



Battle River Credit Union Ltd.

2009 ANNUAL REPORT



MISSION STATEMENT

*“Our mission is to provide banking,
investment and insurance products in both
urban and rural areas and to support our
member-owners daily through exceptional service,
competitive rates, community support
and local profit sharing.”*

REMEMBERING



Terry Kelly appointed General Manager in 1979.



Posing for pictures after a Credit Union hockey tournament.



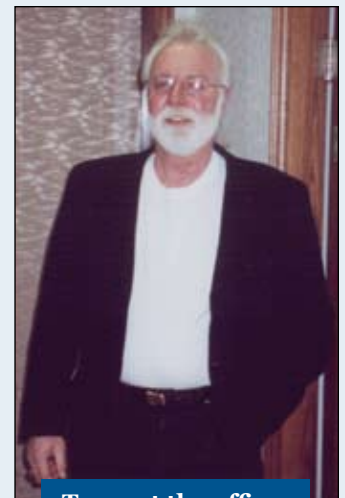
Terry was a serious man who was seldom serious. He loved to make people laugh.



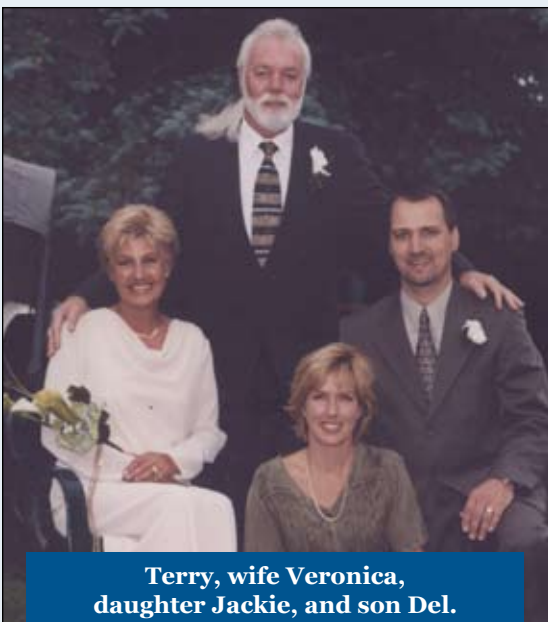
Terry with Tom Moore (L) and Bruce Weinkauff (M). Terry's Credit Union family was a second family to him.



Terry accepting the Credit Union of the Year award in 2008.



Terry at the office.



Terry, wife Veronica, daughter Jackie, and son Del.

We remember...

- ...a man who lived and breathed the Credit Union
- ...a man who loved Freddie Fender and Willie Nelson
- ...a man who would ask "Would you like me to answer that as your boss or as your friend?"
- ...a man who inspired intense loyalty from his staff
- ...an impatient man who kicked your desk when he didn't get an answer fast enough!
- ...a man who loved to joke (and who laughed harder than anyone else at his own jokes!)

T.K., we miss you!

TERRY KELLY

The Credit Union system experienced an enormous loss in May of 2009 with the passing of Terrence Richard Kelly.

Terry was born in Fort William, Ontario, on October 1, 1947. His family moved to Edmonton when he was a young teenager, and that is where he met his future wife, Veronica. They were married in 1965.

Terry joined the Credit Union system in 1975. He moved to Camrose in 1977, accepting the position of Manager of Branch Operations for Camrose Savings & Credit Union, and a short 16 months later became the General Manager, and remained in that position until the time of his death.

Terry's career with the Credit Union was his life - he lived and breathed the Credit Union. His second family were his faithful employees.

Under Terry's leadership and guidance, Battle River Credit Union Ltd. became the most profitable Credit Union in Canada based on return on equity (ROE) and most profitable based on return on assets (ROA), as well as having the best productivity expense ratio. Battle River Credit Union was also number one in all of Canada for highest dollar amount returned to our members in dividends and patronage.

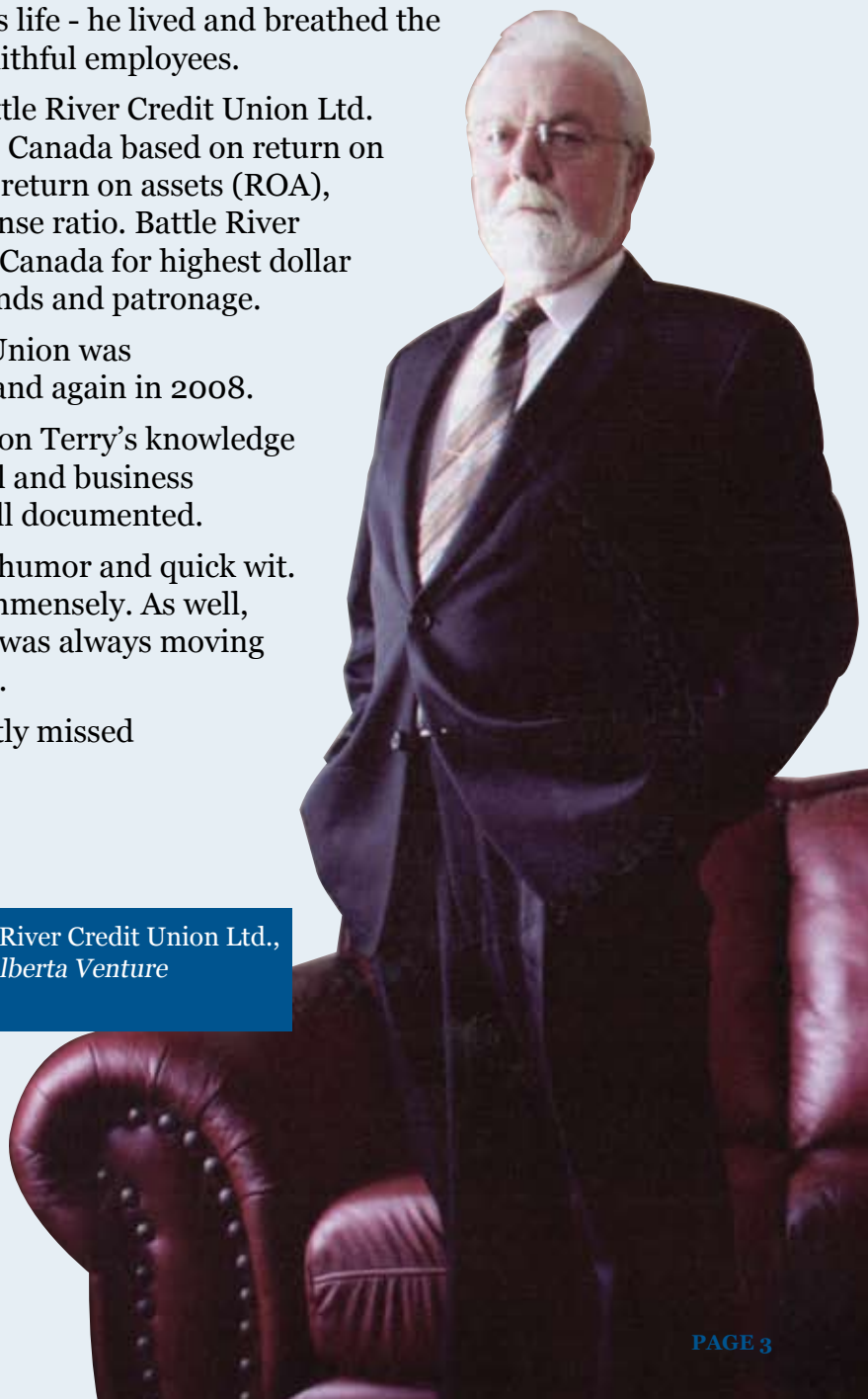
Through his direction, Battle River Credit Union was awarded Credit Union of the Year in 2000 and again in 2008.

