) Assessing the current interest rate risk position and the potential effect of its primary ALM strategy
- v) Reviewing and providing input and feedback on key risk modeling assumptions

Interest rate risk in the one-year time frame is managed to keep the negative impact for every 100 basis point change in prime rate to within 10 basis points of the projected most likely financial margin. At this level, no corrective action to reduce risk is required, but may be taken as a proactive step based upon management's judgment, allowing for potential deviations from assumptions and the resultant risk that may occur.

The following table provides the potential before-tax impact of a 100 basis point increase or decrease in interest rates on our financial margin. These measures are based on assumptions made by management and validated by experience. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives.

Before tax impact of:

|                                   |    |             |
|-----------------------------------|----|-------------|
|                                   |    | <b>2008</b> |
| 100 basis point increase in rates | \$ | 1,784       |
| 100 basis point decrease in rates | \$ | (1,982)     |

## c) Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet either the Credit Union's cash and funding requirements, statutory liquidity requirements, or both.

The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. The Credit Union will at all times maintain statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The Act requires that statutory liquidity deposits be held with Central. Statutory liquidity includes eligible deposits and shares of Central. The statutory liquidity ratio is 9.0% of average deposits and borrowings for the second prior month. Based on average deposits and borrowings for August 2008 the Credit Union's liquidity as at October 31, 2008 exceeds minimum requirements by \$128,615.

## 20. JOINT VENTURE (\$ Thousands)

A summary of the Credit Union's 50 percent interest in InUnison Financial, an Ontario-based auto dealer finance joint venture, at October 31, 2008 is as follows:

### BALANCE SHEET

|  | 2008        | 2007        |
|--|-------------|-------------|
| Assets:  |             |             |
| Cash   | \$ 231      | \$ 357      |
| Loans Receivable                                   | 8,211       | 3,349       |
| Other Assets                                       | 250         | 93          |
|  | <hr/> 8,692 | <hr/> 3,799 |
| Liabilities:                                       |             |             |
| Accounts Payable                                   | 1,106       | 113         |
|  | <hr/>       | <hr/>       |
| Proportionate share of net assets of joint venture | \$ 7,586    | \$ 3,686    |

### STATEMENT OF OPERATIONS

|   |        |         |
|---|--------|---------|
| Revenue   | \$ 430 | \$ 77   |
| Operating expenses  | 246    | 89      |
|   | <hr/>  | <hr/>   |
| Proportionate share of net earnings (loss) of joint venture | \$ 184 | \$ (12) |

### STATEMENT OF CASH FLOWS

|   |          |         |
|---|----------|---------|
| Operating activities  | \$ 736   | \$ (12) |
| Investing activities  | (4,862)  | (3,381) |
| Financing activities  | 4,000    | 3,750   |
|   | <hr/>    | <hr/>   |
| Proportionate share of increase (decrease) in cash of joint venture | \$ (126) | \$ 357  |

## 21. FUTURE ACCOUNTING CHANGES

The CICA will transition Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS). The Credit Union's financial statements will be prepared in accordance with IFRS for fiscal years commencing November 1, 2011.

## 22. SUBSEQUENT EVENT

On November 18, 2008, the Board of Directors of InUnison Financial passed a resolution to discontinue operations. The final agreements on winding up the joint venture have not been completed yet, however, the net costs of wind-up are not anticipated to be significant and no provision for these costs has been recorded.

## 23. RECLASSIFICATION

Certain of the comparative figures have been reclassified to conform to current presentation.

### NORTHWEST BRANCHES

BRENTWOOD  
3750 Brentwood Rd NW  
403.289.8436

CROWFOOT CENTRE  
800 Crowfoot Cr NW  
403.547.6000

DALHOUSIE STATION  
735, 5005 Dalhousie Dr NW  
403.286.3630

### SOUTHWEST BRANCHES

OAKRIDGE  
70, 2580 Southland Dr SW  
403.281.2258

SIGNAL HILL CENTRE  
5735 Signal Hill Centre SW  
403.246.2245

### DOWNTOWN BRANCH

TD SQUARE  
116, 317 - 7 Ave SW  
403.269.4850

### NORTHEAST BRANCHES

BEDDINGTON HEIGHTS  
8220 Centre St N  
403.275.7722

COVENTRY HILLS CENTRE  
500, 130 Country Village Rd NE  
403.503.8088

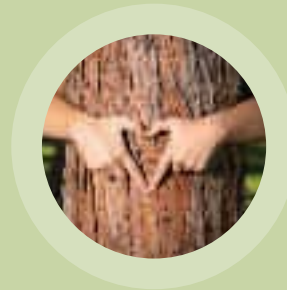
NORTHGATE VILLAGE  
455 - 36 St NE  
403.272.8821

TRANSCANADA  
510 - 16 Ave NE  
403.230.1451

TARADALE  
100, 6520 Falconridge Blvd NE  
403.503.8028

VILLAGE SQUARE  
116, 2640 - 52 St NE  
403.285.0700

## FIRST CALGARY SAVINGS BRANCH LOCATIONS



### SOUTHEAST BRANCHES

MACLEOD TRAIL  
8726 Macleod Tr S  
403.253.4431

SHAWNESSY VILLAGE  
110, 70 Shawville Blvd SE  
403.531.5100

SOUTH TRAIL  
400, 4915 - 130 Ave SE  
403.503.8090

### BUSINESS SOLUTIONS CENTRE™

830 - 1 Ave NE  
403.503.8012

### COMMERCIAL BANKING

11th FLOOR, DOME TOWER  
1100, 333 - 7 Ave SW  
403.269.7970

### CONTACT CENTRE

Local: 403.520.8000  
Toll Free:  
1.866.923.4778  
1.866.92(FIRST)

### JUST FINANCIAL

108, 495 - 36 St NE  
403.503.8590

### ADMINISTRATION OFFICE

200, 510 - 16 Ave NE  
403.230.2783

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