On many occasions members would call upon Terry's knowledge and abilities to assist them in their personal and business decisions. Their respect for his advice is well documented.

Terry was well known for his keen sense of humor and quick wit. He enjoyed his family and grandchildren immensely. As well, Terry ensured that his Credit Union family was always moving forward to achieve a common goal together.

Terry will forever be remembered and greatly missed by all.

Terry Kelly, General Manager of Battle River Credit Union Ltd., posing for a photo which appeared in *Alberta Venture* magazine in February of 2009.



MESSAGE FROM OUR PRESIDENT

I want to begin my report by paying tribute to our general manager Terry Kelly who died suddenly in May 2009 at the age of 61. Terry served the Battle River Credit Union as general manager for 32 years. He was outstandingly successful in his chosen career. Under his leadership the Battle River Credit Union in 2008 achieved the highest return on assets to its membership of any credit union in Canada. He expected great things from his staff and inspired intense loyalty. Of all the persons I have known in my professional and business life, Terry was the one who was best able to make difficult decisions, and he made them solely on the basis of what was best for the credit union. I miss him greatly and I know I speak for the board, management and staff as well.



Alan D. Fielding
Alan D. Fielding, Q.C.
President

Fortunately we had in place a succession plan, and after careful consideration the Board of Directors voted unanimously to appoint Steve Friend as the credit union's chief executive officer. We have confidence that Steve, with his 26 years of credit union experience, will serve us well as our CEO.

As everyone knows, credit markets have been hard hit by the collapse of the subprime mortgage market and consequent failure of some very large financial institutions. While our reserves and our balance sheet are strong, we are not immune to the decline in the Alberta economy. We have worked hard to operate as efficiently as possible while continuing to provide the highest level of service to our members. In this economic climate we believe that our earnings of \$9.8 million [before taxes and common share allocation], representing a return of 2% on assets, are a very solid achievement.

I mentioned our reserves. A number of years ago the board of directors set as a goal, reserves of 10% in retained earnings and common shares combined. That was an ambitious goal, but I am pleased to report that it has been achieved, with retained earnings of 4.6 percent and common shares of 7.7 percent of assets. Your credit union has no debts. This enviable position allows us to return an ever increasing share of earnings to our members.

In August 2009 our credit union went through a massive computer conversion. We had planned for it for some time, but the scale of the task was truly daunting. When it was finished our conversion team was thanked by the computer specialists for the smoothest conversion they had ever encountered.

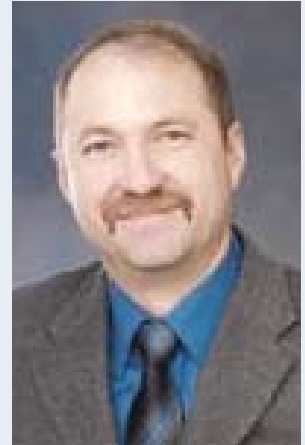
On behalf of the Board of Directors I want to extend my heartfelt thanks to our management and staff for their hard work and willingness to go the extra mile during a very difficult and challenging year.

MESSAGE FROM OUR CEO

The Credit Union system has lost a great leader, and each of us at Battle River Credit Union have lost a dear friend with the passing of Terry Kelly this year.

Terry would be very proud to know that in a year when other financial institutions struggled, Battle River Credit Union once again produced excellent profits and returned a record amount cash payout to its members, showing that his dream of a strong Credit Union will continue into the future.

We will all miss you Terry, but know that the Credit Union you helped to build will continue to, in your words “make every member count”.

A handwritten signature in black ink, appearing to read "Steve Friend". The signature is stylized with a long horizontal stroke and a vertical flourish on the right side.

Steve Friend, CEO

BOARD/EXECUTIVE MANAGEMENT



Standing (L to R): Dennis Baird (Director), Dean Huolt (Director), Les Trach (Director), Joe Cameron (Director), Allen Rostad (Director), Ron Pilger (Director), and Ernest Duhscherer (Director).
Seated (L to R): Steve Friend (Chief Executive Officer), Glenn Friesen (Vice President), Alan Fielding (President), Terry Kelly (General Manager), and Lane Carrington (Director). Missing from the photo is Director Garry Schielke.



Standing (L to R): Bruce Weinkauff (Vice President of Operations), Joe Mohan (Vice President of Operations), and Mickey Mohan (Vice President of Operations).
Seated (L to R): Steve Friend (Chief Executive Officer) and Terry Kelly (General Manager).

MANAGEMENT TEAM



Matt Danko
City Centre
Branch Manager



Yvonne Schell
West End
Branch Manager



David Sheets
Stettler
Branch Manager



Kerry Hoyland
Sedgewick
Branch Manager



Chelsea Bromley
Two Hills
Branch Manager



Rory Sperling
Vegreville
Branch Manager



Jason Terlesky
Viking
Branch Manager



Jason DeRuyck
Daysland
Branch Manager



Melody Rott
Killam
Branch Manager



Kevin Johnson
Castor
Branch Manager



Janet Heffel
Alliance
Branch Manager



Pauline Marcinkowski
Manager of
Administration



Maureen Grove
Manager of
Finance



Paulette Robinson
Executive Assistant/
Marketing Manager



Darin Winder
Information
Technology Manager



Theo Schulz
Investment
Advisor

1950

- Incorporated: Camrose Savings and Credit Union Ltd. to serve East Central Alberta residents
- Membership: 21
- Assets: \$178

1961

- General Manager: Gerrit Oldekamp

1966

- Opened: Edberg Branch office
- Membership: 1,122
- Assets: \$790,940

1969

- Built new building on 51st Street

1972

- Building space doubled
- Staff: 18
- Membership: 4,412
- Assets: \$7.3 million

1973

- Converted to computerized service
- Membership: 4,905
- Assets: \$11.5 million

1974

- Amalgamated with J&L Credit Union of New Sarepta

1976

- Opened new branch in Stettler
- Opened head office in Central Agencies building
- Membership: 7,819
- Assets: \$31.6 million

1977

- Opened branch at Duggan Mall
- Amalgamated with Flagstaff Credit Union
- Opened branch in Coronation

1978

- Terry Kelly hired as Manager of Branch Operations

1979

- Relocated head office to 51st Street Branch
- New General Manager: Terry Kelly
- Assets: \$51.5 million

1982

- Installed ATM at 51st Street Branch in Camrose - the first in Camrose



MILESTONES

1984

- Amalgamated with Vegreville & District Savings & Credit Union
- Installed ATM at Stettler
- Changed name to Battle River Credit Union Ltd.

1986

- Built new 3,250 sq. ft. office in Vegreville
- Connected ATMs with Circuit/Cirrus network
- Issued MasterCard credit cards

1987

- Renovated Duggan Mall Branch
- Relocated ATM from Stettler to Duggan Mall
- Closed Coronation office
- Assets: \$54.9 million

1988

- Built new 3,116 sq. ft. office in Viking
- Assets: \$56.5 million

1991

- Added second storey at head office
- Assets: \$70.4 million

1996

- Introduced Mutual Funds, Teleservice and Choice Rewards
- Assets: \$105.5 million

1997

- Introduced new personal accounts and MasterCard Gold credit card
- Assets: \$117.4 million

1998

- Introduced Internet Banking Service
- Moved Duggan Mall Branch to a new building to become the West End Branch
- Assets: \$132 million

1999

- Installed ATMs at Viking and Stettler branches
- Introduced Ethical Funds RESP
- Assets: \$143.8 million

2000

- **Awarded Credit Union of the Year**
- Became owners of seven Bank of Montreal branches with five new locations for a total of 11 branches
- Installed ATMs in Daysland, Castor and Sedgewick, and renovated City Centre Branch and Corporate Office
- Assets: \$303 million

2001

- Introduced Student Select and Business Essentials accounts including special lending features
- Launched website at www.battlerivercreditunion.com
- Assets: \$322 million

2002

- Launched Transaction Imaging
- Started construction on new City Centre Branch
- Assets: \$331 million

2003

- Introduced Global Payment MasterCard
- Opened City Centre Branch and renovated Corporate Office
- Assets: \$338 million

2004

- Installed ATM at the Vegreville Branch
- Renovated the Castor Branch
- Assets: \$358 million

2005

- \$50,000 donated for St. Mary's Hospital CT Scanner
- Assets: \$398 million
- Profit: \$6.57 million before taxes and allocation of profits

2006

- Renovated Stettler Branch
- Assets: \$433 million
- Profit: \$9.3 million before taxes and allocation of profits

2007

- Relocated Killam Branch and installed ATM
- Assets: \$456 million
- Profit: \$12.8 million before taxes and allocation of profits

2008

- **Awarded Credit Union of the Year**
- Assets: \$494 million
- Profit: \$13.5 million before taxes and allocation of profits

2009

- General Manager Terry Kelly passed away
- Steve Friend appointed Chief Executive Officer
- Converted to Eroworks banking system
- Assets: \$494 million
- Profit: \$9.8 million before taxes and allocation of profits

BRANCH LOCATIONS

Corporate Office

5007-51 Street
Camrose, Alberta T4V 1S6
Telephone 780-672-1175
Edmonton Direct
780-424-1302
Fax 780-672-5996

Alliance Branch

Box 180
201 Main Street
Alliance, Alberta ToB 0AO
Telephone 780-879-3644
Fax 780-879-3838

Castor Branch

Box 60
5002-50 Avenue
Castor, Alberta ToC 0Xo
Telephone 403-882-3950
Fax 403-882-3555

City Centre Branch

5030-51 Street
Camrose, Alberta T4V 1S5
Telephone 780-672-9221
Fax 780-672-9230

Daysland Branch

Box 130
5004-50 Street
Daysland, Alberta ToB 1AO
Telephone 780-374-3951
Fax 780-374-3736

Killam Branch

Box 39
5004-50 Street
Killam, Alberta ToB 2Lo
Telephone 780-385-3731
Fax 780-385-2406

Sedgewick Branch

Box 127
4838-47 Street
Sedgewick, Alberta ToB 4Co
Telephone 780-384-3912
Fax 780-384-3938

Stettler Branch

Box 1357
4911-51 Street
Stettler, Alberta ToC 2Lo
Telephone 403-742-2331
Fax 403-742-2255

Two Hills Branch

Box 388
4916-47 Avenue
Two Hills, Alberta ToB 4Ko
Telephone 780-657-3321
Fax 780-657-2036

Vegreville Branch

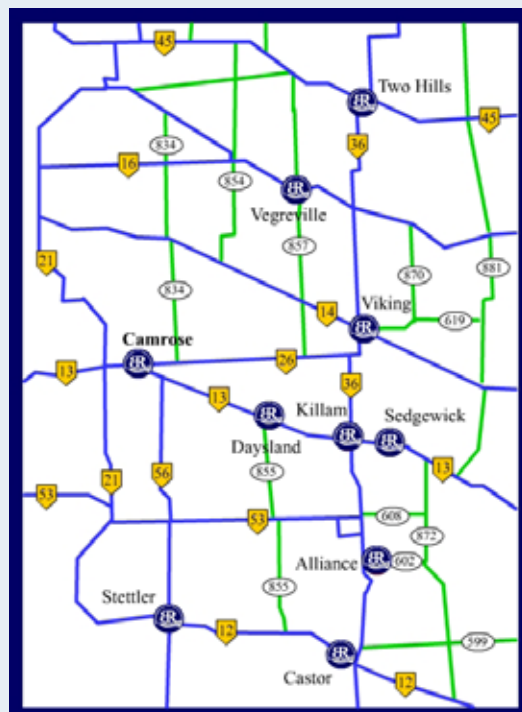
Box 1315
4917-51 Avenue
Vegreville, Alberta T9C 1S5
Telephone 780-632-3998
Fax 780-632-4080

Viking Branch

Box 215
5302-50 Street
Viking, Alberta ToB 4No
Telephone 780-336-4944
Fax 780-336-3181

West End Branch

4705-65 Street
Camrose, Alberta T4V 3M5
Telephone 780-672-8893
Fax 780-672-8895



Financial Statement

FOR THE FISCAL YEAR 2009



Management's Responsibility for Financial Statements

The financial statements of BATTLE RIVER CREDIT UNION LTD. and all other information contained in the annual report are prepared and presented by management, which is responsible for their accuracy, objectivity and completeness. This responsibility includes presenting the statements in accordance with generally accepted accounting principles. The preparation of the statements necessarily involves the use of estimates, which are made using careful judgement.

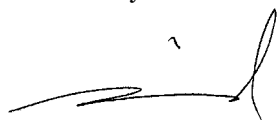
Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors has the ultimate responsibility for these financial statements. The Board oversees management's responsibilities for financial reporting through an Audit and Finance Committee, which is composed entirely of directors who are not officers or employees of BATTLE RIVER CREDIT UNION LTD. The Committee reviews the financial statements and recommends them to the Board for approval.

To carry out its duties, the Audit and Finance Committee reviews the annual financial statements, as well as issues related to them. The Audit and Finance Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems. The Audit and Finance Committee's review of financial reports includes an assessment of key management estimates and judgements material to the financial results.

The external auditor, appointed by the Board of Directors, conducted an audit of these financial statements in accordance with generally accepted auditing standards. The external auditor has full and unrestricted access to the Audit and Finance Committee to discuss their audit findings as to the integrity of BATTLE RIVER CREDIT UNION LTD.'s financial reporting and adequacy of internal controls.

Mowbrey Gil LLP Chartered Accountants has examined these financial statements and their report follows.



Steve Friend, Chief Executive Officer
Camrose, Alberta
November 20, 2009


Auditors' Report

We have audited the statement of financial position of BATTLE RIVER CREDIT UNION LTD. as at October 31, 2009, and the statements of income, 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 of these financial statements in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the 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, 2009, and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
November 20, 2009


Mowbrey Gil LLP, Chartered Accountants

Audit and Finance Committee Report

The Audit and Finance Committee met four times during the 2009 fiscal year. We reviewed the legislated financial reports as well as the financial results of each branch and compared their performance to budget. We received quarterly Asset Liability Management reports provided to ensure our portfolio was properly matched.

We reviewed and recommended the 2009 budget for approval. We received and reviewed the internal audits conducted during the fiscal year, our external auditors' management letter and the audited financial statements.

The purpose of the audits is to verify the Credit Union procedures are being followed in accordance with the Credit Union's policies and that the legislated requirements governed by the *Credit Union Act* and bylaws are adhered to.

My sincere thanks to the members of the committee and to the management who provided their assistance and information.



Ron Pilger, Committee Chairman

Credit Committee Report

We are pleased to report on the activities of the Credit Committee for the past year.

The Credit Committee continues to meet on a regular basis to ensure loan requests are processed on a timely basis.

During the 2009 fiscal year, Battle River Credit Union approved 2,531 loan applications totalling \$197,218,145.20. This compares to the previous fiscal year where 2,921 applications were approved totalling \$225,999,115.32.

The total amount of new money approved is \$102,338,013.28.

Financial Position

October 31, 2009

(\$ Thousands)	2009	2008	2007
Assets			
Cash	\$ 11,012	\$ 8,932	\$ 7,723
Investments (note 3)	95,579	90,477	57,013
Accounts receivable and prepaid expenses	47	48	89
Income taxes receivable	-	17	175
Future tax (note 4)	1,062	975	955
Member loans (note 5)	380,994	388,958	384,385
Foreclosed properties held for resale	-	-	102
Property, plant and equipment (note 6)	5,237	5,406	5,514
	\$ 493,931	\$ 494,813	\$ 455,956
Liabilities			
Accounts payable	501	703	527
Income taxes payable	68	-	-
Member deposits (note 7)	429,793	436,056	407,618
	\$ 430,362	\$ 436,759	\$ 408,145
Contingent liabilities (note 8)			
Capital, Reserves and Retained Earnings			
Share capital (note 9)	38,030	30,050	23,347
Dividends and allocation distributable (note 9)	3,039	8,504	8,964
Special reserve (note 10)	5,500	5,500	5,500
Retained earnings	17,000	14,000	10,000
	63,569	58,054	47,811
	\$ 493,391	\$ 494,813	\$ 455,956

Approved on behalf of the Board:



Alan D. Fielding, President



Ron Pilger, Director

Statement of Income

For the year ended October 31, 2009

(\$ Thousands)	2009	2008	2007
Interest Income			
Member loans	\$ 23,272	\$ 26,056	\$ 23,871
Investments	1,027	2,571	3,087
	24,299	28,627	26,958
Interest Expense			
Deposit accounts	7,262	9,101	8,901
Loan payable funds	0	5	1
	7,262	9,106	8,902
Net Interest Income	17,037	19,521	18,056
Provision for credit losses (note 5)	(88)	84	95
Net Interest Income After Provision for Credit Losses	17,125	19,437	17,961
Other Income	3,314	3,647	3,748
Net Interest Income and Other Income	20,439	23,084	21,709
Non-interest Expenses			
Personnel	5,272	4,681	4,440
General and administrative	3,546	3,235	2,900
Occupancy	777	687	719
Member security	721	755	710
Organization	235	197	166
	10,551	9,555	8,935
Income Before ProfitShare Allocation & Income Taxes	9,888	13,529	12,774
ProfitShare allocation (note 9)	5,977	8,380	8,765
Income Before Provision for Income Taxes	3,911	5,149	4,009
Provision for income taxes (note 4)	911	1,149	1,009
Net Income for the Year	\$ 3,000	\$ 4,000	\$ 3,000

Statement of Retained Earnings

For the year ended October 31, 2009

<i>(\$ Thousands)</i>	2009	2008	2007
Retained Earnings, Beginning of Year	\$ 14,000	\$ 10,000	\$ 7,000
Add:			
Net income for the year	3,000	4,000	3,000
Retained Earnings, End of Year	\$ 17,000	\$ 14,000	\$ 10,000

Statement of Cash Flows

For the year ended October 31, 2009

(\$ Thousands)	2009	2008	2007
Operating Activities			
Interest received	\$ 25,131	\$ 28,724	\$ 25,667
Dividends received	161	465	644
Other income received	3,314	3,647	3,748
Interest paid	(7,791)	(8,698)	(8,590)
Income taxes paid	(915)	(1,010)	(1,033)
Operating expenses paid	(10,229)	(8,851)	(8,816)
Cash Provided by Operating Activities	9,671	14,277	11,620
Investing Activities			
Purchase of property, plant and equipment	(249)	(305)	(311)
Net decrease (increase) in loans	7,397	(4,734)	(39,504)
Additions to and proceeds of investment securities	(5,600)	(33,996)	8,951
Proceeds on disposal of property, plant and equipment	-	-	534
Proceeds on disposal of foreclosed properties	-	98	64
Purchase of foreclosed properties, net	-	(24)	(160)
Cash Flows from (to) Investing Activities	1,548	(38,961)	(30,426)
Financing Activities			
Share capital issued, net	1	1	13
Redemption of share capital	(3,406)	(2,137)	(1,632)
Net (decrease) increase in deposits	(5,734)	28,029	21,860
Cash Flows from Financing Activities	(9,139)	25,893	20,241
Increase in Cash	2,080	1,209	1,435
Cash, beginning of year	8,932	7,723	6,288
Cash, End of Year*	11,012	\$ 8,932	\$ 7,723
*Consists of			
Cash and deposits with Credit Union Central	11,301	\$ 10,126	\$ 9,000
Cheques and other items in transit, net	(289)	(1,194)	(1,277)
Cash, End of Year	\$ 11,012	\$ 8,932	\$ 7,723

Notes to the Financial Statements

For the year ended October 31, 2009

1. Nature of Operations

The credit union is incorporated under the *Credit Union Act* of the Province of Alberta to serve members in Camrose and the surrounding area and operates eleven credit union branches.

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

2. Significant Accounting Policies

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

a) Cash

Cash consists of cash on hand and demand deposits with Credit Union Central of Alberta Limited (“Central”).

b) Investments

Investments in securities that are classified as held-to-maturity are valued at cost or amortized cost, adjusted to recognize other than a temporary impairment in the underlying value.

Investments in securities that are classified as available-for-sale are initially recognized at acquisition cost and subsequently remeasured at fair value at each reporting date. The credit union uses the trade-date accounting (date when transactions are entered into rather than when they are settled) for all purchases and sales of financial assets in its investment portfolio. The fair value is determined by discounting the expected future cash flows at current market rates.

Investment income from securities classified as loans and receivables, including interest earned and investment gains and losses, are recorded in income for the year. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income and recognized in income when realized. Realized and unrealized gains and losses on securities classified as held-for-trading are included in income in the year in which they occur.

c) Member Loans

Member loans are recorded net of any unearned income and allowance for credit losses. Interest income from loans is recorded on an accrual basis except for when a loan is classified as impaired.

A loan is classified as impaired when there is reasonable doubt as to the timely collection of some portion of principal or interest. A loan where payment of interest is contractually past due 90 days is classified as impaired unless there is no reasonable doubt as to the collectability of all interest and principal. Loans or portions of loans considered uncollectable are written-off.

d) Allowance for Credit Losses

The credit union maintains an allowance for credit losses in an amount considered adequate to absorb credit losses existing in its loan portfolio. The allowance is increased by a provision for credit losses, which is charged to income, and reduced by write offs, net of recoveries. The allowance for credit losses consists of the following:

A specific allowance is established on an individual loan basis, to reduce the carrying book values to estimated realizable values. Estimated realizable values are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be reliably established, estimated realizable values are determined by reference to market prices for the loans or their underlying security.

A collective allowance is established when evidence of impairment within groups of loans exists but is not sufficient to allow identification of individual impaired loans. Impairment is estimated using a formula based on historical credit loss experience, known risks in the portfolio and current economic conditions and trends. As individual impaired loans are identified, a specific allowance is assigned to that loan and the collective allowance is adjusted accordingly.

e) Income Taxes

Income taxes are recorded on the tax liability method. Future income taxes are recognized based on the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount. The credit union is taxed at an effective rate of 29.08% (2008 - 24.80%, 2007 - 23.12%).

Notes to the Financial Statements

For the year ended October 31, 2009

f) Property, Plant and Equipment

Land is recorded at cost. Building, furniture, office equipment, computer hardware and computer software are reported at cost less accumulated amortization. Amortization is calculated primarily using the straight-line method over the estimated useful lives of the related assets as indicated below:

Buildings	2.5%
Parking lot	4.0%
Furniture	10%
Office equipment	10% and 20%
Computer hardware	20%, 33-1/3% and 50%
Computer software	20% and 33-1/3%

Full amortization is recorded in the year of acquisition and none in the year of disposal.

g) Use of Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

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

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

By their nature, these estimates are subject to measurement uncertainty and the affect on the financial statements of changes in such estimates in future periods could be significant.

h) Financial Instruments

The Credit Union classifies its financial assets and financial liabilities according to their characteristics and management's intentions. Financial assets and financial liabilities are initially recognized at fair value regardless of classification choice and are subsequently accounted for based on the classifications below.

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

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

Accumulated other comprehensive income is reported on the balance sheet as a separate component of Members' Equity and includes any unrealized gains and losses as available for sale; however, because there is no active market for these investments, the Credit Union has not reported any comprehensive income as a result of these.

Transaction costs are expensed as incurred.

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

<u>Financial Asset/Liability</u>	<u>Classification</u>
Cash	Available for sale
Investments - shares	Available for sale
Investments - term deposits	Held to maturity
Accounts receivable	Loans and receivables
Member loans	Loans and receivables
Accounts payable	Other financial liabilities
Member deposits	Other financial liabilities

Notes to the Financial Statements

For the year ended October 31, 2009

3. Investments

(\$ Thousands)	2009	2008	2007
Credit Union Central Alberta Limited			
Shares	\$ 6,372	\$ 6,372	\$ 6,372
Term deposits	85,000	78,400	47,300
Other investments	4,000	5,000	2,233
	95,372	89,772	55,905
Accrued interest	207	705	1,108
	\$ 95,579	\$ 90,477	\$ 57,013

As required by the *Credit Union Act*, the credit union holds investments in Credit Union Central Alberta Limited to maintain its liquidity level.

The estimated market value of the investments is equal to book value. The shares have no specific date of maturity.

4. Future Tax

(\$ Thousands)	2009	2008	2007
Income tax expense is comprised of:			
Current income taxes	\$ 999	\$ 1,169	\$ 859
Future income taxes	(88)	(20)	150
Provision for income taxes	\$ 911	\$ 1,149	\$ 1,009

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 38.00% (2008 - 38.19%, 2007 - 39.12%) to income before income taxes. The reasons for the differences are as follows:

(\$ Thousands)	2009	2008	2007
Income taxes calculated at the statutory rate	\$ 1,487	\$ 1,966	\$ 1,568
Income tax adjusted for the effect of:			
Reduction for credit unions	-	(867)	(641)
General rate reduction	(349)	-	-
Change in tax rates	(155)	73	-
Other	(72)	(23)	82
Income taxes as recorded	\$ 911	\$ 1,149	\$ 1,009

The tax effects of temporary differences that give rise to significant portions of the future tax assets are as follows:

(\$ Thousands)	2009	2008	2007
Property, plant and equipment	\$ (313)	\$ (129)	\$ (130)
Intangible assets	1,375	1,139	1,131
Allowance for credit losses	-	(35)	(46)
	\$ 1,062	\$ 975	\$ 955

Notes to the Financial Statements

For the year ended October 31, 2009

5. Member Loans

<i>(\$ Thousands)</i>			2009	2008	2007
	Outstanding Balance	Allowance for Credit Losses*	Total	Total	Total
Mortgage	\$ 251,166	\$ 743	\$ 250,423	\$ 238,271	\$ 229,959
Non-mortgage	128,009	379	127,630	147,180	\$ 150,759
	379,175	1,122	378,053	385,451	380,718
Accrued interest	2,941	-	2,941	3,507	3,667
	\$ 382,116	\$ 1,122	\$ 380,994	\$ 388,958	\$ 384,385

* For presentation purposes, the allowance for credit losses has been allocated proportionately to the above loan categories. However, this allowance is available for the total loan portfolio.

The allowance for credit losses includes a general allowance of \$668,346 (2008 - \$1,065,622, 2007 - \$837,972). There were \$2,106,421 (2008 - \$868,259, 2007 - \$2,246,624) in impaired loans as at the year end included in the above amounts.

Impaired assets include foreclosed real estate assets held for sale with a gross amount of \$NIL (2008 - \$NIL, 2007 - \$102,492) and a related specific allowance of \$NIL (2008 - \$NIL, 2007 - \$60,000). Details of the changes in the allowance for credit losses are as follows:

<i>(\$ Thousands)</i>	2009	2008	2007
Balance, beginning of year	\$ 1,263	\$ 1,321	\$ 1,261
Less: Accounts written off, net of recoveries	(53)	(142)	(35)
	1,210	1,179	1,226
Charge for credit losses	(88)	84	95
Balance, end of year	\$ 1,122	\$ 1,263	\$ 1,321

Notes to the Financial Statements

For the year ended October 31, 2009

6. Property, Plant and Equipment

(\$ Thousands)

	2009			2008	2007
	Cost	Accumulated Amortization	Net Carrying Value	Net Carrying Value	Net Carrying Value
Land	\$ 514	\$ -	\$ 514	\$ 514	\$ 514
Buildings	6,251	2,427	3,824	3,928	3,947
Parking lot	279	87	192	166	175
Furniture	1,509	1,376	133	196	258
Office equipment	965	729	236	243	159
Computer hardware	1,521	1,441	80	73	129
Computer software	732	474	258	286	332
	\$ 11,771	\$ 6,534	\$ 5,237	\$ 5,406	\$ 5,514

Amortization in respect of the above depreciable assets for the year amounted to \$418,137 (2008 - \$412,775, 2007 - \$477,251).

7. Member Deposits

The repayment of all deposits, including accrued interest, is guaranteed by Credit Union Deposit Guarantee Corporation, for which the credit union pays a deposit guarantee assessment fee.

(\$ Thousands)	2009	2008	2007
Demand deposits	\$ 213,082	\$ 212,287	\$ 195,270
Term deposits	162,979	170,471	162,082
Registered plans	49,901	48,938	46,315
	425,962	431,696	403,667
Accrued interest	3,831	4,360	3,951
	\$ 429,793	\$ 436,056	\$ 407,618

Notes to the Financial Statements

For the year ended October 31, 2009

8. Contingent Liabilities and Commitments

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, letters of credit, letters of guarantee and loan guarantees, which are not included in the Statement of Financial Position.

Guarantees and 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 members.

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's normal credit standards and collateral may be obtained where appropriate. The contract amounts set out below represent the maximum credit risk exposure to the credit union should the contracts be fully drawn, and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements.

As at October 31, 2009, the credit union had the following amounts outstanding:

<i>(\$ Thousands)</i>	2009	2008	2007
Guarantee and standby letters of credit	\$ 1,243	\$ 1,146	\$ 1,583
Commitments to extend credit:			
Original term to maturity of one year or less	19,950	5,758	5,405
Original term to maturity of more than one year	29,925	44,018	43,490
	\$ 51,118	\$ 50,922	\$ 50,478

Line of Credit

To finance short-term cash needs, the Credit Union has an operating line of credit with Credit Union Central. The operating line of credit has a ceiling of \$20,500,000, is payable on demand, bears interest at Credit Union Central's prime rate and is secured by a demand promissory note, a general assignment of book debts and a hypothecation of the Credit Union's shares, investments and deposits with Credit Union Central. The operating line of credit avoids the need to maintain on hand large sums of cash for short-term purposes. The operating line of credit is used generally on a day-to-day basis. The current outstanding amount as at October 31, 2009, is \$NIL (2008 - \$NIL, 2007 - \$NIL).

Notes to the Financial Statements

For the year ended October 31, 2009

9. Share Capital

(\$ Thousands)

			2009	2008	2007
	Common Shares - Credit Union Contributed	Common Shares - Member Contributed	Total	Total	Total
Balance, beginning of year	\$ 29,963	\$ 87	\$ 30,050	\$ 23,347	\$ 18,800
Previous year's allocation paid	8,217	-	8,217	8,839	6,165
Allocation paid during year	3,169	-	3,169	-	-
Net purchases	-	1	1	1	14
Redemptions:					
Section 111(3)b	(2,887)	(4)	(2,891)	(1,586)	(1,210)
Section 111(4)a+b	(516)	-	(516)	(551)	(422)
Section 107(6)	-	-	-	-	-
Balance, end of year	\$ 37,946	\$ 84	\$ 38,030	\$ 30,050	\$ 23,347

Common Shares

The *Credit Union Act* created a class of equity shares known as Common Shares, having the following characteristics:

- An unlimited number may be issued;
- A par value of \$1, but fractional shares may be issued;
- Transferable only in restricted circumstances;
- Non-assessable; and
- Redemption of common shares is at par value and is at the discretion of the credit union, subject to the restrictions contained in the *Credit Union Act* and Regulations.

A member must purchase at least one (1) share to retain membership in the credit union.

The Board of Directors declared a \$5,977,000 ProfitShare Dividend. ProfitShare dividends are paid to members by the issuance of common shares and are allocated to members' accounts as determined by the Board of Directors.

Notes to the Financial Statements

For the year ended October 31, 2009

10. Special Reserves

(\$ Thousands)	2009	2008	2007
Balance, beginning of year	\$ 5,500	\$ 5,500	\$ 5,500
Allocation for the year	-	-	-
Balance, end of year	\$ 5,500	\$ 5,500	\$ 5,500

The special reserve was established to build greater reserves and to provide a fund to draw on for extraordinary occurrences, capital expenditures and acquisitions. Allocations to the special reserve are made from retained earnings as determined by the Board of Directors.

11. Fair Value of Financial Instruments

The amounts are designed to approximate the fair values of the credit union's financial instruments using the valuation methods and assumptions described below. Since many of the credit union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Due to the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The carrying value of most of the credit union's financial instruments is not adjusted to reflect changes in interest rates, as it is the credit union's intention to hold the instruments to maturity.

Estimated fair values of on-balance sheet financial instruments are summarized as follows:

(\$ Thousands)			2009	2008	2007
	Book Value	Fair Value	Book Value Over Fair Value	Book Value Over Fair Value	Book Value Over Fair Value
Assets					
Cash	\$ 11,012	\$ 11,012	\$ -	\$ -	\$ -
Investments	95,579	96,057	478	162	82
Loans	380,994	383,748	2,754	(1,553)	(5,261)
Other assets	6,348	6,446	98	-	-
Less:					
Liabilities					
Deposits	429,793	437,188	7,395	(5,327)	(1,005)
Other liabilities	571	571	-	(2)	-
	\$ 63,569	\$ 59,504	\$ (4,065)	\$ 3,938	\$ (4,174)

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

- The fair values of cash, short-term investments, other assets and other liabilities are assumed to approximate book values, due to their short-term nature.
- The estimated fair value of floating rate investments, 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.

Notes to the Financial Statements

For the year ended October 31, 2009

12. Interest Rate Risk

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with maturities of its financial assets. The interest rate risk is being managed within prudent guidelines. The table below summarizes amounts by maturity date and effective interest rates.

(\$ Thousands)	Floating Rate	Within 1 Year	1 to 5 Years	Non-rate Sensitive	Total
2009					
Assets					
Cash	\$ -	\$ -	\$ -	\$ 11,012	\$ 11,012
Investments	6,372	89,000	-	207	95,579
<i>Effective Yield</i>	2.25%	0.32%	0.00%	0.00%	0.45%
Member loans	127,457	91,721	160,036	1,780	380,994
<i>Effective Yield</i>	2.97%	6.32%	6.70%	0.00%	5.33%
Other	-	-	-	6,346	6,346
	\$ 133,829	\$ 180,721	\$ 160,036	\$ 19,345	\$ 493,931
Liabilities and Equity					
Member deposits	\$ 119,640	\$ 88,348	\$ 119,194	\$ 102,611	\$ 429,793
<i>Effective Yield</i>	0.76%	2.67%	2.89%	0.00%	1.56%
Capital and retained earnings	-	-	-	63,569	63,569
Other	-	-	-	569	569
	\$ 119,640	\$ 88,348	\$ 119,194	\$ 166,749	\$ 493,931
Net gap	\$ 14,189	\$ 92,373	\$ 40,842	\$ (147,404)	\$ -
% of assets	2.87%	18.70%	8.27%	-29.84%	0.00%
2008					
Net gap	\$ 18,055	\$ 89,119	\$ 45,532	\$ (152,706)	\$ -
% of assets	3.65%	18.01%	9.20%	-30.86%	0.00%

13. Related Party Transactions

Directors, management and staff of the credit union have loans from the credit union totalling \$7,068,782 (2008 - \$8,171,735, 2007 - \$7,685,031) at interest rates ranging from 2.25% to 10.40%. Loan rates are specified by Credit Union policy. Directors pay regular member rates. All loans were in good standing as at October 31, 2009.

Directors, management and staff of the credit union have deposits with the credit union totalling \$1,695,681 (2008 - \$2,834,945, 2007 - \$2,135,701), and lines of credit with the credit union totalling \$1,060,092 (2008 - \$622,272, 2007 - \$540,151). Staff also have access to personal chequing accounts which do not incur service charges.

14. Directors' Fees and Expenses

(\$ Thousands)	2009	2008	2007
Directors' expenses	2	3	2
Directors' remuneration	15	14	16
Total	\$ 17	\$ 17	\$ 18

Amounts paid to directors range from \$400 to \$2,850 with an average of \$1,550.

Notes to the Financial Statements

For the year ended October 31, 2009

15. Capital Management

The Credit Union's objectives when managing capital are:

- To ensure the long-term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses.
- To comply at all times with the capital requirements set out in the Credit Union Act of Alberta ("the Act"). The Credit Union complied with these capital requirements throughout the year ending October 31, 2009.

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

- 4% of total assets. As at October 31, 2009, this amounted to \$19,757,282;
- 8% of risk weighted assets. Under this method the Credit Union reviews each loan and other assets and assigns a risk weighting using definitions and formulas set out in the Act and by the Credit Union Deposit Guarantee Corporation. The more risk associated with an asset, a higher weighting is assigned. The balance of each asset is multiplied by the risk weighting with the result then added together. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk. As at October 31, 2009, this amounted to \$23,856,331.

The Credit Union management ensures compliance with capital adequacy by setting policies for capital management, monitoring and reporting; reporting to the Board of Directors and Audit and Finance Committee on financial results and capital adequacy; reporting to the Credit Union Deposit Guarantee Corporation on its capital adequacy; and, setting budgets and reporting variances to those budgets.

Under the Act, total capital as at October 31, 2009 includes:

<i>(\$ Thousands)</i>	2009	2008
Retained earnings	\$ 17,000	\$ 14,000
Special reserve	5,500	5,500
Common shares	38,030	30,050
Dividends and allocation distributable	3,039	8,504
General allowance of credit losses	668	1,065
The Credit Union's portion of qualifying retained earnings of Credit Union Central of Alberta as provided by Central	1,009	2,520
Less: Future income taxes recoverable	(1,062)	(975)
	\$ 64,184	\$ 60,664

Therefore, the Credit Union has exceeded its minimum capital requirements at October 31, 2009.

Notes to the Financial Statements

For the year ended October 31, 2009

16. Risks Arising from Financial Instruments

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

Credit Risk

Credit risk is the risk of a financial loss in the event of failure by a borrower to completely honour its financial obligation to the Credit Union, such as interest, and/or principal payments due on member loans. Credit risk arises principally as a result of the Credit Union's lending activities with members.

Risk Measurement

The Credit Union employs a risk measurement process for its loan portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. The 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 a counterparty.

Objectives, policies and processes

Loan exposures are managed and monitored through facility limits for individual borrowers and a credit review process. In the event of a default on the loan, the Credit Union relies on collateral security typically in the form of a fixed and floating charge over the assets to reduce credit risk. Credit risk is also managed through regular analysis of the ability of members and potential members to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Refer to Note 5 for additional information on the credit quality performance of member loans.

Market Risk

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

Risk Measurement

The Credit Union's risk position is measured and monitored on a regular basis to ensure compliance with policy. Management provides regular updates on these matters to the Board of Directors.

Objectives, policies and processes

The Credit Union manages day-to-day market risk within approved policies. Management sets budgets that include the effect of a reduction in interest rates. The Credit Union's goal is to achieve adequate levels of profitability, liquidity and safety. The Board of Directors' review the Credit Union's investment and asset liability management policies on a periodic basis to ensure they remain relevant and effective in managing and controlling risk.

Based on experience, management estimates that an immediate and sustained 1% change in interest rates would have a \$1,200,000 effect on net income before taxes for the Credit Union.

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. It is the Credit Union's policy to ensure that sufficient liquid assets are available to meet its financial commitments.

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates and assumptions regarding the current and prospective market conditions, and the related borrowing and investment activities of its members.

Objectives, policies and procedures

Management of the Credit Union manages its liquidity position by monitoring, forecasting and managing cash flows and maintaining a specific level of liquid investments to meet expected requirements. Management provides regular reports on these matters to the Board of Directors.

Notes to the Financial Statements

For the year ended October 31, 2009

17. Segmented Information

The credit union operates principally in personal and commercial/agricultural banking in Alberta.

18. Future Accounting Changes

The Canadian Institute of Chartered Accountants has indicated that the basis for financial reporting by publicly accountable enterprises will move from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards (“IFRS”). The Credit Union’s financial statements will be prepared in accordance with IFRS for the fiscal year commencing November 1, 2011.

The Credit Union is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada. The Credit Union has begun its analysis of the expected areas of impact.

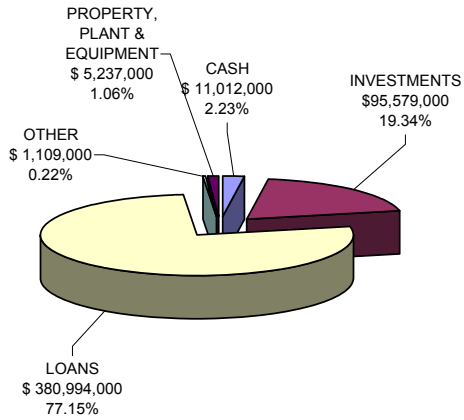
The Credit Union is currently in the process of assessing the differences between its current accounting policies and those provided by IFRS, as well as the alternatives available on adoption. The Credit Union’s assessment will include the potential impact of the conversion effort on systems, internal controls over financial reporting and disclosure, and business activities.

Financial Position

October 31, 2009 (unaudited)

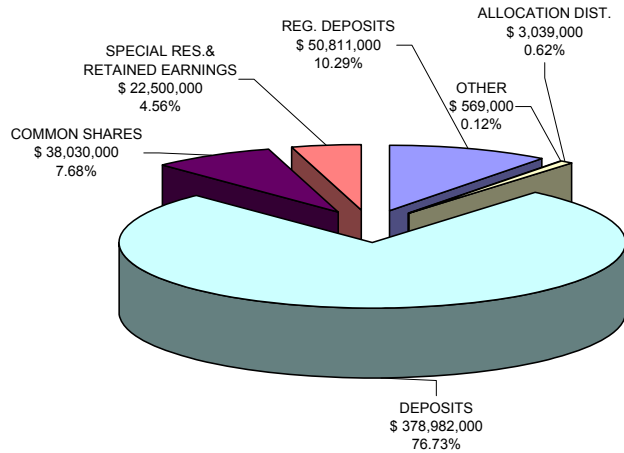
Assets

Total \$493,391,000



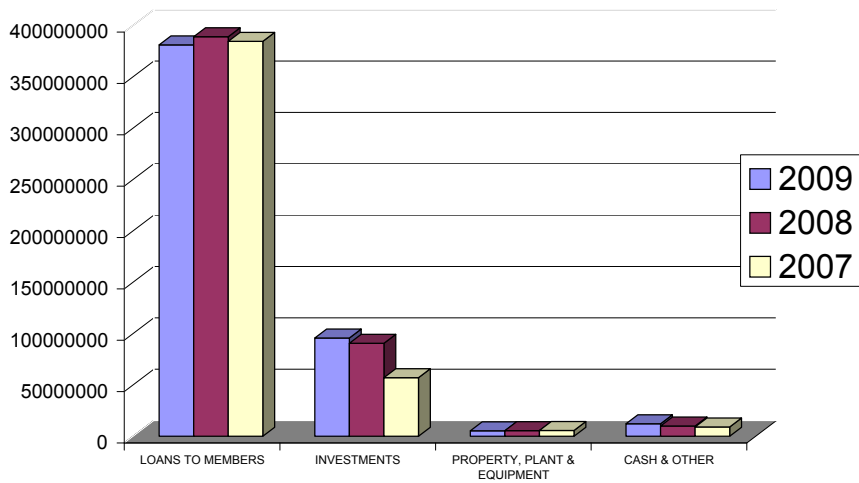
Liabilities

Total \$493,391,000



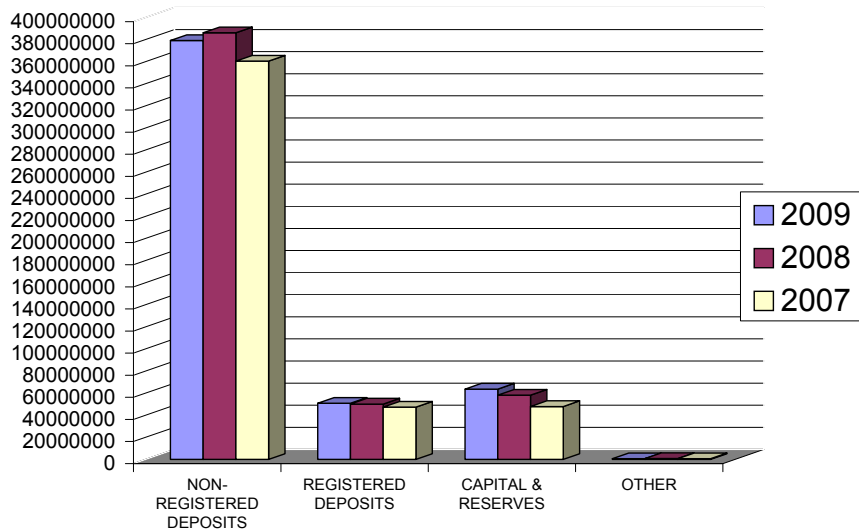
Assets

October 31, 2009 (unaudited)



Liabilities, Capital and Reserves

October 31, 2009 (unaudited)

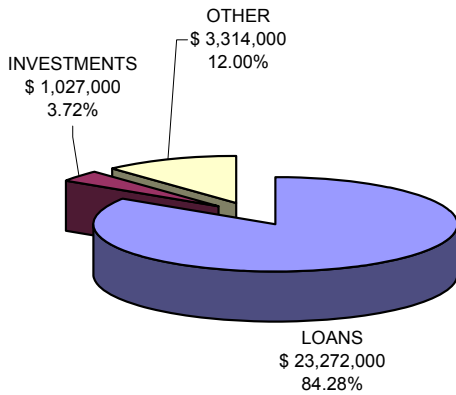


Operations

October 31, 2009 (unaudited)

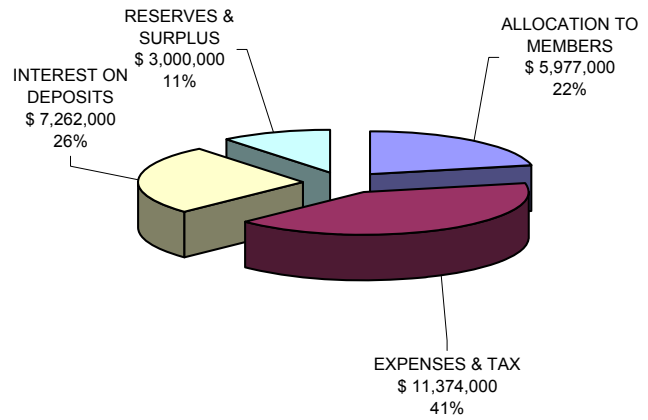
Financial and Operating Income

Total \$27,613,000



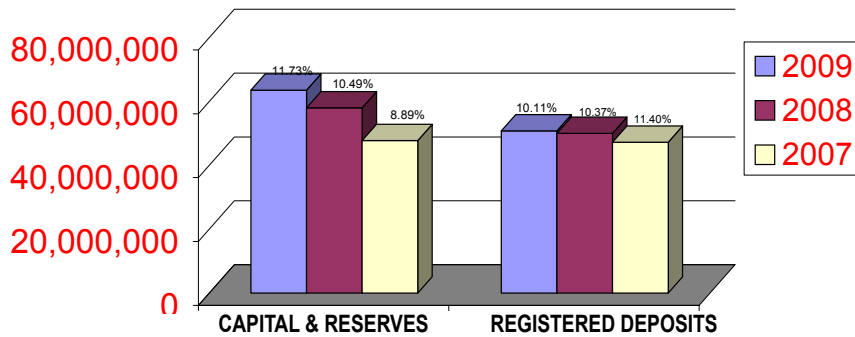
Income Expended or Allocated

Total \$27,613,000



Capital, Reserves and Registered Deposits

October 31, 2009 (unaudited)





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